

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

or

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

For the transition period from to

Commission File Number: 001-16073

Great Elm Capital Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

800 South Street, Suite 230, Waltham MA

(Address of principal executive offices)

94-3219054

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

02453

(Zip Code)

(617) 375-3006

(Registrant's telephone number, including area code)

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

Title of each class
Common Stock, par value \$0.001 per share

Trading Symbol(s)
GEC

Name of each exchange on which registered

**The Nasdaq Stock Market LLC
(Nasdaq Global Select Market)
Nasdaq Global Select Market
Nasdaq Global Select Market**

**Preferred Stock Purchase Rights
Units, par value \$0.001 per share**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of May 5, 2020, there were 25,446,837 shares of the registrant's common stock outstanding

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Unless the context otherwise requires, “we”, “us”, “our”, “GEC”, the “Company” and terms of similar import refer to Great Elm Capital Group, Inc. and/or its subsidiaries. Our corporate website address is www.greatelmcap.com. The information contained in, or accessible through, our corporate website does not constitute part of this report.

Cautionary Statement Regarding Forward-Looking Information

This report and certain information incorporated herein by reference, contain forward-looking statements under the Private Securities Litigation Reform Act of 1995. Such statements often include words such as “may,” “will,” “should,” “believe,” “expect,” “seek,” “anticipate,” “intend,” “estimate,” “plan,” “target,” “project,” “forecast,” “envision” and other similar phrases. Although we believe the assumptions and expectations reflected in these forward-looking statements are reasonable, these assumptions and expectations may not prove to be correct and we may not achieve the financial results or benefits anticipated. These forward-looking statements are not guarantees of actual results. Our actual results may differ materially from those suggested in the forward-looking statements. These forward-looking statements involve a number of risks and uncertainties, some of which are beyond our control, including, without limitation:

- our ability to profitably manage Great Elm Capital Corp. (NASDAQ: **GECC**), a business development company that we manage through our investment management business;
- the dividend rate that GECC will pay;
- our ability to continue to develop and grow our durable medical equipment, investment management and real estate businesses;
- our ability to raise capital to fund our business plan;
- our ability to make acquisitions and manage any businesses we may acquire;
- conditions in the equity capital markets and debt capital markets as well as the economy generally;
- our ability to maintain the security of electronic and other confidential information;
- serious disruptions and catastrophic events, including the impact of Coronavirus Disease 2019 (**COVID-19**) on the global economy;
- competition, mostly from larger, well-financed organizations (both domestic and foreign), including operating companies, global asset managers, investment banks, commercial banks, and private equity funds;
- outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith;
- maintaining our contractual arrangements and relationships with third parties;
- our ability to attract, assimilate and retain key personnel;
- compliance with laws, regulations and orders;
- changes in laws and regulations governing our operations; and
- other factors described in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 under “Risk Factors” or as set forth from time to time in our Securities and Exchange Commission (**SEC**) filings.

These forward-looking statements speak only as of the time of filing of this report and we do not undertake to update or revise them as more information becomes available. You are cautioned not to place undue reliance on these forward-looking statements. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Great Elm Capital Group, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

Dollar amounts in thousands (except per share data)

