

Public Policy Holding Company, Inc.

("PPHC", the "Company" or the "Group")

Unaudited preliminary results for the year ended 31 December 2024

Strong performance in line with expectations and strategic progress with international expansion

Public Policy Holding Company, Inc., the leading government relations and public affairs group, today announces its unaudited preliminary results for the year ended 31 December 2024 ("FY2024" or the "Period").

Financial Highlights

- Revenue increased 11% to \$149.6m (FY2023: \$135.0m), with organic growth contributing 3% and the balance driven by accretive acquisitions completed in the Period and in 2023.
- Underlying EBITDA of \$36.1m, up 3% year-on-year, was achieved at a 24.2% margin. This margin performance was achieved after the Group expended \$3.1m in M&A related costs and start-up investment in Concordant over the level it incurred in 2023. Adjusted for these incremental costs, the margin would have been 26.2%. Underlying Net Income of \$27.7m was up 5% (FY2023: \$26.5m) with an increase in finance costs offset by a more favourable effective tax rate.
- EPS of \$0.2345 was flat relative to the prior year, with increased earnings being offset by a 5% increase in the number of shares in issue.
- The Group's balance sheet remains robust, underpinned by strong free cash flow of \$22.2m, up 4% year-on-year (FY2023: \$21.4m), enabling strategic progress via organic investment and earnings-enhancing M&A.
- Net Debt at period-end of \$17.5m (FY2023: net cash \$3.4m) reflects a prudent leverage ratio and the deployment of \$25m of new debt into two earnings-accretive acquisitions in FY2024.
- The Board retains strong confidence in the Group's outlook and has declared a final dividend of \$0.0470 per Common Outstanding Share, bringing the total dividend for FY2024 to \$0.0940. This is in line with the updated dividend policy announced in January 2025, which enables the retention of more capital and for the Group to act decisively on accretive M&A opportunities, thus driving long-term shareholder returns and value creation.

	<u>FY2024</u>	<u>FY2023</u>	<u>Change</u>	<u>Change Adj (*)</u>
Group Revenue	\$149.6m	\$135.0m	+11%	+11%
Underlying EBITDA	\$36.1m	\$35.1m	+3%	+12%
Underlying EBITDA margin	24.2%	26.0%	-1.8pts	0.2pts
Underlying Net Income	\$27.7m	\$26.5m	+5%	+14%
Underlying EPS basic	23.45c	23.54c	0%	+8%
Underlying EPS fully diluted	22.22c	22.71c	-2%	+6%
Dividend per share	9.40c	14.30c	-34%	-34%
Free Cash Flow	\$22.2m	\$21.4m	+4%	+15%
Net Debt / (Cash) at period-end	\$(17.5)m	\$3.4m	\$(20.9)m	\$(20.9)m

(*) For presentation purposes only, the Group also presents "Adjusted Change", adjusting for an exceptional increase in M&A costs and Concordant Start-up costs of \$3.1m in 2024 (going from \$0.5m in FY2023 to \$3.6m in FY2024)

Operational Highlights

- The Period showcased the Group's ability to successfully execute its stated growth strategy, with ten operating companies providing an enhanced and complementary range of services to a now global client base:
 - Organic growth of 3% was achieved in a year that saw major elections, and therefore political disruption, across many of the world's largest economies including the US and UK.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

- This was supplemented by the continued execution of the Group's inorganic growth strategy, with the acquisitions of California-based Lucas Public Affairs ("LPA") and London-based Pagefield Communications ("Pagefield") completed in the Period.
- LPA broadens the Group's presence in a state that is characterised by high regulation and would register as the world's fifth largest economy; and Pagefield established an operational presence outside of the US for the first time.
- The integration of LPA has completed and the integration of Pagefield is being delivered as expected, with both companies benefitting from client referrals via the wider PPHC network.
- Revenue diversification further enhanced with the top 10 Group clients representing 8.7% of revenue in FY2024 versus 10.8% in FY2023 (**), and increasing international revenue contribution.
- By segment:
 - The Group's largest division, Government Relations, grew strongly at 7% (4% organically). The Group ended FY2024 again as the top federal lobbying business in the US as defined by the Lobbying Disclosure Act. PPHC has maintained this position for five consecutive years.
 - Public Affairs increased by 13% (-5% organically), with the negative organic growth a consequence of pending elections impacting client project spend in H1. In H2, organic growth in the division returned at +4%.
 - The Group's newest division, Diversified Services (Research and Compliance), grew strongly at 47% (23% organically), albeit from a lower base.
 - The revenue share of each division as a proportion of the Group's total remained broadly similar to last year, with Government Relations at 69% (FY2023: 71%), Public Affairs at 24% (FY2023: 24%), and Diversified Services at 7% (FY2023: 5%).
- A broader client base of c.1,200 Group clients is supported by sustained high retention rates, with the Group directly representing almost half of the Fortune 100 and more than a quarter of the Fortune 500, in addition to many more via trade associations. The number of clients spending more than \$100,000 increased by 15% to 503 (***) and the number of clients spending more than \$250,000 increased by 16% to 137.
- The quality of PPHC's operating companies continues to be reflected in the 2024 Lobbying Disclosure Act rankings, with Group agencies, when aggregated, topping the rankings as the US market leader in both Q3 and Q4 2024, as well as for the previous 16 consecutive quarters.

(**) Historic client data has been re-stated based on client-consolidation analysis.

Current Trading and Outlook

- The Group has strong trading momentum in FY2025, with organic growth rates year-to-date well ahead of FY2024. The strong strategic execution and robust results achieved during FY2024 give the Board confidence in FY2025.
- Following the US elections, management has observed significant new business activity in the United States.
- Strategic execution continues in 2025, and the Group announced the earnings-accretive acquisition of Texas-based TrailRunner International LLC ("TrailRunner") for initial consideration of \$33m in January 2025, with closing foreseen for April 1, 2025. TrailRunner operates with a global team across offices in Texas, New York, Nashville, and Northern California, London, Shanghai, Abu Dhabi, and Dubai.
- The focus continues to be on driving client retention rates, new business generation following the outcomes of elections in the US and UK, and the continued cross-selling of services across the Group's broad operating company base to support organic growth prospects.
- The market for public affairs and professional lobbying services in key geographies remains fragmented and the Board continues to view the Group as a natural consolidator with favourable bipartisan positioning.
- The pipeline of acquisition opportunities under development in the US, UK and Mainland Europe remains strong in an active market for the government relations and strategic communications sectors. The Group is actively seeking to expand its portfolio of operating companies internationally with strategically and financially attractive opportunities while adding complementary specialisations.
- The Board remains confident in the ongoing prospects for the Group, as reflected in its stated ambition to achieve \$500 million in profitable revenues in the medium term, and reiterates its medium-term guidance to achieve:
 - organic revenue growth between 5% and 10%;
 - incremental growth from future M&A; and
 - underlying EBITDA margin between 25% and 30%.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Stewart Hall, CEO of PPHC, commented:

"2024 demonstrated the resilience and adaptability of PPHC. Public Affairs navigated a challenging environment with clients adopting a traditionally more cautious approach to project spending in a US presidential election year. However, we saw a decisive turnaround in the second half as clients prepared for 2025. Government Relations continued to perform strongly and the high quality of our operations in this sphere is renowned, while Diversified Services showed exceptional growth, highlighting the value of our balanced portfolio approach.

"The M&A we achieved in FY2024 reflects significant milestones in our growth strategy, expanding our geographic reach and service capabilities. With M&A continuing in FY2025, via TrailRunner International, we have a sun-to-sunset presence with global operations. The addition of TrailRunner significantly enhances our global communications capabilities and client offerings across key markets in the US and Asia.

"We remain extremely well positioned to capitalise on increased policy activity following the US election cycle and growing demand for our services internationally. The strong finish to FY2024, coupled with robust new business activity and M&A, gives us confidence in delivering accelerated growth in the year ahead as we progress towards our ambition to reach \$500 million revenue in the medium-term".

This announcement contains inside information under the UK Market Abuse Regulation. The person responsible for arranging for the release of this announcement on behalf of the Company is Roel Smits, CFO.

Enquiries

Public Policy Holding Company, Inc. Stewart Hall, CEO Roel Smits, CFO	+1 (202) 688 0020
Stifel (Nominated Adviser & Joint Broker) Fred Walsh, Brough Ransom, Ben Good, Sarah Wong	+44 (0) 20 7710 7600
Zeus (Joint Broker) David Foreman	+44 (0) 20 3829 5000
Canaccord Genuity (Joint Broker) Simon Bridges, Andrew Potts	+44 (0) 20 7523 8000
Buchanan Communications (Media Enquiries) Chris Lane, Toto Berger, Jesse McNab	+44 (0) 20 7466 5000 pphc@buchanan.uk.com

About PPHC

Incorporated in 2014, PPHC is a US-based government relations, public affairs and strategic communications group providing clients with a fully integrated and comprehensive range of services including government and public relations, research, and digital advocacy campaigns. Engaged by approximately 1,200 clients, including companies, trade associations and non-governmental organisations, the Group is active in all major sectors of the US economy, including healthcare and pharmaceuticals, financial services, energy, technology, telecoms and transportation. PPHC's services support clients to enhance and defend their reputations, advance policy goals, manage regulatory risk and engage with US federal and state-level policy makers, stakeholders, media and the public.

PPHC operates a holding company structure and currently has ten operating entities in the US and UK. The Group has a strong track record of organic and acquisitive growth, the latter focused on enhancing its capabilities and to establish new verticals, either within new geographies or new related offerings.

For more information, see www.pphcompany.com.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to report on a transformative year for PPHC in 2024, marked by strategic international expansion and a resilient financial performance across our increasingly diversified operations. The Group has

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

demonstrated its ability to navigate market challenges while executing on growth opportunities, particularly evidenced by our successful entry into the UK market with Pagefield and nearly finalised acquisition of TrailRunner, which extends our reach into key Asian and Middle East markets.

FY2024 was characterised by distinct halves, with challenging conditions in Public Affairs during the first six months followed by encouraging momentum in H2. This recovery, combined with the consistent strength of our Government Relations practice and exceptional growth in Diversified Services, underscores the fundamental strength of our business model and its ability to perform through different market cycles.

2024 has been pivotal in advancing our strategic vision of becoming the world's premier provider of government relations and related services. The acquisitions of LPA and Pagefield represented significant steps in expanding our geographic footprint and service capabilities. The announced acquisition of TrailRunner in early 2025 further accelerates this strategy, adding significant global communications capabilities and geographic expansion.

The Group's management has demonstrated commendable operational discipline throughout the year, maintaining robust margins while continuing to invest in growth initiatives and successfully integrating acquired businesses. Their focused approach to cost management positions us well for the future. The integration of recent acquisitions and the launch of new service offerings reflect the deep expertise and operational excellence across our operating companies.

As we move into 2025, the expertise of our teams across policy, communications, and public affairs has never been more relevant. In an environment characterised by complex regulatory changes, technological advancement, and evolving stakeholder expectations, our ability to help clients navigate challenges and seize opportunities sets us apart. The strengthening momentum we saw in the latter part of 2024, combined with our expanded global capabilities, gives us confidence in our ability to deliver enhanced value for our clients and shareholders in the year ahead.

Dividend

The Board of Directors of the Company has declared a total dividend for 2024 of \$0.094 per Common Share, which equates to an aggregate amount, based on the anticipated number of outstanding Common Shares, of approximately \$11.4m. Because \$0.047 per Common Share was paid as interim dividend in October 2024, a final dividend of \$0.047 per Common Share remains payable to the holders of record of all the issued and outstanding shares of the Company's Common Stock as of the close of business on the record date, 25 April 2025. The ex-dividend date is 24 April 2025. The final dividend will be paid no later than 23 May 2025.

This proposed final dividend reflects the intended dividend reduction announced in January 2025, aimed at retaining more of the Group's strong cash flow, and enabling the Group to continue pursuing accretive M&A and drive long-term growth

Board Update

The Group's former Chief Administrative Officer and Chief Financial Officer, Bill Chess, transitioned from an Executive Director role to a Non-Executive Director role, effective as of his retirement from his full-time executive career on 30 June 2024. The Board remains focused on ensuring strong governance and strategic oversight as PPHC continues to grow and expand its capabilities.

Simon Lee
Chair of the Board
March 2025

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Chief Executive Officer's report

As we reflect on 2024, I want to express my gratitude to our investors, clients, employees, and partners who have been integral to our journey.

2024 has been a year of strategic expansion and resilient performance for PPHC. Despite market challenges, we've strengthened our position as the leading advisory firm in our core markets while successfully executing our international growth strategy.

Our Government Relations segment, representing 69% of Group revenue, delivered organic growth of 4% and maintained, for the fifth consecutive year, its position as the leading provider of federal lobbying services in the US. This performance demonstrates the enduring value of our services during periods of policy change and complexity. Experience shows that times of transition create increased demand for sophisticated government relations advice, as organisations seek to understand and adapt to evolving policy dynamics.

A defining milestone in this strategy has been our expansion into strategic communications and corporate affairs, furthering our ability to serve clients navigating high-stakes regulatory, reputational, and policy challenges. The acquisitions of Pagefield in the UK and LPA in California, complemented by our recently announced acquisition of TrailRunner International, represent a major step forward in our goal to build a global, integrated advisory platform.

In our Public Affairs segment (24% of revenue), we saw a marked turnaround from -13% organic growth in H1 to +4% in H2 as project work returned following the conclusion of various elections. Meanwhile, our Diversified Services segment demonstrated exceptional organic growth of 23%, validating our investment in specialised capabilities across AI regulation, energy transition, and strategic communications.

As we enter the second decade of PPHC's operations, our founding vision has evolved from providing sophisticated government relations services at scale to building a truly global platform supporting clients across markets and policy areas. There is significant global opportunity in our operating spheres, and as a group, we consider ourselves ideally positioned to capitalise on the opportunities ahead. The successful integration of recent acquisitions represents significant progress toward this goal.

Looking ahead, we see substantial opportunities in the evolving political and policy landscape. To our team of c.400 professionals, thank you for your continued excellence. And to our more than 1,200 clients, we remain committed to helping you navigate an increasingly complex global environment with clarity and confidence.

Sincerely,

G. Stewart Hall

Chief Executive Officer

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Operational Review

Introduction

PPHC continued to make strong progress in 2024. The Group's diversified service offerings, long-standing client relationships, and ability to provide fully integrated solutions across government relations and public affairs have enabled it to navigate election-year uncertainties while maintaining steady growth.

Clients

PPHC provides a comprehensive suite of Government Relations and Public Affairs services to its clients. In 2024, the Group serviced over 1,200 clients, demonstrating the resilience and continued demand for its expertise. Client retention remains strong, with an annual renewal rate of ~71% and revenue retention between 80% to 85% in line with historic norms.

The Group's divisions experienced varied performance in 2024:

- Government Relations: the largest division grew revenue by 7%, of which 4% was organic, underpinned by robust demand for regulatory and legislative support. All three of PPHC's lobbying firms maintained their leading position in the Federal lobbyist rankings, as reflected in public disclosures mandated by U.S. federal law.
- Public Affairs: revenue increased 13%, largely driven by the acquisitions of Lucas Public Affairs and Pagefield. The organic performance of -5% reflects a weaker H1 of -13% followed by a return to good growth of 4% in H2 as project work rebounded with clients responding to clearer political direction.
- Diversified Services: the fastest-growing division, up 47% year-over-year, with 23% organic growth. While coming from a lower base, the division's expansion reflects increasing demand for specialised services, including compliance, grant writing, and research-driven policy insights.

PPHC's strategy continues to focus on clients with annual spending above \$100,000, a critical growth metric. The Group ended FY2024 with 503 such clients, reflecting a 15% increase compared to 437 in FY2023 (restated for client consolidation). Similarly, the clients spending above \$250,000 increased from 118 in FY2023 to 137 in FY2024, reflecting a 16% increase.

This expansion has been supported by:

- Internal referral incentives and Group-wide performance-linked compensation.
- Concordant, which provides clients a single touchpoint for strategic communications integrated with PPHC's full service offerings.
- Expanded premium non-lobbying services, including state and federal compliance, stakeholder research, and procurement-related expertise.

PPHC now directly represents nearly half of the Fortune 100 and more than a quarter of the Fortune 500, in addition to serving many more via numerous trade associations.

Investing to accelerate growth

In Q2 2024, PPHC successfully completed the acquisitions of LPA and Pagefield. These were the Group's third and fourth significant acquisitions since IPO, the first being Sacramento-based KP Associates, which completed in 2022, and the second being MultiState Associates, which completed in 2023. Pagefield is a leading strategic communications and cross-party public affairs advisory firm in the UK, which is measured as the sixth largest global economy and, along with the EU, is at the forefront of global policy issues. LPA is a leading public affairs agency in California, the largest state economy in the US and is measured as the fifth largest global economy.

The acquisition of LPA strengthens the Group's position in a key US state and increases expertise in critical sectors including technology, green energy, and healthcare. The acquisition of Pagefield delivers on the Group's ambition to enter into international political capitals. LPA has now been fully integrated and the integration of Pagefield is progressing in line with our expectations. Both companies are successfully utilising the newly expanded PPHC network and have registered new business wins via intra-group client referrals.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

The government relations and strategic communications markets remain active around the world and the Group is seeking to capitalise on the current pipeline of opportunities as it aims to further broaden its geographic base into key political geographies while adding complementary specialisations. The M&A pipeline remains strong across the US, UK, and mainland Europe, with the Group actively evaluating opportunities to expand into strategic political geographies and adjacent service areas.

Current Trading and Outlook

The FY2024 results reaffirm the Group's strong positioning. The client pipeline for FY2025 is significantly stronger, driven by post-election policy shifts and increased government and corporate spending on regulatory and public affairs services.

The Board reiterates its medium-term guidance:

- organic revenue growth between 5% and 10%;
- incremental growth from future M&A; and
- underlying EBITDA margin between 25% and 30%.

With a strong balance sheet, continued expansion, and a diversified service offering, PPHC is well-positioned for sustained long-term growth. The Group has a stated ambition to achieve \$500 million in profitable revenues in the medium term.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Financial Review

The financial information contained in this preliminary announcement is unaudited. The audit of the financial statements for the year ended 31 December 2024 is substantially complete, pending finalisation of certain procedures. The statutory accounts for 2024 will be finalised on completion of the audit, consistent with the process for prior years. This is the first year that ForvisMazars has conducted the audit, and the transition has progressed smoothly.

Underlying Profit & Loss Statement

<u>All in \$m, unless otherwise noted</u>	<u>FY2024</u>	<u>FY2023</u>	<u>change</u>
Revenue	149.6	135.0	11%
EBITDA (Underlying)	36.1	35.1	3%
<i>EBITDA margin (Underlying)</i>	24.2%	26.0%	-1.8pts
Depreciation	(0.1)	(0.1)	-14%
EBIT (Underlying)	36.0	34.9	3%
Interest	(1.7)	(0.9)	-83%
EBT (Underlying)	34.3	34.0	1%
Taxes	(6.5)	(7.5)	13%
<i>Effective tax rate</i>	-19.1%	-22.1%	3.0pts
Net Income (Underlying)	27.7	26.5	5%
<i>Net income margin (Underlying)</i>	18.5%	19.6%	-1.1pts
EPS - Underlying (\$) (basic)	23.45c	23.54c	0%
EPS - Underlying (\$) (fully diluted)	22.22c	22.71c	-2%
DPS	9.40c	14.30c	-34%

Bridge from Underlying to Reported Results

<u>All in \$m, unless otherwise noted</u>	<u>FY2024</u>	<u>FY2023</u>	<u>change</u>
Net Income (Underlying)	27.7	26.5	5%
Share-based accounting charge	(31.8)	(30.9)	-3%
M&A: Post-combination comp	(11.6)	(6.3)	-84%
M&A: bargain purchase	2.5	4.8	49%
M&A: change in contingent consideration	(1.9)	(1.7)	-12%
Long Term Incentive Program charges	(4.2)	(2.8)	-49%
Amortization intangibles	(4.7)	(3.9)	-20%
Net Loss (Reported)	(24.0)	(14.2)	-68%

Please refer to the section 'basis of preparation' for an explanation of the non-cash items excluded from Underlying Net Income.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Revenue

FY2024 revenue increased by 11% to \$149.6m (FY2023: \$135.0m), with organic growth contributing 3% and the balance driven by the acquisitions of Lucas Public Affairs on 1 May 2024, of Pagefield Communications on 7 June 2024, as well as the annualisation of MultiState's contribution which was acquired on 1 March 2023. Organic growth of 3% was the outcome of slower organic growth of 1% in H1, followed by stronger organic growth of 4% in H2, especially fuelled by a return of project work (and growth) on the Public Affairs side. By segment, for FY2024 the Group saw organic growth of 4% in Government relations, of -5% in Public Affairs and of 23% in Diversified Services.

All in \$m, unless otherwise noted	FY2024	% of total	Reported growth			Organic growth		
			H1	H2	FY	H1	H2	FY
Government Relations	102.5	69%	8%	6%	7%	4%	3%	4%
Public Affairs	36.4	24%	-6%	33%	13%	-13%	4%	-5%
Diversified Services	10.7	7%	97%	19%	47%	32%	19%	23%
Total	149.6	100%	8%	13%	11%	1%	4%	3%

In FY2024, 69% of the Group's revenues stemmed from Government relations (FY2023: 71%), 24% came from Public Affairs (FY2023: 24%), and 7% from Diversified Services (FY2023: 5%).

In 2024, 3% of revenue was generated outside of the US, pursuant to the acquisition of Pagefield in the UK in June 2024.

All in \$m, unless otherwise noted

	FY2024	% of total	Reported growth			Organic growth		
			H1	H2	FY	H1	H2	FY
U.S.	145.6	97%	7%	8%	8%	1%	4%	3%
Outside U.S.	4.0	3%						
Total	149.6	100%	8%	13%	11%	1%	4%	3%

With non-US\$ denominated operations, in future periods the Group intends to report growth numbers on a constant currency basis in addition to its reported basis. For FY2024 the difference between 'constant currency' and actually reported was negligible and therefore not explicitly illustrated.

Profit

Underlying EBITDA increased 3% to \$36.1m and was achieved at a margin of 24.2%, close to the Group's historic performance and guidance that margins will typically range between 25% and 30%. In 2024 the Group incurred \$3.6m in exceptional expenses which was \$3.1m more than in 2023 (2023: \$0.5m). Of the \$3.1m increase, \$2.1m was from M&A related expenses (especially driven by the Group's first international acquisition) and \$0.9m from additional start-up losses at Concordant. Adjusting for the \$3.1m in incremental exceptional expenses, Group margin was 26.2%.

Long term Underlying EBITDA	2018	2019	2020	2021	2022	2023	2024	2024 adj
Underlying EBITDA (\$m)	9.3	13.5	21.5	32.0	31.2	35.1	36.1	39.2
Underlying EBITDA margin	27.4%	24.4%	27.8%	32.2%	28.7%	26.0%	24.2%	26.2%

After interest and taxes, the Group's Underlying Net Income for FY2024 amounted to \$27.7, up 5% from \$26.5m in FY2023.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Other

The Group's net finance costs for FY2024 were \$1.7m (FY2023: \$0.9m), reflecting the \$25.0m additional debt acquired in support of the LPA and Pagefield acquisitions in Q2 2024.

The tax provision for FY2024 was \$6.5m (FY2023: \$7.5m), reflecting a blended tax rate of 19.1% on Underlying Profit before Tax, down from 22.1% in FY2023. The decrease is primarily due to temporary differences between tax and accounting profit, mainly related to goodwill treatment

The Group ended 2023 with 333 employees and at 31 December 2024 this had increased to 367, primarily as a result of the acquisitions of LPA and Pagefield. The Group's average employee count during the year was 349 (FY2023: 308).

Cash flow

Adjustment to Presentation of Cash Flow

GAAP

During the Company's preparation of its consolidated financial statements for the six months ended 30 June 2024, management determined that certain cash flow items relating to payments made in respect of its acquisitions had been incorrectly classified within the consolidated statements of cash flows for the six months ended 30 June 2023 (unaudited) and the year ended 31 December 2023 (audited). As a result, the Company has adjusted the GAAP statement of cash flow for its consolidated financial statements in this filing. Management emphasises that these changes did not impact the Company's total assets, liabilities, equity or net profit or Earnings Per Share as of 30 June 2023 or 31 December 2023 or during the period or year then ended.

The adjustments all relate to the fact that, as part of the acquisitions that have been completed since PPHC's IPO in 2021, and in order to protect the interests of the Group, some of the shares and cash payable as part of these transactions can be clawed back and forfeited on certain events of termination of employment. In the P&L, the addition of these provisions to purchase price paid creates a post-combination compensation charge in accordance with accounting guidance under US GAAP (Accounting Standards Codification, ASC 805-10-55-25). In examining the accounting guidance in ASC 230, Classification of Certain Cash Receipts and Cash Payments, the Group has decided to classify the cash flow impact of the post-combination compensation charges as cash used for operational purposes and in certain cases as cash used for financing purposes, as appropriate.

In addition, with respect to contingent consideration paid not within three months of the acquisition date, after examining the accounting guidance of ASC 230, Classification of Certain Cash Receipts and Cash Payments, from this interim filing onwards the Group will classify these payments as cash flow from financing activities (for the portion up to the acquisition date fair value of the contingent consideration liability) and cash flow from operating activities (for the portion in excess of the acquisition date fair value of that liability).

Non-GAAP

Notwithstanding the abovementioned adjusted GAAP presentation, as part of this Management commentary the Group also continues to provide a non-GAAP summary of Cash Flows. In this non-GAAP summary, all acquisition-related payments have been clustered and reported under 'Cash Flow from Investments'. In addition, the Group also presents, as part of Management commentary, the often used measure 'Free Cash Flow'.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Cash Flow summary

The Group recorded strong (non-GAAP) Cash Flow from Operations of \$22.3m (FY2023: \$21.6m), and Free Cash Flow of \$22.2m increased to the same degree (FY2023: \$21.4m). Similar to prior years, the Group generated most Free Cash Flow in the second half, as a result of the payment of annual bonuses across the Group in Q1 and seasonal working capital trends.

	GAAP		Centralize Acquisition Payments		Adjusted (non-GAAP)		
	FY2024	FY2023*	FY2024	FY2023	FY2024	FY2023	change
<u>All in \$m, unless otherwise noted</u>							
EBITDA (Underlying)	36.1	35.1			36.1	35.1	3%
Interest	(1.7)	(0.9)			(1.7)	(0.9)	-83%
Taxes	(6.5)	(7.5)			(6.5)	(7.5)	13%
Changes in working capital	(11.5)	(16.4)	5.9	11.4	(5.6)	(5.0)	-11%
Cash flow from Operations	16.4	10.2	5.9	11.4	22.3	21.6	3%
Capital expenditure	(0.1)	(0.2)			(0.1)	(0.2)	76%
Cash paid for acquisitions, net of cash acquired	(19.8)	(8.1)	(6.6)	(13.1)	(26.4)	(21.2)	-24%
Note receivable to related parties	0.4	(1.8)			0.4	(1.8)	120%
Cash flow from Investments	(19.5)	(10.1)	(6.6)	(13.1)	(26.1)	(23.2)	-13%
Change in Debt balance	21.1	11.1			21.1	11.1	-91%
Debt issuance costs	(0.2)	(0.5)			(0.2)	(0.5)	52%
Dividend payment	(16.8)	(15.8)			(16.8)	(15.8)	-6%
Cash paid for acquisitions, financing	(0.7)	(1.8)	0.7	1.8	0.0	0.0	
Cash flow from Financing	3.3	(7.0)	0.7	1.8	4.1	(5.2)	NM
FX impact on cash	(0.1)	0.0			(0.1)	0.0	
Cash generated	0.2	(6.9)	0.0	0.0	0.2	(6.9)	NM

*2023 GAAP Cash Flow statement was re-stated, as explained in Note B to the GAAP financials and explanation in this section

Conversion Cash flow from Operations to Free Cash Flow

<u>All in \$m, unless otherwise noted</u>	<u>FY2024</u>	<u>FY2023</u>	<u>change</u>
Cash flow from Operations (Adjusted)	22.3	21.6	3%
Capex	(0.1)	(0.2)	76%
Free Cash Flow	22.2	21.4	4%

Balances end of period

The Group's debt position at the end of the Period was \$32.0m, offset by cash of \$14.5m, resulting in a Net Debt position of \$17.5m (FY2023: net cash \$3.4m). Debt increased following the Q2 2024 acquisitions of Lucas Public Affairs and Pagefield Communications, but the Company's strong cash generation allows for the steady repayment of debt.

<u>All in \$m, unless otherwise noted</u>	<u>FY2024</u>	<u>FY2023</u>	<u>change</u>
Cash balance	14.5	14.3	1%
Debt balance	(32.0)	(10.9)	193%
Net cash / (debt) balance	(17.5)	3.4	NM

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Earnout obligations

As part of the typical structure applied for the acquisitions that were completed post-IPO, the Group also committed to making certain earnout payments. These earnout payments are based on a profit-driven formula and only materialise if the acquired company realises profit growth after the date of completion. Payments are typically made in a mix of cash and shares. In turn, each of these components of earnout payments may be subject to further vesting requirements and employment conditions, which keeps the recipients financially committed to the Group.

In relation to these earnout payments, the Group has liabilities recorded of \$15.8m on its balance sheet, spread across the line items 'Contingent Consideration' and 'Other Liabilities'. This number is a reflection not only of the estimated foreseen nominal payments, but also of discount factors and fair value estimates.

In nominal terms, over the period 2025-2029, based on expected performance of each of the acquired companies, we anticipate having to make earnout payments of \$44.1m, of which \$24.6m payable in cash and the remainder in shares. The maximum earnout liability over that same period, which would only be reached if each acquisition meets very aggressive profit growth targets, would be \$97.1, of which \$57.4m payable in cash and the remainder in shares. Generally, in order for an acquisition to reach maximum earnout payments, it would need to grow its profit by 25-30% annually over the earnout period.

Expected earnout liabilities – in nominal terms

All in \$m, unless otherwise noted	2025	2026	2027	2028	2029	Total
Expected earnout payments in Cash	3.7	3.3	3.1	13.5	1.1	24.6
Expected earnout payments in PPHC stock	0.6	3.3	1.6	13.5	0.6	19.5
Expected earnout payments - total	4.3	6.5	4.7	27.0	1.7	44.1
Maximum earnout payments in Cash	4.2	8.4	12.6	18.8	13.4	57.4
Maximum earnout payments in PPHC stock	0.7	6.0	6.3	18.8	8.0	39.7
Maximum earnout payments - total	4.9	14.4	18.9	37.5	21.4	97.1

Note that these earnout liabilities do not yet include the anticipated acquisition of Trailrunner.

Information per share

		<u>FY2024</u>	<u>FY2023</u>	<u>Change</u>
# weighted avg shares - GAAP - basic and fully diluted	'000	111,827	108,606	3%
# weighted avg shares - Legally outstanding - basic	'000	118,217	112,597	5%
# weighted avg shares - Legally outstanding - fully diluted	'000	124,792	116,693	7%
EPS - GAAP reported (basic and fully diluted)	\$	-21.42c	-13.12c	-63%
EPS - Underlying (basic)	\$	23.45c	23.54c	0%
EPS - Underlying (fully diluted)	\$	22.22c	22.71c	-2%
DPS - Interim	\$	9.40c	14.30c	-34%
Free Cash Flow per share - Underlying (basic)	\$	18.81c	18.98c	-1%

For the purpose of giving investors a useful view on Earnings Per Share, the Group computed EPS not only on a GAAP Reported Profit basis, but also on an Underlying Profit basis. As explained in the section below, for the latter calculation the Group includes in the denominator (1) those shares that have been issued in relation to post-IPO acquisitions but have not yet vested and (2) unvested Restricted Stock Awards (RSA's). While those shares are still subject to vesting rules, and therefore not part of the Common Outstanding share count per GAAP definition, they entitle the recipients to dividends and voting rights.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Note that the growth in weighted of average number of shares in FY2024 (5% basic, 7% fully diluted) was not only driven by customary drivers such as LTIP issuance and M&A related issuances, but also importantly by the one-off issue of 2.1m shares in the fourth quarter of 2023 in relation to the Alpine remediation plan. It should also be noted that the dilution pool – impacting the fully diluted statistics - includes stock options that are currently ‘under water’ versus the share price in February 2025.

Basis of preparation

The financial statements have been prepared in accordance with US GAAP (Generally Accepted Accounting Principles).

When the Company purchases services or goods on behalf of its clients (for example in the case of media purchases), the Group does not recognise the purchased goods as net revenue, but only the net fees earned on the purchases. Therefore, purchases on behalf of clients do not materially impact the top-line or the margins.

Management believes that Underlying EBITDA and Underlying Net Income are more useful performance indicators than the reported Net Income. Six elements distinguish our Underlying Net Income from our Reported Net Income:

(1) Share-based accounting charge: As already mentioned in the previous reports, shares issued to employee shareholders at the time of the IPO are subject to a vesting schedule; Also, their employment agreements contain certain provisions which enable cash derived from the sale of shares at the time of the IPO to be clawed back and forfeited on certain events of termination of employment. These items create a share-based accounting noncash charge in accordance with accounting guidance under US GAAP (Accounting Standards Codification, 718- 10-S99-2, compensation-stock compensation). Based on the value of the Company at the time of admission (\$197m) and taking into account the 14.6% of pre-admission employee shares sold in 2021, the FY2024 non-cash charge is \$31.8m (FY2023: \$30.9m). The increase has primarily been driven by the acceleration of vesting of the shares of William Chess at his retirement as CFO. This share-based accounting non-cash charge has no impact on either tax or Company operations.

(2) Post-combination compensation charge: In the acquisitions that have been completed since the IPO in 2021, the Group makes payments in cash and shares. In order to protect the interests of the Group, to a large extent the shares issued as part of these transactions were made subject to vesting schedules. To a similar degree, also the cash paid as part of these transactions can be clawed back and forfeited on certain events of termination of employment.

The addition of these provisions to purchase price paid creates a post-combination compensation charge in accordance with accounting guidance under US GAAP (Accounting Standards Codification, ASC 805-10-55-25). The FY2024 charge was \$11.6m (FY2023: \$6.3m). Again, this is a non-cash charge and has no impact on either tax or Company operations.

(3) LTIP charges. In 2022 the Group issued the first stock-based compensation units under the Omnibus Plan. This plan was introduced at the time of the IPO and allows the Group to issue up to a certain number of stock-related units (e.g. options, restricted stock). In FY2024, PPHC issued 0.3m (FY2023: 0.7m) stock options at a premium exercise price (market price at time of grant plus 20%), exercisable at the 3rd anniversary of the grant. Also, the Group issued 2.9m restricted stock units (FY2023: 2.3m), and 0.7m restricted stock awards (FY2023: 3.0m, of which 2.1m in relation to the Alpine re-investment plan). No stock appreciation rights were awarded (FY2023: 1.9m) as they are getting phased out. The charges relating to these issuances, \$4.2m in FY2024 (FY2023: \$2.8m), as reflected in our P&L were computed using the Black Scholes method.

(4) Amortization of intangibles: The non-cash amortization charge of \$4.7m (FY2023: \$3.9m) relates to the amortization of customer relationships, developed technology, and noncompete agreements per ASC 805.

(5) Bargain purchase: As laid out in point 2, because a significant part of the purchase price of our acquisitions is tied to continued employment, this part has been accounted for as post-combination compensation in the Group's P&L. As a consequence, for certain acquisitions, the remaining book purchase price is lower than the tax purchase price. The reason for the bargain purchase gain is tied directly to the tax purchase price significantly exceeding the book purchase price and is not a reflection of a true bargain purchase of the actual intangible and tangible assets of these acquisitions. The income recorded relating to the bargain purchase was \$2.5m in FY2024 (FY2023: \$4.8m).