<u>ASSETS</u>	<u>March 31, 2020</u>	<u>June 30, 2019</u>
Current assets:		
Cash and cash equivalents	\$ 38,693	\$ 12,122
Restricted cash	837	708
Accounts receivable	8,522	8,832
Related party receivables	1,171	1,421
Investments, at fair value (cost \$30,000)	5,507	17,110
Inventories	1,750	1,336
Prepaid and other current assets	981	871
Total current assets	<u>57,461</u>	<u>42,400</u>
Real estate assets, net	53,494	54,411
Property and equipment, net	1,405	1,367
Equipment held for rental, net	8,965	9,140
Identifiable intangible assets, net	15,680	17,576
Goodwill	50,433	50,397
Right of use assets	5,775	6,239
Other assets	1,584	1,196
Total assets	<u>\$ 194,797</u>	<u>\$ 182,726</u>
LIABILITIES, NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,505	\$ 5,158
Accrued expenses and other liabilities	5,446	3,951
Related party payables	-	1,940
Current portion of lease liabilities	1,608	1,423
Current portion of long term debt	10,170	2,159
Current portion of related party notes payable	1,494	2,066
Current portion of equipment financing debt	1,530	1,371
Total current liabilities	<u>28,753</u>	<u>18,068</u>
Lease liabilities, net of current portion	4,460	5,110
Long term debt, net of current portion	53,171	61,635
Related party notes payable, net of current portion	26,818	28,302
Convertible notes (face value \$30,000, including \$14,050 held by related parties)	16,785	-
Equipment financing debt, net of current portion	217	104
Other liabilities	364	513
Total liabilities	<u>130,568</u>	<u>113,732</u>
Commitments and Contingencies		
Contingently redeemable non-controlling interest	3,615	3,912
Stockholders' equity		
Preferred stock, \$0.001 par value; 5,000,000 authorized and zero outstanding	-	-
Common stock, \$0.001 par value; 350,000,000 shares authorized and 26,172,046 shares issued and 25,439,137 outstanding at March 31, 2020; and 26,086,086 shares issued and 25,352,989 outstanding at June 30, 2019	25	25
Additional paid-in-capital	3,317,873	3,305,415
Accumulated deficit	(3,260,921)	(3,244,374)
Total Great Elm Capital Group, Inc. stockholders' equity	<u>56,977</u>	<u>61,066</u>
Non-controlling interests	3,637	4,016
Total stockholders' equity	<u>60,614</u>	<u>65,082</u>
Total liabilities, non-controlling interest and stockholders' equity	<u>\$ 194,797</u>	<u>\$ 182,726</u>

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

Great Elm Capital Group, Inc.
Condensed Consolidated Statements of Operations (Unaudited)
Dollar amounts in thousands (except per share data)

	For the three months ended March		For the nine months ended March	
	2020	2019	2020	2019
Revenues:				
Durable medical equipment sales and services revenue	8,933	\$ 7,383	\$ 25,725	\$ 19,243
Durable medical equipment rental income	5,198	4,369	16,028	9,752
Investment management revenues	829	1,060	2,585	2,915
Real estate rental income	1,276	1,272	3,820	4,188
Total revenues	<u>16,236</u>	<u>14,084</u>	<u>48,158</u>	<u>36,098</u>
Operating costs and expenses:				
Cost of durable medical equipment sold and services	3,966	2,633	11,118	7,122
Cost of durable medical equipment rentals ¹	2,072	1,969	6,522	4,229
Durable medical equipment other operating expenses	8,079	5,896	22,607	13,600
Investment management expenses	149	996	1,504	3,186
Real estate expenses	125	131	375	768
Depreciation and amortization	1,053	987	3,250	2,525
Selling, general and administrative	1,801	1,989	4,935	7,395
Total operating costs and expenses	<u>17,245</u>	<u>14,601</u>	<u>50,311</u>	<u>38,825</u>
Operating loss	(1,009)	(517)	(2,153)	(2,727)
Dividends and interest income	491	515	1,608	2,050
Unrealized gain (loss) on investment in GECC	(9,794)	807	(11,603)	(1,927)
Interest expense	(1,754)	(1,712)	(5,083)	(4,495)
Other income, net	-	-	3	-
Loss from continuing operations, before income taxes	(12,066)	(907)	(17,228)	(7,099)
Income tax benefit	148	1,229	5	1,229
Income (loss) from continuing operations	<u>(11,918)</u>	<u>322</u>	<u>(17,223)</u>	<u>(5,870)</u>
Discontinued operations:				
Gain from discontinued operations, net of tax	-	3,879	-	3,786
Net income (loss)	<u>\$ (11,918)</u>	<u>\$ 4,201</u>	<u>\$ (17,223)</u>	<u>\$ (2,084)</u>
Less: net income (loss) attributable to non-controlling interest	(301)	(35)	(676)	30
Net income (loss) attributable to Great Elm Capital Group	<u>\$ (11,617)</u>	<u>\$ 4,236</u>	<u>\$ (16,547)</u>	<u>\$ (2,114)</u>
Basic and diluted loss per share				
Continuing operations	\$ (0.46)	\$ 0.02	\$ (0.65)	\$ (0.23)
Discontinued operations	-	0.15	-	0.15
Net income (loss) attributable to Great Elm Capital Group	<u>\$ (0.46)</u>	<u>\$ 0.17</u>	<u>\$ (0.65)</u>	<u>\$ (0.08)</u>
Weighted average shares outstanding				
Basic and diluted	25,430	25,265	25,401	25,168

¹ Includes depreciation expense of: \$ 1,882 \$ 1,904 \$ 5,895 \$ 4,066

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

Great Elm Capital Group, Inc.

Condensed Consolidated Statements of Stockholders' Equity and Contingently Redeemable Non-controlling Interest (Unaudited)

Dollar and share amounts in thousands

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Great Elm Capital Group Inc. Stockholders' Equity	Non- controlling Interest	Total Stockholders' Equity	Contingently Redeemable Non- controlling Interest
	Shares	Amount						
BALANCE, June 30, 2019	25,353	\$ 25	\$3,305,415	\$ (3,244,374)	\$ 61,066	\$ 4,016	\$ 65,082	\$ 3,912
Net loss	-	-	-	(3,089)	(3,089)	(109)	(3,198)	(80)
Issuance of common stock related to vesting of restricted stock	30	0	0	-	0	-	0	-
Stock-based compensation	-	-	293	-	293	-	293	-
BALANCE, September 30, 2019	25,383	25	3,305,708	(3,247,463)	58,270	3,907	62,177	3,832
Net loss	-	-	-	(1,841)	(1,841)	(108)	(1,949)	(78)
Issuance of common stock related to vesting of restricted stock	29	0	0	-	0	-	0	-
Stock-based compensation	-	-	208	-	208	-	208	-
BALANCE, December 31, 2019	25,411	\$ 25	\$3,305,916	\$ (3,249,304)	\$ 56,637	\$ 3,799	\$ 60,436	\$ 3,754
Net loss	-	-	-	(11,617)	(11,617)	(162)	(11,779)	(139)
Issuance of common stock related to vesting of restricted stock	28	0	0	-	0	-	0	-
Stock-based compensation	-	-	(267)	-	(267)	-	(267)	-
Issuance of convertible notes	-	-	12,224	-	12,224	-	12,224	-
BALANCE, March 31, 2020	25,439	\$ 25	\$3,317,873	\$ (3,260,921)	\$ 56,977	\$ 3,637	\$ 60,614	\$ 3,615

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

Great Elm Capital Group, Inc.
Condensed Consolidated Statements of Stockholders' Equity and Contingently Redeemable Non-controlling Interest (Unaudited)
Dollar and share amounts in thousands

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Great Elm Capital Group Inc. Stockholders' Equity	Non- controlling Interest	Total Stockholders' Equity	Contingently Redeemable Non- controlling Interest
	Shares	Amount						
BALANCE, June 30, 2018	24,719	\$ 25	\$3,302,886	\$ (3,238,547)	\$ 64,364	\$ 222	\$ 64,586	\$ -
Net income (loss)	-	-	-	(2,004)	(2,004)	(15)	(2,019)	10
Adoption of accounting standard	-	-	-	(2,919)	(2,919)	-	(2,919)	-
Acquisition of Great Elm DME, Inc.	-	-	-	-	-	3,632	3,632	3,632
Issuance of common stock related to warrants exercise	420	0	1,409	-	1,409	-	1,409	-
Issuance of common stock related to vesting of restricted stock	4	0	0	-	0	-	0	-
Stock-based compensation	-	-	490	-	490	-	490	-
BALANCE, September 30, 2018	25,143	25	3,304,785	(3,243,470)	61,340	3,840	65,180	3,642
Net income (loss)	-	-	-	(4,346)	(4,346)	22	(4,324)	48
Issuance of common stock related to vesting of restricted stock	79	0	0	-	0	-	0	-
Stock-based compensation	-	-	352	-	352	-	352	-
BALANCE, December 31, 2018	25,222	\$ 25	\$3,305,137	\$ (3,247,816)	57,346	\$ 3,862	\$ 61,208	\$ 3,690
Net income (loss)	-	-	-	4,236	4,236	(36)	4,200	1
Issuance of common stock related to vesting of restricted stock	58	0	0	-	0	-	0	-
Issuance of common stock related to stock options exercise	2	0	6	-	6	-	6	-
Stock-based compensation	-	-	102	-	102	-	102	-
BALANCE, March 31, 2019	25,282	\$ 25	\$3,305,245	\$ (3,243,580)	\$ 61,690	\$ 3,826	\$ 65,516	\$ 3,691