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

(6) Change in Contingent Consideration: The contingent consideration liability recorded as part of the acquisitions is adjusted at each reporting period for the change in the estimated fair value of that liability. The fair value changes over time based on management assumptions, the passage of time, payments made, and other external inputs, such as discount rates and volatility. The change in the estimated fair value of the contingent consideration is recorded as a non-operating expense of \$1.9m in FY2024 (FY2023: 1.7m).

For the calculation of Earnings per Share (EPS) based on GAAP Profit, as a denominator, the Group uses the weighted average number of Common Outstanding shares during the period. For the calculation of Earnings per Share (EPS) based on Underlying Profit, as a denominator, the Group uses the weighted average number of Legally Issued shares during the period. This comprises all the Common Outstanding shares, as well as those shares that were yet unvested but entitled the owner to dividends and voting rights (e.g. shares issued in relation to one of our post-IPO acquisitions). Consequently, the weighted average number of legally issued shares in FY2024 was 118,217,173 (FY2023: 112,596,711) and on a fully diluted basis (taking into account any issued stock instrument, regardless of exercise price), this number was 124,791,886 (FY2023: 116,692,759).

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements December 31, 2024 and 2023

Consolidated Balance Sheets

	December 31,	
	2024	2023
ASSETS		
Current assets:		
Cash	\$ 14,535,943	\$ 14,341,376
Contract receivables, net	18,284,530	14,063,469
Amounts due from related parties	-	1,054,231
Notes receivable - related parties, current portion	863,000	350,000
Income taxes receivable	3,185,120	975,050
Prepaid post-combination compensation, current portion	6,070,073	3,426,318
Prepaid expenses and other current assets	2,726,320	2,694,149
Total current assets	45,664,986	36,904,593
Property and equipment, net	750,620	801,355
Notes receivable - related parties, long term	1,050,000	1,913,000
Operating lease right of use asset	18,428,307	21,434,360
Goodwill	64,308,106	47,909,832
Other intangible assets, net	32,143,666	26,869,331
Deferred income tax asset	11,037,500	7,737,200
Prepaid post-combination compensation, long term	888,184	3,954,034
Other long-term assets	189,085	162,473
	<u>\$ 174,460,454</u>	<u>\$ 147,686,178</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 20,044,302	\$ 18,593,014
Amounts owed to related parties	556,396	-
Deferred revenue	3,149,957	2,197,220
Operating lease liability, current portion	4,826,715	4,181,155
Contingent consideration, current portion	2,092,597	1,444,110
Other liability, current portion	1,134,675	534,540
Notes payable, current portion, net	6,031,204	3,370,421
Total current liabilities	37,835,846	30,320,460
Notes payable, long term, net	26,014,133	7,570,951
Contingent consideration, long term	8,803,464	5,475,515
Other liability, long term	3,744,925	1,585,294
Operating lease liability, long term	16,807,668	20,665,349
Total liabilities	93,206,036	65,617,569

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements December 31, 2024 and 2023

Consolidated Balance Sheets (Cont.)

	December 31,	
	2024	2023
Common stock, \$0.001 par value, 1,000,000,000 shares authorized, 120,087,982 and 115,271,961 shares issued and outstanding, respectively	114,002	109,542
Additional paid-in capital	197,397,482	156,884,144
Accumulated deficit	(115,721,104)	(74,925,077)
Accumulated other comprehensive loss	(535,962)	-
Total stockholders' equity	81,254,418	82,068,609
Total liabilities and stockholders' equity	\$ 174,460,454	\$ 147,686,178

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements December 31, 2024 and 2023

Consolidated Statements of Operations and Other Comprehensive Loss

	Year Ended December 31,	
	2024	2023
Revenue	\$ 149,563,307	\$ 134,985,822
Expenses:		
Personnel cost	81,824,942	70,782,459
Employee bonuses	10,374,636	13,178,302
General and administrative expenses	15,660,905	10,929,617
Occupancy expense	5,574,150	5,027,501
Depreciation and amortization expense	4,807,299	3,998,073
Long term incentive program charges	4,162,000	2,796,000
Share-based accounting charge	31,803,600	30,904,000
Post-combination compensation charge	11,598,647	6,295,060
Change in fair value of contingent consideration	1,909,750	1,711,235
Gain on bargain purchase	(2,463,927)	(4,835,777)
Total operating expenses	165,252,002	140,786,470
Loss from operations	(15,688,695)	(5,800,648)
Interest income	176,537	17,955
Interest expense	(1,899,986)	(958,779)
Net loss before income taxes	(17,412,144)	(6,741,472)
Income tax expense	6,544,800	7,502,800
Net loss	\$ (23,956,944)	\$ (14,244,272)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.21)	\$ (0.13)
Weighted average common shares outstanding, basic and diluted	\$ 111,826,822	\$ 108,606,133
Comprehensive loss:		
Net loss	\$ (23,956,944)	\$ (14,244,272)
Foreign currency translation loss	\$ (535,962)	\$ -
Total comprehensive loss	\$ (24,492,906)	\$ (14,244,272)

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements December 31, 2024 and 2023

Consolidated Statements of Stockholders' Equity For the Years Ended December 31, 2024 and 2023

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-In	Deficit	Other Comprehensive	Stockholders'
			Capital		Income (Loss)	Equity
Balance as of December 31, 2022	108,024,388	\$ 108,024	\$ 120,713,626	\$ (44,836,562)	\$ -	\$ 75,985,088
Issuance of common stock for acquisition	767,401	768	1,231,232	-	-	1,232,000
Forfeiture of unvested restricted stock	(69,576)	(70)	-	70	-	-
Vesting of restricted stock awards	820,007	820	-	(820)	-	-
Dividends	-	-	-	(15,843,493)	-	(15,843,493)
Long term incentive program charges	-	-	2,506,000	-	-	2,506,000
Share-based accounting charge	-	-	30,904,000	-	-	30,904,000
Post-combination compensation charge-shares	-	-	1,529,286	-	-	1,529,286
Net loss	-	-	-	(14,244,272)	-	(14,244,272)
Balance as of December 31, 2023	109,542,220	\$ 109,542	\$ 156,884,144	\$ (74,925,077)	\$ -	\$ 82,068,609
Long term incentive program charges	-	-	3,784,000	-	-	3,784,000
Dividends	-	-	-	(16,835,962)	-	(16,835,962)
Vesting of stock issued from Multistate acquisition	936,571	937	-	(937)	-	-
Vesting of stock issued from KP Public Affairs acquisition	492,488	492	-	(492)	-	-
Vesting of stock issued from Engage acquisition	324,868	325	-	(325)	-	-
Vesting of stock issued to consultant	63,468	63	-	(63)	-	-
Vesting of restricted stock units and restricted stock awards	1,303,579	1,304	-	(1,304)	-	-
Common stock issued to Multistate as settlement of contingent consideration	441,432	441	690,559	-	-	691,000
Issuance of common stock for acquisition	897,640	898	1,442,422	-	-	1,443,320
Post-combination compensation charge-shares	-	-	2,792,757	-	-	2,792,757
Share-based accounting charge	-	-	31,803,600	-	-	31,803,600
Foreign currency translation gain (loss)	-	-	-	-	(535,962)	(535,962)
Net loss	-	-	-	(23,956,944)	-	(23,956,944)
Balance as of December 31, 2024	114,002,266	\$ 114,002	\$ 197,397,482	\$ (115,721,104)	\$ (535,962)	\$ 81,254,418

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements December 31, 2024 and 2023

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2024	2023*
Cash flows from operating activities:		
Net loss	\$ (23,956,944)	\$ (14,244,272)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	136,121	119,688
Amortization expense - intangibles	4,671,178	3,878,386
Amortization of right of use assets	4,070,635	3,725,388
Amortization of prepaid post-combination compensation	5,061,895	3,081,000
Accretion of other liability	3,742,313	1,684,774
Amortization of debt discount	181,596	125,203
Provision for deferred income taxes	(1,294,100)	(367,400)
Share-based accounting charge	31,803,600	30,904,000
Long-term incentive program charges	4,162,000	2,648,000
Post-combination compensation charge-shares	2,792,757	1,529,286
Change in fair value of contingent consideration	1,909,750	1,711,235
Gain on bargain purchase	(2,463,927)	(4,835,777)
(Increase) decrease in:		
Accounts receivable, net	(3,117,809)	(2,478,202)
Prepaid post-combination expense	(4,639,800)	(9,504,000)
Prepaid expenses and other assets	572,613	(570,601)
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,052,883)	6,114,690
Income taxes payable/receivable	(2,218,740)	(5,192,760)
Deferred revenue	958,600	(5,345,073)
Contingent consideration	(268,563)	(42,600)
Operating lease liability	(4,276,703)	(3,044,269)
Other liability	(981,750)	(1,821,600)
Transactions with members/related parties	1,610,627	2,159,517
Net cash provided by operating activities	16,402,466	10,234,613
Cash flows from investing activities:		
Purchases of property and equipment	(55,854)	(232,730)
Proceeds issued for notes receivable - related parties	-	(1,750,000)
Proceeds received for notes receivable - related parties	350,000	-
Cash paid for acquisitions, net of cash acquired	(19,783,750)	(8,096,000)
Net cash used in investing activities	(19,489,604)	(10,078,730)

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements December 31, 2024 and 2023

Consolidated Statements of Cash Flows (Cont.)

	Year Ended December 31,	
	2024	2023
Cash flows from financing activities:		
Payment of debt issuance costs	(214,992)	(450,729)
Proceeds from line of credit	-	1,000,000
Payment of line of credit	-	(1,000,000)
Principal payment of notes payable	(3,862,639)	(2,943,741)
Payment of contingent consideration	(749,687)	(1,779,000)
Distributions	(16,835,962)	(15,843,493)
	3,336,720	(7,016,963)
Net cash provided by (used in) financing activities		
	(55,015)	-
Effect of exchange rate changes on cash and cash equivalents		
	194,567	(6,861,080)
Net increase (decrease) in cash and cash equivalents		
	14,341,376	21,202,456
Cash and cash equivalents as of beginning of period		
	\$ 14,535,943	\$ 14,341,376
Cash and cash equivalents as of end of period		
	\$ 1,718,390	\$ 833,576
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 10,048,970	\$ 12,427,539
Cash paid for income taxes	\$ 1,064,582	\$ 8,858,106
Right of use assets obtained with lease liabilities	\$ 3,798,077	\$ 2,784,990
Contingent consideration issued for acquisitions	\$ 1,443,320	\$ 1,232,000
Common stock issued for acquisitions		
Increase in deferred revenue and other assets from acquisition of Multistate, Inc.	\$ -	\$ 4,681,404
Stock issued for settlement of contingent consideration	\$ 691,000	\$ -

*see Note K

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

[1] Organization and basis of presentation:

Public Policy Holding Company, Inc. ("PPHC-Inc.") was incorporated on February 4, 2021. From PPHC-Inc.'s incorporation until December 10, 2021 (the "Conversion Date"), all of the issued and outstanding shares of stock of PPHC-Inc. were owned by Public Policy Holding Company, LLC ("PPHC-LLC"), which (i) was organized as a Delaware limited liability company on July 1, 2014, and (ii) owned certain wholly-owned operating subsidiaries, all organized as Delaware limited liability companies (the "Subsidiaries," and collectively with PPHC-Inc., the "Company"). On the Conversion Date, PPHC-LLC contributed and assigned substantially all of its assets and liabilities (including all of the Subsidiaries, but excluding certain specified assets and liabilities) to PPHC-Inc. in exchange for the issuance by PPHC-Inc. of 100,000,000 shares (the "Contribution Shares") of Common Stock, par value \$0.001 per share ("Common Stock") of PPHC-Inc. Pursuant to a formula approved by the Executive Board and General Board of PPHC-LLC (the "Waterfall"), PPHC-LLC then liquidated and distributed the Contribution Shares to each of PPHC-LLC's owners who (other than The Alpine Group, Inc.), in turn, distributed such shares to their respective owners in accordance with the Waterfall (collectively, the "Company Conversion").

The Company provides consulting services in the areas of Governmental Relations, Public Affairs and other ancillary areas, primarily in the United States of America ("U.S."). With the acquisition of Pagefield Communications Limited ("Pagefield"), the Company has expanded its capabilities to the United Kingdom and parts of Europe.

The Company has prepared the accompanying consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP"). Such consolidated financial statements reflect all adjustments that are, in management's opinion, necessary, and are presented in United States Dollars ("USD"). All intercompany transactions and balances have been eliminated in consolidation.

The functional currency of Pagefield is the British pound sterling ("GBP"). The assets and liabilities of Pagefield are translated to USD at period end exchange rates, while statements of operations accounts are translated at the average exchange rate during the period. Stockholders' equity accounts are translated at their historical exchange rate. The effects of foreign currency translation adjustments are included in other comprehensive loss, which is a component of other comprehensive loss in stockholders' equity.

[2] Principles of consolidation:

The consolidated financial statements include all of the accounts of the entities listed below:

Parent company:

Public Policy Holding Company, Inc.

Wholly owned holding company:

PPHC International Ltd
PPHC International LLC

Wholly owned operating subsidiaries:

Crossroads Strategies, LLC
Forbes Tate Partners, LLC
Blue Engine Message & Media, LLC, doing business as Seven Letter
O'Neill & Partners LLC, doing business as O'Neill & Associates
Alpine Group Partners, LLC
KP Public Affairs, LLC
MultiState Associates, Inc.
Concordant LLC
Lucas Public Affairs, LLC
Pagefield Communications Limited

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

[3] Initial public offering:

On December 16, 2021, PPHC-Inc. completed an initial public offering and placement ("IPO") of its shares of Common Stock, and the admission of Common Stock to trading on the AIM market of the London Stock Exchange.

During 2021, all the ultimate owners of PPHC-LLC ("Group Executives") entered into Executive Employment Agreements. The Group Executives sold some of their Common Stock in conjunction with the IPO ("Liquidated Pre-IPO Shares") but retained the majority of their shares ("Retained Pre-IPO Shares"). The Retained Pre-IPO Shares are subject to a vesting schedule under which the Common Stock held by each Group Executive will vest in equal installments on the first five anniversaries of the effective date of the IPO, provided that the Group Executive remains continuously employed by the employer; this vesting schedule applies to all the Company's employees holding Common Stock at the time of the IPO. In the event that a Group Executive's employment terminates (other than on death or "disability", or by the employer without "cause", or by the Group Executive for what is deemed to be for a "good reason") then the unvested proportion of the Retained Pre-IPO Shares which have not vested, will be automatically forfeited and clawed back as of the date of such termination. In the event a Group Executive's employment terminates on death or "disability," or by the employer without "cause," or by the Group Executive for what is deemed to be "good reason," then all unvested shares will vest automatically as of the date of such termination. The Executive Employment Agreements also contain certain provisions which enable cash derived from the sale of Liquidated Pre-IPO Shares and Retained Pre-IPO Shares that have vested to be clawed back and forfeited on certain events of termination of employment or breaches of certain provisions of the Executive Employment Agreements.

The addition of the vesting provisions to previously issued shares creates a share-based accounting charge in accordance with the accounting guidance in Accounting Standards Codification ("ASC") 718-10-S99-2, *Compensation-Stock Compensation*. (see Note F).

[4] Revenue recognition:

The Company generates the majority of its revenue by providing consulting services through fixed-fee arrangements related to Government Relations, Public Affairs and Diversified Services. The Company's general practice is to establish an agreement with a client with a fixed monthly payment at the beginning of each month for the month's service to be performed. Most of the consulting service contracts are based on one of the following types of contract arrangements:

- Fixed-fee ("Retainer") arrangements require the client to pay a fixed fee in exchange for a predetermined set of professional services. The Company recognizes revenue at the beginning of the month for that month's services.
- Additional services include items such as 1) advertisement placement and management, 2) video production, and 3) website development, in which third-party companies may be engaged to achieve specific business objectives. These services are either in a separate contract or within the fixed-fee consulting contract, in which the Company usually receives a markup on the cost incurred by the Company. The Company recognizes revenues earned to date in an amount that is probable or unlikely to reverse and by applying the proportional performance method when the criteria for revenue recognition is met. Any out-of-pocket administrative expenses incurred are billed at cost.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

In determining the method and amount of revenue to recognize, the Company has to make judgments and estimates. Specifically, complex arrangements with nonstandard terms and conditions may require management's judgment in interpreting the contract to determine the appropriate accounting, including whether the promised services specified in an arrangement are distinct performance obligations and should be accounted for separately, and how to allocate the transaction price, including any variable consideration, to the separate performance obligations. When a contract contains multiple performance obligations, the Company allocates the transaction price to each performance obligation based on its estimate of the stand-alone selling price. Other judgments include determining whether performance obligations are satisfied over-time or at a point-in-time and the selection of the method to measure progress towards completion.

Certain services provided by the Company include the utilization of a third-party in the delivery of those services. These services are primarily related to the production of an advertising campaign or media buying services. The Company has determined that it acts as an agent and is solely arranging for the third-parties to provide services to the customer. Specifically, the Company does not control the specified services before transferring those services to the customer, is not primarily responsible for the performance of the third-party services, nor can the Company redirect those services to fulfill any other contracts. The Company does not have discretion in establishing the third-party pricing in its contracts with customers. For these performance obligations for which the Company acts as an agent, the Company records revenue as the net amount of the gross billings less amounts remitted to the third-party.

The following table provides disaggregated revenue by revenue type for the periods ended December 31:

	<u>2024</u>	<u>2023</u>
Government relations revenue	\$ 102,463,869	\$ 95,476,619
Public affairs revenue	36,405,430	32,256,518
Diversified services revenue	<u>10,694,008</u>	<u>7,252,685</u>
Total revenue	<u>\$ 149,563,307</u>	<u>\$ 134,985,822</u>

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of:

	<u>2024</u>	<u>2023</u>
Accounts receivable	\$ 19,161,501	\$ 14,248,444
Unbilled receivables	225,073	609,163
Allowance for credit losses	<u>(1,102,044)</u>	<u>(794,138)</u>
Total contract receivables, net	<u>18,284,530</u>	<u>14,063,469</u>
Contract liabilities (deferred revenue)	<u>3,149,957</u>	<u>2,197,220</u>

Contract liabilities relate to advance consideration received from customers under the terms of the Company's contracts primarily related to retainer fees and reimbursements of third-party expenses, both of which are generally recognized shortly after billing. Deferred revenue of approximately \$3,150,000 and \$2,197,000 from December 31, 2024 and 2023 is expected to be recognized as revenue in 2025 and 2024, respectively.

[5] Cash and cash equivalents:

The Company considers all cash investments with original maturities of three months or less to be cash equivalents. At times, the Company maintains cash accounts that exceed federally insured limits, but management does not believe that this results in any significant credit risk.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

[6] Contract receivables:

The Company provides for an allowance for credit losses; it is management's best estimate of possible losses based on historical experience and specific allowances for known troubled accounts, if needed. Accounts are generally considered past due after the contracted payment terms, which are generally net 30 day terms. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for credit losses. As of December 31, 2024 and 2023 the balance of the allowance for credit losses approximated \$1,102,000 and \$794,000.

[7] Leases:

The Company determines if a contract is a leasing arrangement at inception. Operating lease assets represent the Company's right to control the use of an identified asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized on the Consolidated Balance Sheets at the commencement date based on the present value of lease payments over the lease term. The Company uses the incremental borrowing rate on the commencement date in determining the present value of its lease payments. The Company recognizes lease expense for its operating leases on a straight-line basis over the lease term.

The Company leases office space and equipment under non-cancelable operating leases, which may include renewal or termination options that are reasonably certain of exercise. Most leases include one or more options to renew. The exercise of lease renewal options is at the Company's sole discretion. Certain of the Company's lease agreements include rental payments that are adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and are expensed on a straight-line basis.

[8] Property and equipment:

Property and equipment consist of furniture, equipment and leasehold improvements and is carried at cost less accumulated depreciation. Depreciation is provided generally on a straight-line method over the estimated useful lives of the related assets ranging from 5 to 15 years.

[9] Business combination:

In a business combination, the acquisition method of accounting requires that the assets acquired and liabilities assumed be recorded as of the date of the acquisition at their respective fair values with limited exceptions. Assets acquired and liabilities assumed in a business combination that arise from contingencies are generally recognized at fair value. If fair value cannot be determined, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Transaction costs are expensed as incurred. The operating results of the acquired business are reflected in the Company's consolidated financial statements after the date of acquisition.

[10] Goodwill and indefinite-lived intangible assets:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired and the indefinite-lived intangible assets which consists of trademarks. In accordance with ASC 350, *Intangibles – Goodwill and Other*, ("ASC 350"), Goodwill and indefinite-lived intangible assets are not amortized but tested for impairment annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

The Company assesses goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or a business one level below that operating segment if discrete financial information is available and regularly reviewed by the chief operating decision maker ("CODM").

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The Company tests its goodwill and indefinite-lived intangible assets for impairment annually as of the end of the fourth quarter using the qualitative assessment. Based on the results of the Company's qualitative assessment, there was no goodwill of indefinite-lived intangible asset impairment for the years ended December 31, 2024 and 2023.

[11] Other intangible assets:

The Company's definite-lived intangible assets consist of customer relationships, developed technology and noncompete agreements that have been acquired through various acquisitions. The Company amortizes these assets over their estimated useful lives.

Long-lived assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for an amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company has not recorded any impairment charges related to long-lived assets for the years ended December 31, 2024 and 2023.

[12] Deferred revenue:

Deferred revenue represents prepayment by the customers for services that have yet to be performed. As of December 31, 2024 and 2023, deferred revenue was approximately \$3,150,000 and \$2,197,000, respectively.

[13] Accounts payable and accrued expenses:

Accounts payable and accrued expenses consist of the following as of December 31:

	<u>2024</u>	<u>2023</u>
Accounts payable	\$ 4,753,171	\$ 4,348,493
Bonus payable	9,926,791	12,389,037
Other accrued expenses	<u>5,364,340</u>	<u>1,855,484</u>
Total	<u>\$ 20,044,302</u>	<u>\$ 18,593,014</u>

[14] Marketing and advertising costs:

The Company expenses marketing and advertising costs as incurred. Marketing and advertising expense for the years ended December 31, 2024 and 2023 was approximately \$534,000 and \$216,000 respectively.

[15] Income taxes:

The Company utilizes the asset and liability method in the Company's accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company records a valuation allowance against deferred tax assets when realization of the tax benefit is uncertain.

A valuation allowance is recorded, if necessary, to reduce net deferred taxes to their realizable values if management believes it is more likely than not that the net deferred tax assets will not be realized.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

[16] Estimates:

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 those estimates.

[17] Share-based accounting charge and stock option expense:

The Company accounts for its share-based accounting (ASC 718-10-S99-2) charge using the fair value method. The fair value method requires the Company to estimate the grant-date fair value of its share-based awards and amortize this fair value to expense over the requisite service period or vesting term. For restricted and nonvested stock awards, the grant-date fair value is based upon the market price of the Company's common stock on the date of the grant. For stock options, the grant-date fair value is based on the Black-Scholes Option Pricing Model. For stock appreciation rights ("SARs") recorded as a liability, the Company adjusts the value of the SARs based on the fair value at each reporting date, which is calculated based on the Black-Scholes Option Pricing Model. The Company records forfeitures as they occur.

[18] Segment information:

GAAP requires segmentation based on an entity's internal organization and reporting of revenue and operating income based upon internal accounting methods commonly referred to as the "management approach." Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the CODM, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's CODM is its Chief Executive Officer. The Company's operations are conducted in three reportable segments. These segments consist of Government Relations Consulting, Public Affairs Consulting and Diversified Services. See Note K for more information regarding the Company's segment disclosures.

[19] Basic and diluted earnings (loss) per share:

The Company computes earnings (loss) per share in accordance with ASC 260, *Earnings per Share*, which requires presentation of both basic and diluted earnings per share on the face of the Consolidated Statements of Operations and Other Comprehensive Loss. Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of outstanding shares during the period. Diluted earnings (loss) per share gives effect to all dilutive potential common shares outstanding during the period. Due to their anti-dilutive effect, the calculation of diluted net loss per share for the years ended December 31, 2024 and 2023 does not include the common stock equivalent shares below:

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

	December 31,	
	2024	2023
Common shares outstanding	114,002,266	109,542,220
Nonvested shares outstanding	6,085,716	<u>5,729,741</u>
Legally outstanding shares	120,087,982	115,271,961
Stock options and RSUs outstanding	7,730,192	<u>5,314,056</u>
Total fully diluted shares	<u>127,818,174</u>	<u>120,586,017</u>

The following table includes the weighted average shares outstanding for each respective period:

	December 31,	
	2024	2023
Common shares, weighted average	111,826,822	108,606,133
Nonvested shares, weighted average	6,390,351	<u>3,990,578</u>
Legally outstanding shares, weighted average	118,217,173	112,596,711
Stock options and RSUs, weighted average	6,574,713	<u>4,096,048</u>
Total fully diluted, weighted average	<u>124,791,886</u>	<u>116,692,759</u>

[20] Fair value of financial instruments:

As a basis for determining the fair value of certain of the Company's financial instruments, the Company utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Assets and liabilities measured at fair value are classified in their entirety based on the level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the entire fair value measurement requires management to make judgments and consider the factors specific to the asset or liability.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements **December 31, 2024 and 2023**

The carrying values of cash, contract receivables, and accounts payable and accrued expenses at December 31, 2024 and 2023 approximated their fair value due to the short maturity of these instruments.

The Company's financial instruments that are measured on a recurring basis consist of contingent consideration from the acquisition of KP Public Affairs LLC ("KP LLC"), Multistate Associates Inc. ("MultiState Inc"), Lucas Public Affairs, Inc. ("LPA"), and Pagefield Communications Limited ("Pagefield"). The fair value of the contingent consideration was measured using Level 3 inputs.

The following table summarized the change in fair value, as determined by Level 3 inputs, for the contingent consideration using the unobservable Level 3 inputs:

Balance at December 31, 2022	\$ 4,245,000
Fair value at issuance	2,784,990
Payout of contingent consideration	(1,821,600)
Change in fair value	<u>1,711,235</u>
Balance at December 31, 2023	6,919,625
Fair value at issuance	3,798,077
Cash and stock payout of contingent consideration	(1,709,250)
Change in fair value	1,909,750
Effect of currency translation adjustment	<u>(22,141)</u>
Balance at December 31, 2024	<u>\$ 10,896,061</u>

The change in fair value of the contingent consideration of approximately \$1,910,000 for the year ended December 31, 2024, consisted of an increase in the fair value of the contingent consideration for MultiState Inc and KP LLC offset by a decrease in the fair value of the contingent consideration for LPA and Pagefield. The change in fair value was primarily due to the effect of the change in the forecasted growth rate of each entity.

The Company performed Monte Carlo simulations to estimate the achievement and amount of certain future operating results. The Monte Carlo simulations utilize estimates including; expected volatility of future operating results, discount rates applicable to future results, and expected growth rates. The tables below document the Monte Carlo assumptions and inputs (which are Level 3 inputs) each balance sheet date:

As of December 31, 2024			
	Valuation Methodology	Significant Unobservable Input	Range
Contingent consideration	Monte Carlo Simulation Method	Discount rate for credit risk and time value	5.2% to 5.4%
		Discount rate for future profit after tax	11.5% to 21.3%
		Expected volatility of future annual profit after tax	29.0% to 34.0%
		Forecasted growth rate	4.9% to 70.8%

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

As of December 31, 2023			
	Valuation Methodology	Significant Unobservable Input	Range
Contingent consideration	Monte Carlo Simulation Method	Discount rate for credit risk and time value	4.8% to 6.5%
		Discount rate for future profit after tax	14.6% to 21.0%
		Expected volatility of future annual profit after tax	33.0% to 37.0%
		Forecasted growth rate	4.9% to 30.3%

Assumptions related to future operating performance are based on management's annual and ongoing budgeting, forecasting and planning processes and represent management's best estimate of the future results of the Company's operations at a point in time. These estimates are subject to many assumptions, such as the economic environments in which the Company operates, demand for services and competitor actions. Estimated calculations of the future annual profit after tax amounts are discounted to present value using a market participant, weighted average cost of capital, which considers the risk inherent in the probability adjusted future annual profit after tax amounts from services provided. The financial and credit market volatility directly impacts certain inputs and assumptions used to develop the weighted average cost of capital such as the risk-free interest rate, industry beta, debt interest rate, and the Company's market capital structure. These assumptions are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy. The use of different inputs and assumptions could increase or decrease the Company's estimated fair value calculations of the contingent consideration.

[21] Contingent consideration:

The Company estimates and records the acquisition date fair value of contingent consideration as part of purchase price consideration for acquisitions. Additionally, each reporting period, the Company estimates changes in the fair value of contingent consideration and recognizes any change in fair value in the Consolidated Statements of Operations and Other Comprehensive Loss. The estimate of the fair value of contingent consideration requires very subjective assumptions to be made of future operating results, discount rates and probabilities assigned to various potential operating result scenarios. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and, therefore, materially affect the Company's future financial results. The contingent consideration liability is to be settled through a combination of cash and shares of common stock based on each respective purchase agreement and the amount ultimately paid is dependent on the achievement of certain future operating results.

[22] Other liability:

Other liability consists of certain future payments that the Company could be required to make if various operating targets are achieved from the acquisitions of KP LLC, MultiState Inc, LPA, and Pagefield (see Note B and Note F) The Company records post-combination business expense over the vesting or claw-back period applicable for these future payments on a straight-line basis with the amount accrued recorded as Other liability. The future earn-out payments that have vesting or claw-back rights tied to employment will reduce the amount of the Other liability when paid.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

[23] New accounting pronouncements:

Recently Adopted Accounting Standards

During 2023, the Company adopted Accounting Standards Update ("ASU") No. 2016-13 ("ASU 2016-13"), *Financial Instruments-Credit Losses*. ASU 2016-13 requires organizations to measure all expected credit losses for instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This guidance is applicable for the Company's contract receivables. However, the adoption of ASU 2016-13 did not have a material impact to the Company's valuation of its contract receivables.

During November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-07, *Segment Reporting (Topic 280)*. ASU No. 2023-07 was issued to improve the disclosures about a public entity's reportable segments and requires more detailed information about a reportable segment's expenses. The primary focus of ASU No. 2023-07 is enhanced disclosures about significant segment expenses. The guidance is applicable and effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company has adopted the provisions of ASU No. 2023-07 for the fiscal year ended December 31, 2024 and has updated the disclosure information provided in its segment footnote reporting accordingly.

Accounting Standards Not Yet Adopted

During December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which expands annual disclosures in an entity's income tax rate reconciliation table and requires annual disclosures regarding cash taxes paid both in the U.S. (federal, state and local) and foreign jurisdictions. The amendments in this ASU are effective for annual periods beginning after December 31, 2024, although early adoptions is permitted. The Company is evaluating the potential impact of this guidance on its consolidated financial statement disclosures.

During November 2024, the FASB issued ASU 2024-03, *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. The guidance requires public companies to disclose, in the notes to financial statements, specified information about certain costs and expenses at each interim and annual reporting period. This guidance is effective for public business entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. The Company expects to adopt this guidance in its fiscal year beginning January 1, 2027. The Company is evaluating the potential impact of this guidance on its consolidated financial statement disclosures.

NOTE B - ACQUISITIONS

[1] KP Public Affairs LLC:

On October 1, 2022, the Company entered into an Asset Purchase Agreement ("KP Agreement") and acquired certain assets and assumed certain liabilities of KP Public Affairs LLC ("Seller" or "KP LLC") through the creation of a wholly-owned subsidiary, KP Public Affairs, LLC ("KP"). At the closing of the transaction, the Company paid the Seller cash in the amount of \$10,306,800 ("Closing Cash Payment") and issued 739,589 shares of the Company's common stock ("Closing Share Payment") to Seller at an aggregate fair value of \$1,145,200.

There are additional contingent payments that the Seller can earn in the future depending on certain operating results that are achieved. The total amount of consideration that the Company could be required to pay to the Seller in the amount of cash and stock ("Seller Shares") is \$35,000,000. The equity component of the contingent payments ranges between 20% and 35%.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

During the year ended December 31, 2023, the Company paid the Seller an additional amount of consideration totaling \$4,048,000 ("KP Closing True-Up Payment") based on the specific operating results of KP through December 31, 2022. The payment of the KP Closing True-Up Payment was pro-rated as \$3,643,200 in cash ("KP True-Up Cash Payment") and 245,389 shares of common stock ("KP True-Up Share Payment") at an aggregate fair value of \$404,800. Approximately \$1,822,000 of the cash paid was applied against the contingent liability, \$1,822,000 of the cash was applied against the other liability and the remaining \$404,800 worth of common stock issued was recorded as post-combination expense and equity over the required vesting terms for the shares issued.

The KP Agreement provides certain forfeiture provisions applicable to any future cash or share payments owed, which generally require the owners of KP LLC ("Owner" or "Owners") to remain employed by the Company for a certain period of time to receive the full amount of those future payments. There are certain exceptions to the forfeiture provisions if termination of employment occurs under certain permitted events ("Acceleration Event") as defined in the KP Agreement.

In addition, under certain circumstances outlined in the KP Agreement, the Company can claw back a portion of certain payments previously paid if an Owner is not employed by the Company as of December 31, 2026.

If an Owner's employment is terminated as a result of an Acceleration Event, a percentage of the unvested Seller Shares (representing such Owner's ownership percentage in Seller) shall become fully vested. The Seller Shares issued have some restrictions but they also have certain legal rights consistent with the Company's other shares of Common Stock outstanding, including certain voting rights and the rights to dividends paid by the Company. In addition, the KP Agreement contains certain provisions requiring the forfeiture of a percentage of all cash and shares received by Seller if certain restrictive covenants are breached by an Owner.

Reasons for the acquisition

The Company acquired KP LLC to expand its governmental and public affairs consulting services provided to state and local governments. Specifically, KP LLC provides significant services to companies and organizations doing business in the state of California.

Accounting for the acquisition

The acquisition of Seller was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The acquired assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values with the excess purchase price assigned to goodwill.

Purchase consideration

The Company determined that certain consideration provided to Sellers in the KP Agreement does not qualify as purchase consideration in accordance with the guidance of ASC 805. The Company determined that the purchase consideration consists of the amount of cash payments owed to Sellers that are not subject to a vesting or claw back provision that is directly linked to the continued employment of Sellers. The total purchase consideration consisted of the following amounts:

Closing Cash Payment	\$ 10,306,800
Contingent consideration	<u>4,245,000</u>
Total purchase consideration	<u>\$ 14,551,800</u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The contingent consideration consists of the estimated fair value of the Closing True-Up Cash Payment, Interim Earnout Cash Payment, and Final Earnout Cash Payment that are not subject to a vesting requirement or claw back provision directly linked to the future employment of Owners.

Purchase price allocation

The allocation of the purchase consideration resulted in the following amounts being allocated to the assets acquired and liabilities assumed as of the purchase date of October 1, 2022 based on their respective estimated fair values summarized below:

Cash	\$ 139,547
Other current assets	69,000
Right of use assets	3,273,766
Tradenname	1,091,000
Noncompete agreements	306,000
Customer relationship	5,861,000
Deferred income tax asset	4,277,500
Goodwill	3,016,300
Other current liabilities	(208,547)
Lease liability	<u>(3,273,766)</u>
Total estimated purchase price	<u>\$ 14,551,800</u>

The identified definite-lived intangible assets were as follows:

<u>Definite-Lived Intangible Assets</u>	<u>Weighted-Average Useful Life (in Years)</u>	<u>Amount</u>
Customer relationship	7	\$ 5,861,000
Noncompete agreements	5	\$ 306,000

The fair value of customer relationships was determined using the income approach, which requires management to estimate a number of factors for each reporting unit, including projected future operating results, anticipating future cash flows and discount rates. The fair value of noncompete agreements was determined using an income approach method, which requires management to estimate a number of factors related to the expected future cash flows of KP LLC and the potential impact and probability of competition, assuming such noncompete agreements were not in place. The primary factors that contributed to the goodwill recognized from the KP LLC acquisition include the key employees of KP LLC combined with additional synergies expected from increasing the Company's service capabilities.