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

Great Elm Capital Group, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
Dollar amounts in thousands

	For the nine months ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (17,223)	\$ (2,084)
Loss from discontinued operations	-	(3,786)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,144	6,591
Stock-based compensation	234	944
Unrealized (gain) loss on investments	11,603	1,927
Non-cash interest and amortization of debt issuance costs	722	643
Deferred tax benefit related to continuing operations	(116)	(1,229)
Other non-cash expense, net	1,070	445
Gain on sale of equipment held for rental	(612)	-
Change in fair value of contingent consideration	(1,135)	-
Changes in operating assets and liabilities:		
Related party receivable	250	(416)
Accounts receivable	310	(2,058)
Inventories	(414)	(235)
Prepaid assets, deposits, and other assets	(821)	(44)
Operating leases	(1,071)	(371)
Related party payable	(805)	116
Accounts payable, accrued liabilities and other liabilities	3,448	817
Net cash provided by operating activities - continuing operations	4,584	1,260
Net cash provided by operating activities - discontinued operations	-	1,408
Net cash provided by operating activities	4,584	2,668
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	-	(41,781)
Purchases of equipment held for rental	(5,384)	(4,423)
Proceeds from sale of equipment held for rental	1,394	-
Purchases of property and equipment	(591)	(655)
Proceeds from sale of property and equipment	37	-
Net cash used in investing activities - continuing operations	(4,544)	(46,859)
Net cash used in investing activities - discontinued operations	-	-
Net cash used in investing activities	(4,544)	(46,859)

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

Great Elm Capital Group, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)
Dollar amounts in thousands

	For the nine months ended March 31,	
	2020	2019
Cash flows from financing activities:		
Proceeds on revolving line of credit	2,550	6,225
Principal payments on revolving line of credit	(2,050)	-
Principal payments on long term debt	(1,598)	(1,482)
Proceeds from note payable to seller	-	16,500
Principal payments on related party notes payable	(2,123)	(768)
Principal payments on equipment financing	(2,065)	-
Proceeds from equipment financing	2,338	-
Proceeds from convertible notes	30,000	-
Debt financing costs	(392)	(430)
Redemption of preferred stock of subsidiary	-	(1,500)
Proceeds from issuance of common stock, gross	-	1,415
Net cash provided by financing activities - continuing operations	26,660	19,960
Net cash provided by financing activities - discontinued operations	-	-
Net cash provided by financing activities	26,660	19,960
Net increase (decrease) in cash, cash equivalents and restricted cash	26,700	(24,231)
Cash, cash equivalents and restricted cash at beginning of year	12,830	43,540
Cash, cash equivalents and restricted cash at end of year	<u>\$ 39,530</u>	<u>\$ 19,309</u>
Cash paid for interest	\$ 4,585	\$ 3,763
Non-cash investing and financing activities		
Assumption of borrowings in connection with acquisition	\$ -	\$ 9,275
Issuance of non-controlling interests in subsidiary in connection with acquisition	-	7,265
Preferred stock issued to seller in acquisition	-	5,266
Preferred stock cancelled and forfeited	-	215
Contingent consideration issued in connection with acquisition	-	845
Lease liabilities and right of use assets arising from operating leases	607	256

The following table reconciles the amounts shown for cash and cash equivalents and restricted cash in the condensed consolidated balance sheets to the amounts shown for cash, cash equivalents and restricted cash in the condensed consolidated statements of cash flows.