The fair value of the contingent consideration was performed using Monte Carlo simulations to estimate the achievement and amount of certain future operating results. The Monte Carlo simulations utilize estimates including; expected volatility of future operating results, discount rates applicable to future results, and expected growth rates. The table below provides the significant inputs to the calculation of the contingent consideration as of the acquisition date:

<u>Significant Unobservable Input</u>	<u>Range</u>
Discount rate for credit risk and time value	5.9 % to 6.2 %
Discount rate for future profit after tax	20.0% to 22.2%
Expected volatility of future annual profit after tax	30.0% to 35.0%
Forecasted growth rate	3.0% to 17.8%

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

[2] Engage LLC:

On November 1, 2022, the Company (through its wholly-owned subsidiary, Forbes Tate Partners, LLC) entered into an Asset Purchase Agreement ("Engage Agreement") and acquired certain assets and assumed certain liabilities of Engage LLC ("Engage"). At the closing of the transaction, the Company paid Engage cash in the amount of \$1,925,000 ("Engage Cash Payment") and issued 487,301 shares of the Company's common stock ("Engage Restricted Shares") at an aggregate fair value of \$825,000.

A portion of the Engage Cash Payment was designated to certain owners ("Junior Principal(s)") of Engage and the remaining of the Engage Cash Payment was designated to the other owners ("Senior Principal(s)") of Engage. In addition, all of the Engage Restricted Shares were issued to the Senior Principals. There are no vesting requirements or claw back provisions linked to continuing employment for the Engage Cash Payment paid to the Junior Principals. There are vesting requirements and claw back provisions linked to continuing employment of the Senior Principals for the Engage Cash Payment paid and Engage Restricted Shares issued to the Senior Principals.

Each of the Senior Principals will vest in the Engage Restricted Shares as long as they remain continuously employed through each applicable vesting date, except if the termination occurs under certain permitted events ("Engage Acceleration Event") as defined in the Engage Agreement. If one of the Senior Principals is terminated as a result of an Engage Acceleration Event, all of such Senior Principal's unvested Engage Restricted Shares shall become fully vested.

The Engage Restricted Shares issued have some restrictions but they also have certain legal rights consistent with the Company's other shares of Common Stock outstanding, including certain voting rights and the rights to dividends paid by the Company.

With respect to the Engage Cash Payment, each of the Senior Principals have a vesting requirement related to their respective cash payment. If any of the Senior Principals is terminated as a result of an Engage Acceleration Event, all of such Senior Principal's unvested Engage Cash Payment shall become fully vested,

In addition, the Engage Agreement contains certain provisions requiring the forfeiture of a respective Senior Principal's Engage Restricted Shares and a portion of the Engage Cash Payment made to both the Junior Principals and Senior Principals if certain restrictive covenants are breached by the respective Junior Principal or Senior Principal.

Reasons for the acquisition

The Company acquired Engage to expand its governmental and public affairs consulting services provided within the U.S.

Accounting for the acquisition

The acquisition of Engage was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The acquired assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values with the excess purchase price assigned to goodwill.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

Purchase consideration

The Company determined that certain consideration provided to Engage in the Engage Agreement does not qualify as purchase consideration in accordance with the guidance of ASC 805. The Company determined that the purchase consideration consists of the amount of Engage Cash Payment paid to the Junior Principals and the Engage Cash Payment to the Senior Principals that is not subject to vesting or claw back linked to continuing employment, which totaled \$894,000. The value of the Engage Restricted Shares of \$825,000 and the remaining Engage Cash Payment amount of \$1,031,000 ("Prepaid Post-Combination Compensation") will be recognized as a charge to expense in accordance with ASC 805-10-55-25 (see Note F).

Purchase price allocation

The allocation of the purchase consideration resulted in the following amounts being allocated to the assets acquired and liabilities assumed as of the purchase date of November 1, 2022 based on their respective estimated fair values summarized below:

Cash	\$ 179,793
Other current assets	48,571
Right of use assets	173,579
Tradename	14,000
Noncompete agreements	140,000
Customer relationship	414,461
Deferred income tax asset	325,539
Other current liabilities	(228,364)
Lease liability	<u>(173,579)</u>
Total estimated purchase price	<u>\$ 894,000</u>

In 2023, during the measurement period, the Company determined that an adjustment to increase the Company's deferred tax asset of \$281,000 was necessary and a corresponding gain on bargain purchase was recorded.

The identified definite-lived intangible assets were as follows:

Definite-Lived Intangible Assets	Weighted-Average Useful Life (in Years)	Amount
Customer relationship	7	\$ 414,461
Noncompete agreements	4	\$ 140,000

The fair value of customer relationships was determined using the income approach, which requires management to estimate a number of factors for each reporting unit, including projected future operating results, anticipating future cash flows and discount rates. The fair value of noncompete agreements was determined using an income approach method, which requires management to estimate a number of factors related to the expected future cash flows of Engage and the potential impact and probability of competition, assuming such noncompete agreements were not in place.

[3] MultiState Associates, Inc.:

On March 1, 2023, the Company entered into an Asset Purchase Agreement ("MultiState Agreement") and acquired certain assets and assumed certain liabilities of MultiState Associates, Inc. ("MS Seller" or "MultiState Inc") through the creation of a wholly-owned subsidiary, MultiState Associates, LLC ("MS LLC"). At the closing of the transaction, the Company paid the Seller cash in the amount of \$17,600,000 ("MS Closing Cash Payment") and issued 2,740,717 shares of the Company's common stock ("MS Closing Share Payment") to Seller at an aggregate fair value of \$4,400,000, of which, 1,973,316 shares have vesting requirements ("MS Closing Vesting Shares").

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

In addition, there are additional contingent payments that the MS Seller can earn in the future depending on certain operating results that are achieved. The total amount of consideration that the Company could be required to pay to the MS Seller in the amount of cash and stock ("MS Seller Shares") is \$70,000,000. The equity component of the contingent payments is 50%. During the year ended December 31, 2024, the Company paid the MS Seller \$2,000,000 of cash ("MS First Interim Cash Payment") and \$2,000,000 of common stock ("MS First Interim Share Payment"). Approximately \$1,709,000 of the cash and stock paid was applied against the contingent liability, \$982,000 of the cash was applied against the other liability and prepaid post-combination expense and the remaining \$1,309,000 worth of common stock issued ("MS First Interim Vesting Shares") will be recorded as post-combination expense and equity over the required vesting terms for the shares issued.

The MultiState Agreement provides certain forfeiture provisions applicable to any future cash or share payments owed, which generally require certain owners of MS LLC ("MS Owner" or "MS Owners") to remain employed by the Company for a certain period of time to receive the full amount of those future payments. There are certain exceptions to the forfeiture provisions if termination of employment occurs under certain permitted events ("MS Acceleration Event") as defined in the MultiState Agreement.

In addition, under certain circumstances outlined in the MultiState Agreement, the Company can claw back a portion of certain payments previously paid if an MS Owner is not employed by the Company as of certain future dates.

If an MS Owner's employment is terminated as a result of an MS Acceleration Event, a percentage of the unvested MS Seller Shares (representing such MS Owner's ownership percentage in MS Seller) shall become fully vested. The MS Seller Shares issued have some restrictions but they also have certain legal rights consistent with the Company's other shares of Common Stock outstanding, including certain voting rights and the rights to dividends paid by the Company. In addition, the MultiState Agreement contains certain provisions requiring the forfeiture of a percentage of all cash and shares received by MS Seller if certain restrictive covenants are breached by an MS Owner.

Reasons for the acquisition

The Company acquired MultiState Inc to expand the scope of its consulting services provided in respect of federal, state and local governments. Specifically, MultiState Inc provides lobbying compliance, legislative activity tracking, lobbying brokerage and other consulting services to Fortune 500 companies, non-profit organizations, elected officials and leading advocacy and trade associations throughout the United States.

Accounting for the acquisition

The acquisition of MS Seller was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The acquired assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values.

Purchase consideration

The Company determined that certain consideration provided to MS Sellers in the MultiState Agreement does not qualify as purchase consideration in accordance with the guidance of ASC 805. The Company determined that the purchase consideration consists of the amount of cash and share payments owed to MS Sellers that are not subject to a vesting or claw back provision that is directly linked to the continued employment of MS Sellers. The total purchase consideration consisted of the following amounts:

MS closing cash payment	\$ 8,096,000
MS closing share payment	1,232,000
Contingent consideration	<u>2,784,990</u>
Total purchase consideration	<u>\$ 12,112,990</u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The contingent consideration consists of the estimated fair value of future payments that are not subject to vesting or claw back provisions tied to continued employment.

Purchase price allocation

The allocation of the purchase consideration resulted in the following amounts being allocated to the assets acquired and liabilities assumed as of the purchase date of March 1, 2023 based on their respective estimated fair values is summarized below:

Receivable from MS Sellers	\$ 4,490,227
Other current assets	191,177
Right of use assets	61,976
Tradename	2,202,000
Noncompete agreements	525,000
Customer relationships	5,507,600
Developed technology	3,938,000
Deferred income tax asset	4,743,079
Deferred revenue	(4,681,404)
Lease liability	<u>(309,888)</u>
Net assets acquired	16,667,767
Less estimated purchase price	<u>(12,112,990)</u>
Gain on bargain purchase	<u>\$ 4,554,777</u>

The identified definite-lived intangible assets were as follows:

<u>Definite-Lived Intangible Assets</u>	<u>Weighted-Average Useful Life (in Years)</u>	<u>Amount</u>
Customer relationships	7	\$ 5,507,600
Developed technology	7	\$ 3,938,000
Noncompete agreements	5	\$ 525,000

The fair value of customer relationships was determined using the income approach, which requires management to estimate a number of factors for each reporting unit, including projected future operating results, anticipating future cash flows and discount rates. The fair value of the developed technology was determined using the relief from royalty method, which requires management to estimate a number of factors, including the estimated future revenues expected to be generated from the technology and a hypothetical royalty rate attributable to the technology. The fair value of noncompete agreements was determined using an income approach method, which requires management to estimate a number of factors related to the expected future cash flows of MS LLC and the potential impact and probability of competition, assuming such noncompete agreements were not in place. The primary factors that contributed to the gain on bargain purchase recognized from the MS LLC acquisition include the requirement for the key employees of MS LLC to stay employees of the Company for a significant period of time.

The fair value of the contingent consideration was performed using Monte Carlo simulations to estimate the achievement and amount of certain future operating results. The Monte Carlo simulations utilize estimates including; expected volatility of future operating results, discount rates applicable to future results, and expected growth rates. The table below provides the significant inputs to the calculation of the contingent consideration as of the acquisition date:

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

Significant Unobservable Input	Range
Discount rate for credit risk and time value	5.7 % to 7.0 %
Discount rate for future profit after tax	15.9% to 16.6%
Expected volatility of future annual profit after tax	36.0% to 38.0%
Forecasted growth rate	3.0% to 14.4%

[4] Doherty Law Group:

On February 1, 2024, the Company entered into an Asset Purchase Agreement ("Doherty Agreement") and acquired certain assets and assumed certain liabilities of John Francis Doherty and Doherty Law Group (collectively, the "Seller" or "Doherty"). At the closing of the transaction, the Company paid the Seller cash in the amount of \$270,000 ("Doherty Closing Cash Payment") and issued 62,637 shares of the Company's common stock ("Doherty Closing Share Payment") to Seller at an aggregate fair value of approximately \$90,000, of which, all the shares have vesting requirements ("Doherty Vesting Shares").

In addition, there are additional contingent payments that the Seller can earn in the future depending on certain operating results that are achieved. The total additional amount of consideration that the Company could be required to pay to the Seller is \$195,000 of cash ("Doherty Earnout Cash Payment") and \$195,000 of stock ("Doherty Earnout Shares") for total additional consideration of up to \$390,000. This combined with the closing payments already made could require total payments of up to \$750,000 to the Seller.

The Doherty Agreement provides certain forfeiture provisions applicable to any future cash or share payments owed, which generally require John Doherty ("Doherty Owner") to remain employed by the Company for a certain period of time to receive the full amount of those future payments. There are certain exceptions to the forfeiture provisions if termination of employment occurs under certain permitted events ("Doherty Acceleration Event") as defined in the Doherty Agreement.

In addition, under certain circumstances outlined in the Doherty Agreement, the Company can claw back a portion of certain payments previously paid if Doherty Owner is not employed by the Company as of certain future dates.

If Doherty Owner is terminated as a result of a Doherty Acceleration Event, a percentage of the unvested Doherty Owner Shares (representing such Doherty Owner's ownership percentage in Seller) shall become fully vested. The Doherty Seller Shares issued have some restrictions but they also have certain legal rights consistent with the Company's other shares of Common Stock outstanding, including certain voting rights and the rights to dividends paid by the Company. In addition, the Doherty Agreement contains certain provisions requiring the forfeiture of a percentage of all cash and shares received by Doherty Owner if certain restrictive covenants are breached by a Doherty Owner.

Reasons for the acquisition

The Company acquired Doherty to enhance the scope of services provided by KP LLC.

Accounting for the acquisition

The acquisition of Doherty was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The acquired assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

Purchase Consideration

The Company determined that certain consideration provided to Doherty in the Doherty Agreement does not qualify as purchase consideration in accordance with the guidance of ASC 805. The Company determined that the purchase consideration consists of the amount of cash and share payments owed to Doherty that are not subject to a vesting or claw back provision that is directly linked to the continued employment of Doherty Owners. The total preliminary purchase consideration consisted of the following amounts:

Doherty closing cash payment	\$ 70,200
Contingent consideration	<u>17,200</u>
Total purchase consideration	<u>\$ 87,400</u>

The Doherty Closing Cash Payment and contingent consideration allocated as preliminary purchase consideration consists of the amount of the Doherty Closing Cash Payment and estimated fair value of future payments that are not subject to vesting or claw back provisions tied to continued employment.

Purchase price allocation

The allocation of the purchase consideration resulted in the following amounts being allocated to the assets acquired and liabilities assumed as of the purchase date of February 1, 2024 based on their respective estimated fair values is summarized below:

Customer relationships	\$ 77,000
Noncompete agreement	7,400
Deferred income tax asset	<u>111,000</u>
Net assets acquired	195,400
Less estimated purchase price	<u>87,400</u>
Gain on bargain purchase	<u>\$ 108,000</u>

The identified definite-lived intangible assets were as follows:

Definite-Lived Intangible Assets	Weighted-Average Useful Life (in Years)	Amount
Customer relationships	7	\$ 77,000
Noncompete agreement	4	\$ 7,400

The fair value of customer relationships was determined using the income approach, which requires management to estimate a number of factors for each reporting unit, including projected future operating results, anticipating future cash flows and discount rates. The fair value of noncompete agreements was determined using an income approach method, which requires management to estimate a number of factors related to the expected future cash flows of Doherty and the potential impact and probability of competition, assuming such noncompete agreements were not in place. The primary factors that contributed to the gain on bargain purchase recognized from the Doherty acquisition include the requirement for the Doherty Owner to stay an employee of the Company for a significant period of time.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The fair value of the contingent consideration was calculated by estimating the amount of taxes subject to clawback on both the Doherty Closing Cash Payment and Doherty Earnout Cash Payment. The fair value of the Doherty Earnout Cash Payment was performed using Monte Carlo simulations to estimate the achievement and amount of certain future operating results. The Monte Carlo simulations utilize estimates including; expected volatility of future operating results, discount rates applicable to future results, and expected growth rates. The table below provides the significant inputs to the calculation of the contingent consideration as of the acquisition date:

Significant Unobservable Input	Range
Discount rate for credit risk and time value	5.1%
Discount rate applicable to future revenue	14.9%
Expected volatility of future revenue	20.0%
Forecasted growth rate	9.5%

[5] Lucas Public Affairs, Inc. ("LPA"):

On May 1, 2024, the Company entered into an Asset Purchase Agreement ("LPA Agreement") and acquired certain assets and assumed certain liabilities of Lucas Public Affairs, Inc. ("Seller" or "LPA") through the creation of a wholly-owned subsidiary, Lucas Public Affairs, LLC ("LPA LLC"). At the closing of the transaction, the Company paid the Seller cash in the amount of \$6,000,000 ("LPA Closing Cash Payment") and issued 958,371 shares of the Company's common stock ("LPA Closing Share Payment") to Seller at an aggregate fair value of approximately \$1,500,000, of which, all the shares have vesting requirements ("LPA Vesting Shares").

In addition, there are additional contingent payments that the Seller can earn in the future depending on certain operating results that are achieved. The total additional amount of consideration that the Company could be required to pay to the Seller is \$9,800,000 of cash and \$4,700,000 of stock ("LPA Seller Shares") for total additional consideration of up to \$14,500,000. This combined with the closing payments already made could require total payments of up to \$22,000,000 to the Seller.

The LPA Agreement provides certain forfeiture provisions applicable to any future cash or share payments owed, which generally require the owners of the Seller ("LPA Owner") to remain employed by the Company for a certain period of time to receive the full amount of those future payments. There are certain exceptions to the forfeiture provisions if termination of employment occurs under certain permitted events ("LPA Acceleration Event") as defined in the LPA Agreement.

In addition, under certain circumstances outlined in the LPA Agreement, the Company can claw back a portion of certain payments previously paid if a LPA Owner is not employed by the Company as of certain future dates.