	March 31, 2020	June 30, 2019
Cash and cash equivalents	\$ 38,693	\$ 12,122
Restricted cash	837	708
Cash, cash equivalents and restricted cash	<u>\$ 39,530</u>	<u>\$ 12,830</u>

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

Great Elm Capital Group, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

March 31, 2020

1. Organization

Great Elm Capital Group, Inc. (the **Company**) is a holding company incorporated in Delaware. The Company currently has four operating segments: durable medical equipment, investment management, real estate and general corporate. The Company is pursuing business development opportunities in durable medical equipment, investment management, real estate and other industries.

On September 7, 2018, the Company, through its subsidiary, Great Elm DME Holdings, Inc. (**DME Holdings**), acquired an 80.1% equity interest in Great Elm DME, Inc. (**DME Inc.**) an entity formed to acquire and combine two companies, Valley Healthcare Holding, LLC (**Valley**) and Northwest Medical, Inc. (**Northwest**). Valley and Northwest specialize in the distribution of respiratory care equipment, including positive air pressure equipment and supplies, ventilators and oxygen equipment and operate in Arizona, Nebraska, Oregon, Washington and Alaska. On June 12, 2019, the Company expanded its durable medical equipment business through the acquisition of certain assets and liabilities of Midwest Respiratory Care, Inc. (**Midwest**).

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. Wholly-owned subsidiaries include Great Elm Capital Management, Inc. (**GECM**), Great Elm Opportunities GP, Inc., Great Elm FM Acquisition, Inc., DME Holdings and Great Elm DME Manager, LLC. Majority-owned subsidiaries include GECC GP Corp., Great Elm FM Holdings, Inc., CRIC IT Fort Myers, LLC (**CRIC IT**) and DME Inc. and its seven wholly-owned subsidiaries.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes which are normally included in the Company's Form 10-K. These financial statements reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes are necessary to fairly state results for the interim periods presented. Results of operations for interim periods are not necessarily indicative of annual results of operations. The condensed consolidated balance sheet as of June 30, 2019, presented herein, has been derived from the Company's audited consolidated financial statements as of and for the year-ended June 30, 2019.

Use of Estimates

The preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America (**US GAAP**) requires the Company to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates all of these estimates and assumptions. The most important of these estimates and assumptions relate to revenue recognition, recognition of rental income, estimates for contractual allowances, estimates for allowance for doubtful accounts, the valuation of excess and obsolete inventories, depreciable lives of equipment, impairment of long lived tangible and intangible assets, valuation allowance for deferred tax assets, fair value measurements including stock-based compensation and contingent consideration, estimates associated with the application of acquisition accounting, and the value of lease liabilities and corresponding right to use assets. Although these and other estimates and assumptions are based on the best available information, actual results could be different from these estimates.

In the quarter ended March 31, 2020, the Company's revenues declined relative to its prior expectations in part due to the impact of the Coronavirus Disease 2019 (COVID-19) pandemic. In particular, during the quarter ended March 31, 2020, the Company experienced a decrease in assets under management in our managed portfolios and observed higher patient cancellation rates for attended sleep studies. The impact of COVID-19 continues to evolve and its duration and ultimate disruption to the Company's customers and to its operations cannot be estimated at this time. However, the Company expects to experience decreased referrals in the near future. Should the disruption continue for an extended period of time, the impact could have a more severe adverse effect on our business and operations.

The Company also believes that its cash and cash equivalents held as of at March 31, 2020, as supplemented by governmental COVID-19 relief, will be sufficient to fund the projected operating requirements of the Company and its operating subsidiaries for at least the next twelve months.

Principles of Consolidation

The Company consolidates the assets, liabilities, and operating results of its wholly-owned subsidiaries; majority-owned subsidiaries; and subsidiaries in which we hold a controlling financial interest as of the financial statement date. In most cases, a controlling financial interest reflects ownership of a majority of the voting interests. We consolidate a variable interest entity (VIE) when we possess both the power to direct the activities of the VIE that most significantly impact its economic performance and we are either obligated to absorb the losses that could potentially be significant to the VIE or we hold the right to receive benefits from the VIE that could potentially be significant to the VIE.

All intercompany accounts and transactions have been eliminated in consolidation.