If a LPA Owner's employment is terminated as a result of a LPA Acceleration Event, a percentage of the unvested LPA Owner Shares (representing such LPA Owner's ownership percentage in Seller) shall become fully vested. The LPA Seller Shares issued have some restrictions but they also have certain legal rights consistent with the Company's other shares of Common Stock outstanding, including certain voting rights and the rights to dividends paid by the Company. In addition, the LPA Agreement contains certain provisions requiring the forfeiture of a percentage of all cash and shares received by LPA Owner if certain restrictive covenants are breached by a LPA Owner.

Reasons for the acquisition

The Company acquired LPA to expand the scope of its consulting services provided in respect of federal, state and local governments. Specifically, LPA provides significant complementary services to companies and organizations doing business in the state of California.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements **December 31, 2024 and 2023**

Accounting for the acquisition

The acquisition of LPA was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The acquired assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values.

Purchase consideration

The Company determined that certain consideration provided to LPA in the LPA Agreement does not qualify as purchase consideration in accordance with the guidance of ASC 805. The Company determined that the purchase consideration consists of the amount of cash and share payments owed to LPA that are not subject to a vesting or claw back provision that is directly linked to the continued employment of LPA Owners. The total purchase consideration consisted of the following amounts:

LPA Closing Cash Payment	\$ 1,560,000
Contingent consideration	<u>377,073</u>
Total purchase consideration	<u>\$ 1,937,073</u>

The LPA Closing Cash Payment and contingent consideration allocated as purchase consideration consists of the amount of the LPA Closing Cash Payment and estimated fair value of future payments that are not subject to vesting or claw back provisions tied to continued employment.

Purchase price allocation

The allocation of the purchase consideration resulted in the following amounts being allocated to the assets acquired and liabilities assumed as of the purchase date of May 1, 2024 based on their respective estimated fair values is summarized below:

Customer relationships	\$ 1,150,900
Right of use assets	283,656
Tradename	1,021,400
Noncompete agreements	158,700
Deferred income tax asset	1,962,000
Lease liability	<u>(283,656)</u>
Net assets acquired	4,293,000
Less estimated purchase price	<u>(1,937,073)</u>
Gain on bargain purchase	<u>\$ 2,355,927</u>

The fair value of the identified definite-lived intangible assets was as follows:

<u>Definite-Lived Intangible Assets</u>	<u>Weighted-Average Useful Life (in Years)</u>	<u>Amount</u>
Customer relationships	7	\$ 1,150,900
Noncompete agreements	5	\$ 158,700

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The fair value of customer relationships was determined using the income approach, which requires management to estimate a number of factors for each reporting unit, including projected future operating results, anticipating future cash flows and discount rates. The fair value of noncompete agreements was determined using an income approach method, which requires management to estimate a number of factors related to the expected future cash flows of LPA LLC and the potential impact and probability of competition, assuming such noncompete agreements were not in place. The primary factors that contributed to the gain on bargain purchase recognized from the LPA acquisition include the requirement for the key employees of LPA to stay employees of the Company for a significant period of time.

The fair value of the contingent consideration was performed using Monte Carlo simulations to estimate the achievement and amount of certain future operating results. The Monte Carlo simulations utilize estimates including; expected volatility of future operating results, discount rates applicable to future results, and expected growth rates. The table below provides the significant inputs to the calculation of the contingent consideration as of the acquisition date:

Significant Unobservable Input	Range
Discount rate for credit risk and time value	5.2 % to 5.4 %
Discount rate for future profit after tax	15.7% to 16.4%
Expected volatility of future annual profit after tax	35.0% to 38.0%
Forecasted growth rate	9.5% to 13.4%

[6] Pagefield Communications Limited ("Pagefield"):

On June 7, 2024, the Company entered into a Share Purchase Agreement ("Pagefield Agreement") and acquired the stock of Pagefield Communications Limited ("Pagefield") from the owners of Pagefield ("Seller" or "Sellers") through the creation of a wholly-owned subsidiary, PPHC International Ltd. ("PPHC LTD"). At the closing of the transaction, the Company paid the Sellers cash in the amount of 14,992,868 GBP, which was approximately \$19,209,000 USD ("Pagefield Closing Cash Payment") and issued 897,640 shares of the Company's common stock ("Pagefield Closing Share Payment") to Sellers at an aggregate fair value of approximately \$1,443,000.

In addition, there are additional contingent payments that the Sellers can earn in the future depending on certain operating results that are achieved. The total additional amount of consideration that the Company could be required to pay to the Sellers is up to 13,800,000 GBP, which includes up to 8,800,000 GBP subject to future vesting and clawback provisions. The additional contingent consideration combined with the closing payments already made could require total payments of up to 30,000,000 GBP to the Sellers.

The Pagefield Agreement provides certain vesting and forfeiture provisions applicable to a portion of the future cash or share payments owed. These provisions are specifically designated toward the continued employment of one of the Sellers ("Restricted Owner"). The Restricted Owner is required to remain employed by the Company for a certain period of time to receive the full amount of those future payments. There are certain exceptions to the forfeiture provisions if termination of employment occurs under certain permitted events ("Pagefield Acceleration Event") as defined in the Pagefield Agreement. If the Restricted Owner's employment is terminated as a result of a Pagefield Acceleration Event, a percentage of the unvested Restricted Owner Shares shall become fully vested.

Reasons for the acquisition

The Company acquired Pagefield to expand the geographic scope of its consulting services. Specifically, Pagefield provides services to companies and organizations doing business in the United Kingdom ("UK") while interacting with the UK government.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

Accounting for the acquisition

The acquisition of Pagefield was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The acquired assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values.

Purchase consideration

The Company determined that certain consideration provided to Pagefield in the Pagefield Agreement does not qualify as purchase consideration in accordance with the guidance of ASC 805. The Company determined that the purchase consideration consists of the amount of cash and share payments owed to Pagefield that are not subject to a vesting or claw back provision that is directly linked to the continued employment of one of the Sellers. The total purchase consideration consisted of the following amounts:

Pagefield closing cash payment	\$ 19,208,862
Pagefield closing share payment	1,443,320
Contingent consideration	<u>3,403,441</u>
Total purchase consideration	<u>\$ 24,055,623</u>

The contingent consideration allocated as purchase consideration consists of the amount of the estimated fair value of the projected future payments that are not subject to vesting or claw back provisions tied to continued employment.

Purchase price allocation

The allocation of the purchase consideration resulted in the following amounts being allocated to the assets acquired and liabilities assumed as of the purchase date of June 7, 2024 based on their respective estimated fair values is summarized below:

Cash acquired	\$ 1,055,312
Contract receivables	1,128,390
Other current assets	2,259,782
Property and equipment	30,584
Customer relationships	5,183,735
Tradenname	1,548,971
Noncompete agreements	954,494
Accounts payable and accrued expenses	(2,720,673)
Other current liabilities	(463,118)
Deferred income tax liability	<u>(1,701,049)</u>
Net assets acquired	7,276,428
Less estimated purchase price	<u>(24,055,623)</u>
Goodwill*	<u>\$ 16,779,195</u>

*Based on the exchange rate in effect at the acquisition date

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

The fair value of the identified definite-lived intangible assets was as follows:

Definite-Lived Intangible Assets	Weighted-Average Useful Life (in Years)	Amount
Customer relationships	7	\$ 5,183,735
Noncompete agreements	3	\$ 954,494

The fair value of customer relationships was determined using the income approach, which requires management to estimate a number of factors for each reporting unit, including projected future operating results and discount rates. The fair value of noncompete agreements was determined using an income approach method, which requires management to estimate a number of factors related to the expected future cash flows of Pagefield and the potential impact and probability of competition, assuming such noncompete agreements were not in place.

The fair value of the contingent consideration was performed using Monte Carlo simulations to estimate the achievement and amount of certain future operating results. The Monte Carlo simulations utilize estimates including; expected volatility of future operating results, discount rates applicable to future results, and expected growth rates. The table below provides the significant inputs to the calculation of the contingent consideration as of the acquisition date:

Significant Unobservable Input	Range
Discount rate for credit risk and time value	5.3% to 5.9%
Discount rate for future profit after tax	12.0% to 12.4%
Expected volatility of future annual profit after tax	34.0% to 37.0%
Forecasted growth rate	9.1% to 9.5%

[7] Acquisition and post-combination compensation payments:

The cash payments (including post-combination compensation) made for the acquisitions at their respective closing date and subsequent earn-out payments made are as follows:

	Year Ended December 31,	
	2024	2023
MS closing cash payment	\$ -	\$ 17,600,000
KP true-up cash payment	-	3,643,200
LPA closing cash payment	6,000,000	-
Pagefield closing cash payment	19,208,862	-
MS first interim cash payment	2,000,000	-
Doherty closing cash payment	270,000	-
Total acquisition payments	27,478,862	21,243,200
Pagefield cash acquired	(1,055,312)	-
Total cash payments, net of cash acquired	\$ 26,423,550	\$ 21,243,200

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

[8] Acquisition and post-combination compensation payments:

These cash payments (including post-combination compensation) are included in the Consolidated Statements of Cash Flows as follows:

	Year Ended December 31,	
	2024	2023
Cash flows from operating activities	\$ 5,890,113	\$ 11,368,200
Cash flows from investing activities	19,783,750	8,096,000
Cash flows from financing activities	749,687	1,779,000
Total cash payments, net of cash acquired	<u>\$ 26,423,550</u>	<u>\$ 21,243,200</u>

The stock payments (including post-combination compensation) made for the acquisitions at their closing date and subsequent earn-out payments made consisted of the following:

	Year Ended December 31,	
	2024	2023
MS closing share payment	\$ -	\$ 4,400,000
KP true-up share payment	-	404,800
LPA closing share payment	1,500,000	-
Pagefield closing share payment	1,441,524	-
MS first interim share payment	2,000,000	-
Doherty closing share payment	90,000	-
Total share payments	<u>\$ 5,031,524</u>	<u>\$ 4,804,800</u>

NOTE C - GOODWILL AND INTANGIBLE ASSETS

[1] Goodwill:

Goodwill is an indefinite lived asset with balances as follows as of December 31:

	2024	2023
Goodwill	\$ 64,308,106	\$ 47,909,832

As of December 31, 2024 and 2023, there have been no impairments to goodwill. During 2024, goodwill increased by approximately \$16,779,000 as a result of the acquisition of Pagefield. (see Note B).

[2] Intangible assets:

The Company's intangible assets consist of customer relationship assets, developed technology and noncompete agreements acquired through various acquisitions, which are definite lived assets and are amortized over their estimated useful lives. In addition, intangible assets consist of tradenames, which are indefinite lived assets and evaluated for impairment on an annual basis or more frequently as needed. The cost of the Company's tradenames, customer relationships, developed technology and noncompete agreements, and the accumulated amortization of the Company's customer relationships, developed technology and noncompete agreements is as follows:

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

December 31, 2024				
	Useful Life (in Years)	Gross Book Value	Accumulated Amortization	Net Book Value
Customer relationships	7 to 9	\$ 33,556,240	\$ (15,277,159)	\$ 18,279,081
Developed technology	7 to 9	3,938,000	(1,031,382)	2,906,618
Noncompete agreements	3 to 5	<u>2,069,904</u>	<u>(767,109)</u>	<u>1,302,795</u>
Total definite lived assets		<u>39,564,144</u>	<u>(17,075,650)</u>	<u>22,488,494</u>
Tradenames		<u>9,655,172</u>	<u>-</u>	<u>9,655,172</u>
Total intangible assets		<u>\$ 49,219,316</u>	<u>\$ (17,075,650)</u>	<u>\$ 32,143,666</u>

December 31, 2023				
	Useful Life (in Years)	Gross Book Value	Accumulated Amortization	Net Book Value
Customer relationships	7 to 9	\$ 27,262,400	\$ (15,277,159)	\$ 15,672,513
Developed technology	7 to 9	3,938,000	(1,031,382)	3,469,190
Noncompete agreements	4 to 5	<u>971,000</u>	<u>(363,372)</u>	<u>607,628</u>
Total definite lived assets		<u>32,171,400</u>	<u>(12,422,069)</u>	<u>19,749,331</u>
Tradenames		<u>7,120,000</u>	<u>-</u>	<u>7,120,000</u>
Total intangible assets		<u>\$ 39,291,400</u>	<u>\$ (12,422,069)</u>	<u>\$ 26,869,331</u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

Amortization expense for customer relationship, noncompete agreement and developed technology assets approximated \$4,671,000, and \$3,878,000 for the years ended December 31, 2024 and 2023, respectively. The approximate estimated future amortization expense for the next five years is as follows:

<u>Year</u>	<u>Amortization</u>
2025	\$ 5,143,000
2026	4,984,000
2027	4,752,000
2028	3,194,000
2029	2,936,000
Thereafter	<u>1,479,000</u>
Total	<u>\$ 22,488,000</u>

NOTE D - LEASES

- [1] As of December 31, 2024 and 2023 the Company had approximately \$18,428,000 and \$21,434,000, respectively, of operating lease ROU assets and \$21,634,000 and \$24,847,000, respectively of operating lease liabilities on the Company's Consolidated Balance Sheets.

The incremental borrowing rate for operating leases was based on market rates from a bank for obligations with comparable terms effective at the lease inception date. The following table presents lease costs, future minimum lease payments and other lease information as of December 31:

<u>Year</u>	<u>Amount</u>
2025	\$ 5,781,524
2026	5,696,077
2027	4,785,234
2028	4,208,240
2029	2,509,995
Thereafter	<u>1,407,361</u>
Total future minimum lease payments	24,388,431
Amount representing interest	<u>(2,754,048)</u>
Present value of net future minimum lease payments	<u>\$ 21,634,383</u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

[2] Lease cost:

	Year Ended December 31,	
	2024	2023
Operating lease cost (cost resulting from lease payments)	\$ 5,322,444	\$ 4,898,528
Variable lease cost (cost excluded from lease payments)	434,587	428,064
Sublease income	<u>(336,812)</u>	<u>(410,879)</u>
Net lease cost	<u>\$ 5,420,219</u>	<u>\$ 4,915,713</u>
Cash paid for amounts included in the measurement of lease liabilities	<u>\$ 5,467,595</u>	<u>\$ 3,968,498</u>
Weighted average lease term - operating leases	4.5 years	5.4 years
Weighted average discount rate - operating leases	5.25%	5.30%

The Company subleases office space to third parties under separate sublease agreements, which are generally month-to-month leases.

NOTE E - LINE OF CREDIT AND NOTES PAYABLE

[1] Bank credit facility:

On February 28, 2023, the Company entered into a \$17,000,000 credit agreement with a bank ("Credit Agreement"). The Credit Agreement has two components, 2023 Facility 1 is a Senior Secured Line of Credit in the amount of up to \$3,000,000 and 2023 Facility 2 is a Senior Secured Term Loan in the amount of \$14,000,000.

During April 2024 and June 2024, the Company entered into the First Amendment to Credit Agreement and Second Amendment to Credit Agreement (collectively the "Amended Credit Agreements"). The Amended Credit Agreements provided the Company with an additional term loan of \$6,000,000 on April 30, 2024 ("2024 Term Loan A") and an additional term loan of \$19,000,000 on June 7, 2024 ("2024 Term Loan B").

In accordance with the Amended Credit Agreements, the definition of the interest rate applicable to the 2023 Facility 1 and 2023 Facility 2 changed from being calculated based on the Bloomberg Short-Term Bank Yield Index plus 225 basis points to the Secured Overnight Financing Rate ("SOFR") as administered by the Federal Reserve Bank of New York plus 2.25% per annum. The interest rate for the 2024 Term Loan A and 2024 Term Loan B (collectively the "2024 Term Loans") is the SOFR plus 2.60% per annum. The Company determined that the Amended Credit Agreements qualify as a debt modification in accordance with ASC 470-50, *Debt-Modifications and Extinguishments*. As a result, the third party fees incurred in conjunction with the modification totaling approximately \$585,000 were expensed during 2024 and the fees incurred directly with the lender of approximately \$201,000 have been recorded as a debt discount and are being amortized to expense over the term of the Amended Credit Agreements using the straight-line method, which approximates the effective interest method.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The loans under the Credit Agreement and Amended Credit Agreements are collateralized by substantially all of the net assets of the Company. The 2023 Facility 2 matures on January 31, 2026. The Company has drawn \$14,000,000 from 2023 Facility 2 and utilized those funds as part of the consideration to acquire MultiState Inc. During 2023, the Company utilized \$1,000,000 from 2023 Facility 1 for the MultiState Inc. acquisition. The Company paid approximately \$451,000 in debt issuance costs for the Credit Agreement and has recorded this amount as a debt discount and is amortizing the debt discount to interest expense over the term of the Credit Agreement using the straight-line method, which approximates the effective interest method. The Company borrowed \$6,000,000 for the 2024 Term Loan A and \$19,000,000 for the 2024 Term Loan B during April 2024 and June 2024, respectively.

The Company was required to make monthly payments of principal of \$291,667 plus interest beginning in March 2023 through the maturity date of January 31, 2026 for the 2023 Facility 2. The principal payment for 2023 Facility 1 is due on the maturity date for that facility, which is January 31, 2026. Periodic interest-only payments are due on 2023 Facility 1 through the maturity date. The Company was required to make interest-only payments on the 2024 Term Loans starting on May 1, 2024 through October 31, 2024. Beginning on November 1, 2024, the Company was required to make forty-two equal monthly installments of principal each in the amount of 1.25% of the unpaid principal balance of the 2024 Term Loans as of October 31, 2024, plus interest on the 2024 Term Loans, until the maturity date of the 2024 Term Loans of April 30, 2028. In addition, a final payment of all outstanding principal and interest will be due on April 30, 2028. During January 2025, the Company entered into the Third Amendment, which modified the future required payments. See Note M.

As of December 31, 2024 and 2023, the 2023 Facility 1 had been repaid in full. The Company is able to re-borrow up to \$3,000,000, less any outstanding letters of credit, under 2023 Facility 1 or 80% of the Company's eligible receivables, whichever is less.