Non-controlling interests in the Company's subsidiaries are reported as a component of liabilities for mandatorily redeemable interests, temporary equity for contingently redeemable interests or permanent equity, separate from the Company's equity. See Note 14 – Non-Controlling Interests and Preferred Stock of Subsidiary. Results of operations attributable to the non-controlling interests are included in the Company's condensed consolidated statements of operations.

Segments

The Company has four operating segments: durable medical equipment, investment management, real estate and general corporate. The Company regularly reviews each segment for purposes of allocating resources and assessing performance.

Accounts receivable

Substantially all of the accounts receivable balance relates to the durable medical equipment business. Accounts receivable are customer obligations due under normal sales and rental terms and represent the amount estimated to be collected from the customers and, if applicable, the third-party private insurance provider or government program (collectively, **Payors**), based on the contractual agreements. The Company does not require collateral in connection with its customer transactions and aside from verifying insurance coverage, does not perform credit checks on patient customers. Revenue and accounts receivable have been constrained to the extent that billed amounts exceed the amounts estimated to be collected. The constrained transaction price relates primarily to expected billing adjustments with the Payors and patient customers. Management's evaluation of variable consideration takes into account such factors as past experience, information about specific receivables, Payors and patient customers. The revenue reserves related to constraints on variable consideration were \$5.2 million and \$3.4 million as of March 31, 2020 and June 30, 2019, respectively. During the three and nine months ended March 31, 2020, the Company recognized reductions to revenue of \$1.1 million and \$2.6 million, respectively, net of immaterial adjustments to constraints recognized in prior periods related to actual collections experience. See Note 3 – Revenue.

The assessment of variable consideration to be constrained is based on estimates, and ultimate losses may vary from current estimates. As adjustments to these estimates become necessary, they are reported in earnings in the periods in which they become known. Changes in constraints on variable consideration are recorded as a component of net revenues.

The Company generally does not allow returns from customers for reasons not covered under the manufacturer's standard warranty. Therefore, there is no provision for sales return reserves. The Company does not have significant bad debt experience with Payors, and therefore the allowance for doubtful accounts is immaterial.

As of March 31, 2020 and June 30, 2019, the Company had unbilled receivables of approximately \$1.6 million and \$0.7 million, respectively, that relate to transactions where the Company has the ultimate right to invoice a Payor under the terms of the arrangement. These unbilled amounts are included in accounts receivable in the condensed consolidated balance sheets.

Net Income (Loss) per Share

The following table presents the calculation of basic and diluted earnings (loss) per share:

<i>(in thousands, except per share amounts)</i>	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Income (loss) from continuing operations	\$ (11,918)	\$ 322	\$ (17,223)	\$ (5,870)
Gain from discontinued operations, net of tax	-	3,879	-	3,786
Net income (loss)	\$ (11,918)	\$ 4,201	\$ (17,223)	\$ (2,084)
Less: net income (loss) attributable to non-controlling interest	(301)	(35)	(676)	30
Net income (loss) attributable to Great Elm Capital Group	\$ (11,617)	\$ 4,236	\$ (16,547)	\$ (2,114)
Weighted average shares basic and diluted:				
Weighted average shares of common stock outstanding	25,430	25,265	25,401	25,168
Weighted average shares used in computing income (loss) per share	25,430	25,265	25,401	25,168
Basic and diluted income (loss) per share from:				
Net income (loss) from continuing operations	\$ (0.46)	\$ 0.02	\$ (0.65)	\$ (0.23)
Income from discontinued operations	-	0.15	-	0.15
Net income (loss) attributable to Great Elm Capital Group	\$ (0.46)	\$ 0.17	\$ (0.65)	\$ (0.08)

As of March 31, 2020 and 2019, the Company had 3,362,560 and 3,459,602 potential shares of Company common stock issuable upon exercise of the stock options and vesting of restricted stock units and restricted stock awards, respectively, that are not included in the diluted net loss per share calculations because to do so would be antidilutive. In addition, as of March 31, 2020 the Company had 8,640,054 potential shares of Company common stock issuable upon conversion of Convertible Notes that are not included in the diluted net loss per share calculations because to do so would be antidilutive.