The Company's 2023 Facility 1, 2023 Facility 2, 2024 Term Loan A, and 2024 Term Loan B consist of the following as of December 31:

	Original Loan Amount	2024	2023
2023 Facility 1	\$ 3,000,000	\$ -	\$ -
2023 Facility 2	14,000,000	7,875,000	11,083,333
2024 Term Loan A	6,000,000	5,850,000	-
2024 Term Loan B	19,000,000	18,525,000	-
Less: unamortized debt issuance costs	<u>651,962</u>	<u>358,923</u>	<u>325,527</u>
Total debt, net of unamortized issuance costs	<u>\$ 41,348,038</u>	<u>31,891,077</u>	<u>10,757,806</u>
Less: current portion		<u>5,999,449</u>	<u>3,349,757</u>
Total debt, long-term		<u>\$ 25,891,628</u>	<u>\$ 7,408,049</u>

As of December 31, 2024, after the Third Amendment, the future principal maturities of these loans are as follows:

	2023 Facility 2	2024 Term Loan A	2024 Term Loan B	Total
2025	\$ 2,450,000	\$ 900,000	\$ 2,850,000	\$ 6,200,000
2026	2,100,000	900,000	2,850,000	5,850,000
2027	2,100,000	900,000	2,850,000	5,850,000
2028	<u>1,225,000</u>	<u>3,150,000</u>	<u>9,975,000</u>	<u>14,350,000</u>
Total	<u>\$ 7,875,000</u>	<u>\$ 5,850,000</u>	<u>\$18,525,000</u>	<u>\$32,250,000</u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

As of December 31, the total approximate interest expense incurred for these loans was as follows:

	<u>2024</u>	<u>2023</u>
Cash interest	\$ 1,693,000	\$ 797,000
Debt discount amortization	<u>182,000</u>	<u>125,000</u>
Total interest expense	<u>\$ 1,875,000</u>	<u>\$ 922,000</u>

The Credit Agreement and Amended Credit Agreements contain certain non-financial and financial covenants that the Company is required to comply with and submit a compliance certificate to the bank on a quarterly basis. The financial covenants include a total leverage ratio and fixed coverage ratio. The Company was in compliance with all covenants during 2023 and 2024.

NOTE F - STOCKHOLDERS' EQUITY AND SHARE-BASED ACCOUNTING CHARGE

As of December 31, 2024, the authorized capital of the Company consists of 1,100,000,000 shares of capital stock, \$0.001 par value per share, of which 1,000,000,000 shares are designated as common stock and 100,000,000 shares are designated as preferred stock. There are no shares of preferred stock outstanding. During May 2024 and October 2024, the Company issued dividends of \$0.097 and \$0.047 per share, respectively. During June 2023 and October 2023, the Company issued dividends of \$0.095 and \$0.046 per share, respectively.

As of December 31, 2024 and 2023, the number of the Company's shares of common stock outstanding for legal purposes was greater than the number of shares of common stock outstanding for accounting purposes. Therefore, the difference between the legally outstanding shares of common stock on the face of the Consolidated Balance Sheets and the amount outstanding on the Consolidated Statements of Stockholders' Equity consists of shares issued with restrictions (collectively "Restricted Shares") as follows:

	<u>December 31,</u>	
	<u>2024</u>	<u>2023</u>
Consolidated Statements of Stockholders' Equity	\$ 114,002,266	\$ 109,542,220
Restricted Shares:		
KP Closing Share Payment	369,795	739,589
KP Earnout Shares	122,695	245,389
Engage Restricted Shares	162,433	487,301
MS Closing Vesting Shares	1,315,544	1,973,316
MS First Interim Vesting Shares	557,598	-
Lucas Public Affairs Closing Shares	958,371	-
Other restricted shares	<u>2,599,280</u>	<u>2,284,146</u>
Total restricted Shares	6,085,716	5,729,741
Stock options outstanding	3,383,542	3,089,056
Unvested RSUs outstanding	<u>4,346,650</u>	<u>2,225,000</u>
Total stock options and unvested RSUs outstanding	<u>7,730,192</u>	<u>5,314,056</u>
Fully Diluted Shares Outstanding	<u>\$ 127,818,174</u>	<u>\$ 120,586,017</u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

The weighted-average common shares outstanding, basic and diluted reported on the Consolidated Statements of Operations and Other Comprehensive Loss is 111,826,822 and 108,606,133, which is different from the 114,002,266 and 109,542,220 ending shares as December 31, 2024 and 2023 on the Consolidated Statements of Stockholders' Equity due to the first numbers representing an average during the year compared to the amount outstanding at the end of the year.

Other Restricted Shares consists of the following as of December 31:

Other Restricted Shares:	2024	2023
Unvested restricted stock awards, primarily granted to Alpine Inc.	\$ 2,397,452	\$ 2,188,944
Other unvested stock awards	<u>201,828</u>	<u>95,202</u>
Total other restricted shares	<u>\$ 2,599,280</u>	<u>\$ 2,284,146</u>

[1] ASC 718-10-S99-2 charge:

As discussed in Note A, during 2021 the Company entered into Executive Employment Agreements with Group Executives. As a result, the addition of the vesting provisions to previously issued shares created a share-based accounting charge in accordance with the accounting guidance in ASC 718-10-S99-2, Compensation-Stock Compensation. As a result, the Company recorded a share-based accounting (ASC 718-10-S99-2) charge of approximately \$31,804,000 and \$30,904,000 for the years ended December 31, 2024 and 2023, respectively.

As of December 31, 2024, there were 80,387,410 Retained Pre-IPO Shares, held by current employees and subject to vesting requirements, and 50,714,152 of these shares were fully vested. These shares were issued in 2021 and the weighted-average grant date fair value of these shares was \$1.82 as of the grant date. As of December 31, 2024, the unrecognized compensation cost from these restricted shares was approximately \$57,862,000, which is expected to be recognized over a weighted-average period of 2.0 years.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

[2] ASC 805-10-55-25 charge:

The Company has acquired various companies from 2022 to 2024 for a combination of cash, shares of Company Common Stock and future contingent payments ("Acquisition Payments"). As described in Note B, a portion of the Acquisition Payments are subject to vesting and/or claw back provisions that are directly linked to the continuing employment of the certain owners of the acquired companies ("Post-Combination Payments"). As a result, in accordance with the guidance of ASC 805-10-55-25, Business Combinations, the Post-Combination Payments are not considered part of the purchase consideration for these acquisitions and the fair value of the Post-Combination Payments is being recognized as a charge for post-combination compensation over the period of the applicable vesting requirement or the period over which the claw back rights linked to employment lapse.

For the years ended December 31, 2024 and 2023, the post-combination compensation charge recorded by the Company was approximately \$11,599,000 and \$6,295,000, respectively. This amount consists of the following components:

	For the Years Ended December 31,	
	2024	2023
Additions to other liability	\$ 4,028,000	\$ 1,685,000
Vesting of common stock	2,509,000	1,529,000
Amortization of prepaid post-combination compensation	5,062,000	3,081,000
Total	<u>\$ 11,599,000</u>	<u>\$ 6,295,000</u>

As of December 31, 2024, the unrecognized post-combination compensation charge was approximately \$21,962,000, which is expected to be recognized over a weighted-average period of 2.1 years. The actual amount of Post-Combination Payments is subject to significant estimates and could change materially in the future.

The Company's potential future payments from its acquisitions exceed the liabilities recorded on the Company's Consolidated Balance Sheets primarily due to the fact that the contingent consideration liability and other liability are calculated at fair value. The fair value calculation includes certain discount rates and other factors that impact the value of these liabilities (see Note B). The calculated fair value is based on the total payments that the Company expects to pay in the future rather than the total maximum payments that it could be required to pay.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

As of December 31, 2024, the table below highlights the other liability and contingent consideration recorded on the Company's Consolidated Balance Sheets (as discounted) compared to the undiscounted estimated payout and the maximum payout of cash and stock that could occur if all future contingent earn-out provisions from the acquisitions were achieved:

	Total	
Liabilities recorded on balance sheet, December 31, 2024:		
Other liability, current	\$	1,134,675
Other liability, long term		3,744,925
Contingent consideration, current		2,092,597
Contingent consideration, long term		8,803,464
Total liabilities recorded on balance sheet, December 31, 2024**	\$	<u>15,775,661</u>
Undiscounted potential future payments*:		
Potential cash future payments:	Estimated^	Maximum#
2025	\$ 3,728,000	\$ 4,209,000
2026	3,250,000	8,406,000
2027	3,053,000	12,595,000
2028	13,481,000	18,750,000
2029	<u>1,112,000</u>	<u>13,434,000</u>
Total potential cash future payments	<u>\$ 24,624,000</u>	<u>\$ 57,394,000</u>
Potential stock future payments*:		
2025	\$ 580,000	\$ 700,000
2026	3,250,000	5,983,000
2027	1,610,000	6,295,000
2028	13,481,000	18,750,000
2029	<u>599,000</u>	<u>7,956,000</u>
Total potential stock future payments	<u>\$ 19,520,000</u>	<u>\$ 39,684,000</u>
Total potential future payments	\$ 44,144,000	\$ 97,078,000
Total liabilities recorded on balance sheet, December 31, 2024	<u>15,775,661</u>	<u>15,775,661</u>
Total remaining difference	<u>\$ 28,368,339</u>	<u>\$ 81,302,339</u>

*Includes estimate for future Pagefield payments based on December 31, 2024 exchange rate of GBP/USD

**At fair value.

^Management's estimate as of December, 2024 of the future payments of cash and stock for earn-out payments.

#The maximum amount of future payments of cash and stock for earn-out payments.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

NOTE G - OMNIBUS INCENTIVE PLAN

During 2021, the Company adopted the Public Policy Holding Company, Inc. 2021 Omnibus Incentive Plan (the "Omnibus Plan"), under which Options (both nonqualified options, and incentive stock options subject to favorable U.S. income tax treatment), stock appreciation rights, restricted stock units, restricted stock, unrestricted stock, cash-based awards and dividend equivalent rights may be issued. An award may not be granted if the number of common shares committed to be issued under that award exceeds ten percent of the ordinary shares of the Company in issue immediately before that day, when added to the number of common shares which have been issued, or committed to be issued, to satisfy awards under the Omnibus Plan, or options or awards under any other employee share plan operated by the Company, granted in the five previous years.

As of December 31, 2024, the total amount of shares authorized by the Board of Directors under the Omnibus Plan was 18,013,197 with a total of 5,761,967 available for issuance. During the years ended December 31, 2024 and 2023 the Company granted 425,000 and 652,000 Options to employees. In addition, during the year ended December 31, 2024, the Company granted 2,930,000 RSUs and 703,737 RSAs. The stock options have a contractual term of ten years and vest three years after their issuance. The RSUs vest over a three-year period with one-third vesting each year after the grant date. 820,007 RSAs vested on December 31, 2023, 17,438 vested on July 1, 2024; 442,301 vested on October 2024; 35,490 vested on December 31, 2024; 686,299 vest in May 2025; and 1,711,153 RSAs vest over a remaining four year period beginning with approximately 428,000 per year starting in October 2025, with 1,569,196 fully vested by October 2028 and 141,957 fully vested by December 2028. The RSAs include voting and dividend rights prior to vesting.

[1] Options:

Determining the appropriate fair value model and the related assumptions requires judgment. The fair value of each option granted is estimated using a Black-Scholes option-pricing model on the date of grant as follows:

	For the Year Ended December 31,	
	2024	2023
Estimated dividend yield	4.00% to 10.00%	6.00%
Expected stock price volatility	40.00%	60.00%
Risk-free interest rate	4.3% to 4.4%	3.8%
Expected life of option (in years)	6.50	6.50
Weighted-average fair value per share	\$0.25	\$0.54

The expected volatility rates are estimated based on the actual volatility of comparable public companies over the expected term. The expected term represents the average time that Options that vest are expected to be outstanding. Due to limited historical data, the Company calculates the expected life based on the midpoint between the vesting date and the contractual term, which is in accordance with the simplified method. The risk-free rate is based on the United States Treasury yield curve during the expected life of the option.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

The following summarizes the stock option activity for the years ended December 31, 2024 and 2023:

	Number of Shares	Weighted Average Exercise Price-(USD)	Weighted Average Exercise Price-(GBP)	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2023	3,089,056	\$ 2.21*	£ 1.74	8.9	\$ -
Granted	425,000	2.02*	1.62	-	-
Exercised	-	-	-	-	-
Cancelled/Forfeited	(130,514)	2.14*	1.71	-	-
Outstanding as of December 31, 2024	<u>3,383,542</u>	<u>2.15*</u>	<u>1.72</u>	<u>7.8</u>	<u>-</u>
Exercisable as of December 31, 2024	<u>50,000</u>	<u>2.20</u>	<u>1.76</u>	<u>-</u>	<u>-</u>
Vested and expected to vest as of December 31, 2024	<u>3,383,542</u>	<u>\$ 2.15*</u>	<u>£ 1.72</u>	<u>7.8</u>	<u>\$ -</u>
	Number of Shares	Weighted Average Exercise Price-(USD)	Weighted Average Exercise Price-(GBP)	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	2,718,809	\$ 2.13*	£ 1.77	9.4	\$ -
Granted	652,000	2.04*	1.60	-	-
Exercised	-	-	-	-	-
Cancelled/Forfeited	(281,753)	2.21*	1.74	-	-
Outstanding as of December 31, 2023	<u>3,089,056</u>	<u>2.21*</u>	<u>1.74</u>	<u>8.9</u>	<u>-</u>
Exercisable as of December 31, 2023	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Vested and expected to vest as of December 31, 2023	<u>3,089,056</u>	<u>\$ 2.21*</u>	<u>£ 1.74</u>	<u>8.9</u>	<u>\$ -</u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements **December 31, 2024 and 2023**

The following table summarizes certain information about the stock options outstanding and exercisable as of December 31, 2024:

<u>Exercise Price</u>	<u>Number of Options Outstanding</u>	<u>Weighted-Average Remaining Life</u>	<u>Number of Options Exercisable</u>
\$1.97*	\$ 80,000	9.8	\$ -
2.00*	566,750	8.4	-
2.04*	335,000	9.5	-
2.17*	100,000	7.8	-
2.21*	2,251,792	7.4	50,000
2.23*	<u>50,000</u>	7.6	<u>-</u>
	<u>\$ 3,383,542</u>		<u>\$ 50,000</u>

*The applicable exercise prices have been adjusted based on the applicable exchange rate of GBP to U.S. Dollars at the end of each period presented.

Option expense for the years ended December 31, 2024 and 2023 was approximately \$550,000 and \$518,000, respectively. As of December 31, 2024, there was approximately \$410,000 of total unrecognized compensation cost related to non-vested stock option compensation expense, which is expected to be recognized over a weighted-average period of 0.8 years.

[2] Restricted Stock Units ("RSUs"):

Determining the appropriate fair value model and the related assumptions requires judgment. The fair value of each RSU granted is estimated using a Black-Scholes option-pricing model on the date of grant as follows:

	<u>Year Ended December 31,</u>	
	<u>2024</u>	<u>2023</u>
Estimated dividend yield	10.00%	6.00%
Expected stock price volatility	40.00% to 50.00%	60.00%
Risk-free interest rate	4.5% to 5.1%	3.9% to 5.4%
Expected life of instrument (in years)	1 to 3 years	1 to 3 years
Weighted-average fair value per share	\$1.47	\$1.41

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

Activity in the Company's non-vested RSUs for the years ended December 31, 2024 and 2023 was as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2022	-	\$ -
Granted	2,250,000	1.41
Vested	-	-
Cancelled/Forfeited	<u>(25,000)</u>	<u>1.47</u>
Nonvested as of December 31, 2023*	2,225,000	\$ 1.41
Granted	2,930,000	1.41
Vested	(808,350)	1.49
Cancelled/Forfeited	<u>-</u>	<u>-</u>
Nonvested as of December 31, 2024*	<u>4,346,650</u>	<u>\$ 1.40</u>

RSU expense for the years ended December 31, 2024 and 2023, was approximately \$1,974,000 and \$553,000, respectively. As of December 31, 2024, there was approximately \$4,810,000 of total unrecognized compensation cost related to non-vested RSU arrangements, which is expected to be recognized over a weighted-average period of 1.1 years.

[3] Restricted Stock Awards ("RSAs"):

Determining the appropriate fair value model and the related assumptions requires judgment. The fair value of each RSA granted is estimated using a Black-Scholes option-pricing model on the date of grant as follows:

	Year Ended December 31,	
	2024	2023
Estimated dividend yield	0.00%	6.00%
Expected stock price volatility	40.00%	60.00%
Risk-free interest rate	5.1% to 5.2%	4.9% to 5.4%
Expected life of instrument (in years)	1 year	1 to 5 years
Weighted-average fair value per share	\$1.43	\$1.31

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

Activity in the Company's non-vested RSAs ended December 31, 2023 was as follows:

	Number of RSAs	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2022	-	\$ -
Granted	3,008,951	1.31
Vested	(820,007)	1.61
Cancelled/Forfeited	-	-
Nonvested as of December 31, 2023	2,188,944	\$ 1.19
Granted	703,737	1.43
Vested	(495,229)	1.34
Cancelled/Forfeited	-	-
Nonvested as of December 31, 2024	<u>2,397,452</u>	<u>\$ 1.23</u>

RSA expense for the years ended December 31, 2024 and 2023, was approximately \$1,260,000 and \$1,435,000, respectively. As of December 31, 2024, there was approximately \$2,250,000 of total unrecognized compensation cost related to non-vested RSA arrangements, which is expected to be recognized over a weighted-average period of 2.6 years.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

[4] Stock Appreciation Rights ("SARs"):

During the year ended December 31, 2023, the Company issued 1,850,000 SARs to employees. There were no SARs issued during 2024. SARs are not issued shares or committed shares to be issued and therefore do not count against the total number of shares that can be issued under the Omnibus Plan. Upon exercise of a SAR, the Company shall pay the grantee in cash an amount equal to the excess of the fair market value of a share of stock on the effective date of exercise in excess of the exercise price of the SAR. This cash settlement feature requires the SARs to be classified as a liability and marked to market at each reporting period. The SARs vest over a three-year period with one-third vesting each year after the grant date. Determining the appropriate fair value model and the related assumptions requires judgment. The fair value of each SAR granted is estimated using a Black-Scholes option-pricing model and the fair value is adjusted at each reporting period. Each SAR has a cash settlement feature and is recorded as a liability in the Company's Consolidated Balance Sheets. As of December 31, 2024 and 2023, the total liability recorded was \$668,000 and \$290,000, respectively. The fair value of the SARs was calculated as follows as of:

	Year Ended December 31,	
	2024	2023
Estimated dividend yield	4.00%	6.00%
Expected stock price volatility	45.00%	60.00%
Risk-free interest rate	4.4% to 4.5%	4.7%
Expected life of instrument (in years)	2.9 to 3.9 years	4.5 to 5.5 years
Weighted-average fair value per share	\$0.51	\$0.46
	Number of Shares	Weighted Average Exercise Price
Outstanding as of December 31, 2022	-	\$ -
Granted	1,850,000	1.70
Exercised	-	-
Cancelled/Forfeited	(90,000)	1.70
Outstanding as of December 31, 2023	1,760,000	\$ 1.70
Granted	-	-
Exercised	-	-
Cancelled/Forfeited	(55,000)	1.67
Outstanding as of December 31, 2024	1,705,000	1.61
Exercisable as of December 31, 2024	568,354	1.67
Vested and expected to vest as of December 31, 2024	<u>1,705,000</u>	<u>\$ 1.61</u>

SAR expense for the years ended December 31, 2024 and 2023, was approximately \$378,000 and \$290,000, respectively. The amount of the future expense for all SARs issued will depend upon the value of the Company's common stock and other factors at each future reporting date.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

NOTE H - INCOME TAXES

The components of income tax expense attributable to income before income taxes for the years ended December 31, 2024 and 2023, consisted of the following:

	<u>2024</u>	<u>2023</u>
Current tax expense:		
Federal	\$ 5,587,700	\$ 5,861,100
State	2,251,200	2,274,500
Foreign	<u>-</u>	<u>-</u>
	7,838,900	8,135,600
Deferred tax expense (benefit):		
Federal	(1,252,000)	(491,700)
State	(216,000)	(141,100)
Foreign	<u>173,900</u>	<u>-</u>
	<u>(1,294,100)</u>	<u>(632,800)</u>
Total provision for income taxes	<u>\$ 6,544,800</u>	<u>\$ 7,502,800</u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The acquisitions of KP LLC, Engage, Multistate, Doherty and LPA were taxable asset acquisitions. As such, the purchase consideration for these acquisitions generated tax-deductible goodwill in the combined amount of approximately \$47,253,000. A deferred tax asset has been recorded in relation to the excess of the tax deductible goodwill as compared to the GAAP carrying value of goodwill. Of the approximately \$47,253,000 of tax deductible goodwill, approximately \$32,724,000 is eligible for amortization for tax purposes during the 2024 tax year. None of the goodwill recorded in connection with the acquisition of Pagefield is deductible for tax purposes.

As of December 31, 2024, there are no known items that would result in a material liability related to uncertain tax positions, as such, there are no unrecognized tax benefits. The Company's policy is to recognize interest and penalties related to uncertain tax positions in the provision for income taxes. As of December 31, 2024, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company's 2021 to 2023 domestic income tax return years are open under the statute of limitations for examination by the taxing authorities. Additionally, the Company's income tax return for Pagefield for the years 2020 to 2023 are open under the statute of limitations for examination by the applicable taxing authorities.

The Company has \$4,348,000 of foreign net operating losses that carry forward indefinitely. There are no domestic federal or state net operating loss carryforwards as of December 31, 2024.

The Tax Cuts and Jobs Act of 2017 subjects a U.S. shareholder to tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The Company has elected to account for GILTI in the year the tax is incurred. The Company recorded a GILTI inclusion of approximately \$642,000 during the year ended December 31, 2024. No GILTI inclusion was recorded for the year ended December 31, 2023.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

Significant components of the Company's deferred tax assets and liabilities are as follows as of December 31:

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Other assets	\$ 318,200	\$ 244,900
Foreign operating losses	1,087,000	-
Long term incentive plan	717,400	847,700
Foreign equity compensation and accrual	392,000	-
Goodwill	10,997,900	8,082,100
Lease liability	<u>5,810,000</u>	<u>6,764,200</u>
Total deferred income tax assets	19,322,500	15,938,900
Deferred tax liabilities:		
Other	(183,700)	(218,200)
Intangible assets	(3,152,300)	(2,148,200)
Right of use asset	<u>(4,949,000)</u>	<u>(5,835,300)</u>
Total deferred income tax liabilities	<u>(8,285,000)</u>	<u>(8,201,700)</u>
Total net deferred tax asset	<u>\$ 11,037,500</u>	<u>\$ 7,737,200</u>

A reconciliation for the difference between actual income tax expense (benefit) compared to the amount computed by applying the statutory federal income tax rate to net loss before income tax for the years ended December 31, 2024 and 2023, is as follows:

	<u>December 31, 2024</u>		<u>December 31, 2023</u>	
	<u>Amount</u>	<u>% of Pretax Earnings</u>	<u>Amount</u>	<u>% of Pretax Earnings</u>
Federal income tax benefit at statutory rate	\$ (3,656,900)	(21.0)	\$ (1,415,700)	(21.0)
State income taxes, net of federal income tax benefit	(1,167,700)	(6.7)	(419,600)	(6.2)
Nondeductible share-based accounting charge	8,541,100	49.1	8,413,400	124.8
Prepaid post-combination compensation expense	3,106,900	17.8	1,713,800	25.4
Foreign rate differential	101,100	0.6	-	-
Other	<u>(379,700)</u>	<u>(2.2)</u>	<u>(789,100)</u>	<u>(11.7)</u>
Total provision for income taxes	<u>\$ 6,544,800</u>	<u>37.6</u>	<u>\$ 7,502,800</u>	<u>111.3</u>

NOTE I - RETIREMENT PLAN

Effective January 1, 2020, the Company established the Public Policy Holding Company, LLC 401(k) Plan ("PPHC Plan"). The PPHC Plan covers employees that reach certain age and length of service requirements. Eligible employees can contribute into the plans through salary deferral. The PPHC Plan does not have any employer contribution and expenses are immaterial.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

NOTE J - SEGMENT REPORTING

The Company has three reportable segments: Government Relations Consulting, Public Affairs Consulting and Diversified Services. The Company organizes its segments based on the nature of services provided. Government Relations Consulting services include federal and state advocacy, strategic guidance, political intelligence and issue monitoring. Public Affairs Consulting services include crisis communications, community relations, social and digital podcasting, public opinion research, branding and messaging, relationship marketing and litigation support. Diversified Services include Lobbying Compliance services and Legislative Tracking.

The Company's Chief Operating Decision Maker ("CODM") is its Chief Executive Officer. The CODM uses Adjusted Pre-Bonus EBITDA to allocate resources and assess performance for each of the segments. Adjusted Pre-Bonus EBITDA is defined as net income excluding allocations of bonuses, corporate level expenses, depreciation, interest expense, interest income, income taxes, share-based accounting charges, post-combination compensation charges, long-term incentive program charges, changes in contingent consideration, amortization of intangibles and gains on bargain purchase.

The CODM is not regularly provided assets on a segment basis since it is not used to allocate resources and assess performance for each of the segments; therefore, such information is not presented. In addition, for the years ended December 31, 2024 and 2023, revenues in each of the three segments were primarily attributable the United States operations as there were no other country from which the Company derived revenues that exceeded 10%.

The following tables present segment information by revenues, significant expenses consisting of staff costs and non-staff costs and Adjusted Pre-Bonus EBITDA by segment, and a reconciliation to the consolidated net loss before income taxes. For the year ended December 31, 2023, the segment information has been recast to conform to the 2024 segment information.

	For the Year Ended December 31, 2024			
	Government Relations	Public Affairs	Diversified Services	Total
Revenue	\$102,463,869	\$36,405,430	\$10,694,008	\$149,563,307
Less significant expenses:				
Staff costs	47,341,565	23,419,061	4,893,449	75,654,075
Non-staff costs	8,172,581	5,202,751	702,469	14,077,801
Segment Adjusted Pre-Bonus EBITDA	46,949,723	7,783,618	5,098,090	59,831,431
Reconciliation to net loss before income taxes:				
Unallocated bonuses				(10,374,636)
Unallocated corporate level expenses				(13,328,121)
Depreciation				(136,121)
Interest, net				(1,723,449)
Share-based accounting charge				(31,803,600)
Post-combination compensation charges				(11,598,647)
Long term incentive program charges				(4,162,000)
Change in contingent consideration				(1,909,750)
Amortization of intangibles				(4,671,178)
Gain on bargain purchase				2,463,927
Net loss before income taxes				<u><u>\$(17,412,144)</u></u>

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2024 and 2023

	For the Year Ended December 31, 2023			
	Government Relations	Public Affairs	Diversified Services	Total
Revenue	\$95,476,619	\$32,256,518	\$7,252,685	\$134,985,822
Less significant expenses:				
Staff costs	41,963,175	19,989,995	3,547,726	65,500,896
Non-staff costs	7,594,041	3,516,641	565,604	11,676,286
Segment Adjusted Pre-Bonus EBITDA	45,918,877	8,750,408	3,139,355	57,808,640
Reconciliation to net loss before income taxes:				
Unallocated bonuses				(13,178,302)
Unallocated corporate level expenses				(9,562,394)
Depreciation				(119,688)
Interest, net				(940,824)
Share-based accounting charge				(30,904,000)
Post-combination compensation charges				(6,295,060)
Long term incentive program charges				(2,796,000)
Change in contingent consideration				(1,711,235)
Amortization of intangibles				(3,878,386)
Gain on bargain purchase				4,835,777
Net loss before income taxes				<u><u>\$(6,741,472)</u></u>

NOTE K - ADJUSTMENT TO PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During the Company's preparation of its consolidated financial statements, management determined that certain cash flow items had been incorrectly classified within the Consolidated Statements of Cash Flows for the year ended December 31, 2023. These errors did not impact the Company's total assets, liabilities, equity or net loss as of December 31, 2023 or during the year then ended.

During 2023, the Company made a cash payment of \$17,600,000 for the acquisition of MultiState Associates, Inc. (see Note B). The Company classified this payment as a cash flow from investing activities in its consolidated financial statements for the year ended December 31, 2023. However, \$9,504,000 of this payment was recorded as prepaid post-combination expense due to the vesting and claw-back provisions tied to continuing employment for this payment amount. In examining the accounting guidance in ASC 230, Classification of Certain Cash Receipts and Cash Payments, management determined that the \$9,504,000 payment should have been classified as a cash flow from operating activities. As a result, the Company has adjusted the cash flow presentation for its consolidated financial statements for the year ended December 31, 2023 for this item.

During 2023, the Company made a cash payment of \$3,643,200 for an earn-out payment related to the acquisition of KP LLC (see Note B). The Company classified this payment as a cash flow from investing activities in its consolidated financial statements for the year ended December 31, 2023. However, \$1,821,600 of this payment was for amounts owed that are tied to vesting or claw-back provisions requiring continued employment. The liability recorded for this amount is an operating liability that is recorded as Other Liability on the Company's Consolidated Balance Sheets. Therefore, the cash settlement payment for this liability requires classification as a cash flow from operating activities.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

In addition, the other \$1,821,600 of this payment was settlement of the contingent consideration liability recorded in the Company's Consolidated Balance Sheets. However, this payment was not made within three months of the acquisition date of KP LLC. As such, in accordance with the accounting guidance of ASC 230, Classification of Certain Cash Receipts and Cash Payments, the portion of the cash payment up to the acquisition date fair value of the contingent consideration liability of \$1,779,000 should be classified as a cash flow from financing activities and the amounts paid in excess of the acquisition date fair value of that liability of \$42,600 should be classified as a cash flow from operating activities. As a result, the Company has adjusted the cash flow presentation for its consolidated financial statements for the year ended December 31, 2023 in this interim filing for these items.

The total impact to the Company's consolidated financial statements for the year ended December 31, 2023 is as follows:

	Audited year ended December 31, 2023	Adjustment	Unaudited December 31, 2023 As Adjusted
Accretion of other liability	\$ -	\$ 1,684,774	\$ 1,684,774
Prepaid post-combination compensation	-	(9,504,000)	(9,504,000)
Contingent consideration	-	(42,600)	(42,600)
Other liability	<u>1,684,774</u>	<u>(3,506,374)</u>	<u>(1,821,600)</u>
Net cash provided by operating activities	21,602,813	(11,368,200)	10,234,613
Payment of contingent consideration and other liability	(3,643,200)	3,643,200	-
Cash paid for acquisitions and prepaid post combination expense, net of cash acquired	<u>(17,600,000)</u>	<u>9,504,000</u>	<u>(8,096,000)</u>
Net cash used in investing activities	(23,225,930)	13,147,200	(10,078,730)
Payment of contingent consideration	-	(1,779,000)	(1,779,000)
Net cash used in financing activities	<u>\$ (5,237,963)</u>	<u>\$ (1,779,000)</u>	<u>\$ (7,016,963)</u>
Net decrease in cash and cash equivalents	<u>\$ (6,861,080)</u>	<u>\$ -</u>	<u>\$ (6,861,080)</u>

NOTE L - RELATED PARTY TRANSACTIONS

As of December 31, 2024, the amounts owed to related parties of approximately \$556,000 consists primarily of a working capital loan of approximately \$569,000 from the sellers of LPA to the Company, which will be repaid in early 2025. As of and December 31, 2023, the amounts due from related parties of approximately \$1,054,000 include the amount expected to be paid to the Company related to working capital loan and adjustments associated with the MultiState acquisition. During the year ended December 31, 2024, the working capital loan and adjustments with Multistate were settled.

PUBLIC POLICY HOLDING COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2024 and 2023

During December 2021, the Company entered into a term note agreement ("2021 Note") with The Alpine Group, Inc. ("Alpine Inc"). The 2021 Note provided Alpine Inc with the ability to request a one-time borrowing of up to \$750,000 from the Company at any time prior to December 31, 2022. The purpose of the 2021 Note was to provide Alpine Inc with funds to cover certain federal and state income taxes to be owed by Alpine Inc in connection with the sale of shares of the Company's common stock in the IPO. During April 2022, the Company advanced \$513,000 to Alpine Inc in accordance with the terms of the 2021 Note. The interest rate on the 2021 Note is equal to the Prime Rate as published in the Wall Street Journal. The 2021 Note balance as of December 31, 2024 and 2023 was \$513,000. The 2021 Note was classified as a current asset as of December 31, 2024, and a non-current asset as of December 31, 2023. The amount of accrued interest and interest revenue from the 2021 Note is not material. The 2021 Note requires an annual payment of accrued and unpaid interest on the last business day of December each year and through the maturity date of January 16, 2025. During February 2025, the 2021 Note plus accrued interest totaling approximately \$532,000 was repaid through the transfer of 316,779 shares of PPHC-Inc common stock from Alpine Inc to the Company, which shares have been retired.

During November 2023, the Company entered into term note agreements ("2023 Notes") with certain employees of the Alpine Group Partners, LLC totaling \$1,750,000. The interest rate on the 2023 Notes is 7.5% and the notes are payable in annual installments of \$350,000 plus all accrued and unpaid interest beginning on November 1, 2024 with a maturity date of November 1, 2028 or the effective date of the termination of employment of the respective employee borrower for any reason, if earlier than the maturity date. As of December 31, 2024 and 2023, the 2023 Notes were recorded in notes receivable - related parties with \$350,000 classified as a current asset and \$1,050,000 and \$1,400,000, respectively, classified as a non-current asset. The amount of accrued interest and interest revenue from the 2023 Notes is not material.

NOTE M - SUBSEQUENT EVENTS

During January 2025, the Company entered into the Third Amendment to Credit Agreement ("Third Amendment"). The Third Amendment will provide the Company with an additional term loan of up to \$24,000,000 ("Second Supplemental Term Facility"). The Company is required to make monthly principal payments on the first day of the month following the month in which the Company draws under the Second Supplemental Term Facility ("2025 Term Loan C"). Through March 1, 2026, the Company is required to make equal monthly installments of principal equal to 0.83% of the unpaid principal balance as of the funding date, plus interest. The Company is then required to make equal monthly installments of principal equal to 1.25% of the unpaid principal as of the funding date, plus interest, through the loan's maturity date of March 31, 2029. The interest rate on the 2025 Term Loan C is SOFR plus 2.60% per annum.

The Third Amendment also extends the maturity date of 2023 Facility 2 from January 31, 2026 to March 31, 2029 and reduces the annual principal repayments from \$291,667 to \$175,000. The Company is required to make monthly payments of principal of \$175,000 beginning March 28, 2025 through the maturity date of March 31, 2029 for the 2023 Facility 2.

During January 2025, the Company entered into an Asset Purchase Agreement ("Trailrunner Agreement") to acquire Trailrunner International LLC and its international entities (collectively, the "Trailrunner Seller"). At the closing of the transaction, the Company has agreed to pay the Trailrunner Seller cash in the amount of \$28,050,000 and issue 2,966,138 shares of the Company's common stock to the Trailrunner Seller at an aggregate fair value of approximately \$4,950,000.

In addition, there are additional contingent payments that the Trailrunner Seller can earn in the future depending on certain operating results that are achieved. The total additional amount of consideration that the Company could be required to pay to the Trailrunner Seller is \$37,000,000. The transaction is expected to close in April 2025.

Management has evaluated the subsequent events for disclosure in these consolidated financial statements through March 11, 2025, the date these consolidated financial statements were available for issuance, and determined that no other events have occurred that would require adjustment to or disclosure in these consolidated financial statements.