As of March 31, 2020 and 2019, the Company had an aggregate of 732,909 issued shares that are subject to forfeiture by the employee at a nominal price if service and performance milestones are not met. The Company does not account for such shares as being outstanding for accounting purposes since they are unvested and subject to forfeiture.

Restrictions on Subsidiary Dividends

Under the GP Corp. Note Agreement, GECC GP Corp. agreed not to declare any dividends until the GP Corp. Note is satisfied. Under the Senior Note and Subordinated Note, CRIC IT Fort Myers, LLC is restricted from paying any dividends until the Notes are satisfied. The ability of DME Inc. to pay dividends is subject to compliance with the restricted payment covenants under the Corbel Facility and DME Revolver.

Concentration of Risk

The Company's net investment revenue and receivables for the periods presented were attributable to the management of one investment vehicle, GECC, which is also a related party. See Note 5 – Related Party Transactions.

The Company's real estate rental revenue from continuing operations is derived from one tenant.

The Company's durable medical equipment revenue and related accounts receivable are concentrated with third-party Payors. The following table summarizes customer concentrations as a percentage of revenues:

	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Government Payor A	28%	25%	28%	27%
Government Payor B	*	*	*	*
Third-party Payor C	*	*	10%	*

* Not a significant concentration.

The following table summarizes customer concentrations as a percentage of accounts receivable:

	As of	
	March 31, 2020	June 30, 2019
Government Payor A	20%	20%
Government Payor B	13%	16%
Third-party Payor C	12%	12%

* Not a significant concentration

Recently Issued Accounting Standards

Current Expected Credit Losses In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which changes the impairment model for financial instruments, including trade receivables from an incurred loss method to a new forward looking approach, based on expected losses. The estimate of expected credit losses will require entities to incorporate considerations of historical experience, current information and reasonable and supportable forecasts. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is evaluating the potential impact that the adoption of this ASU will have on its consolidated financial statements.

Fair Value Measurements In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, resulting in various disclosures related to fair value measurements being eliminated, modified or supplemented. ASU 2018-13 is effective for interim and annual periods beginning after December 15, 2019, with an option to early adopt any eliminated or modified disclosures, and to delay adoption of the additional disclosures, until the effective date. The Company early adopted the eliminated and modified disclosures of ASU 2018-13 during the three months ended September 30, 2018 and, as a result, updated its financial statement disclosures accordingly. A modified narrative description of measurement uncertainty for level 3 fair value measurements was applied prospectively, with all other amendments applied retrospectively. The Company has deferred adoption of the supplemental disclosures until the effective date. The supplemental disclosures relate to level 3 fair value measurements, and the impact to our financial statements upon adoption is not expected to be significant as we do not have significant level 3 fair value measurements.

Reference Rate Reform: In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): facilitation of the Effects of Reference Rate Reform on Financial Reporting*, in response to the United Kingdom Financial Conduct Authority which announced the desire to phase out the use of London Interbank Offered Rate (LIBOR) by the end of 2021. The provisions provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform on financial reporting due to the cessation of LIBOR if certain criteria are met. If LIBOR ceases to exist, we may need to renegotiate outstanding notes payable outstanding which extend beyond 2021 with the respective counterparties. Adoption of the provisions in ASU 2020-04 are optional and effective from March 12, 2020 through December 31, 2022. We are currently evaluating the impact of ASU 2020-04 on our financial statements.

3. Revenue

The revenues from each major source of revenue are summarized in the following table:

<i>(in thousands)</i>	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Product and Services Revenue				
<i>Investment Management</i>				
Management Fees	\$ 683	\$ 691	\$ 2,201	\$ 2,214
Administration Fees	146	369	384	701
	829	1,060	2,585	2,915
<i>Durable Medical Equipment</i>				
Medical Equipment Sales	7,549	5,996	21,497	15,798
Service Revenues	1,384	1,387	4,228	3,445
	8,933	7,383	25,725	19,243
Total product and services revenue	\$ 9,762	\$ 8,443	\$ 28,310	\$ 22,158
Rental Revenues				
<i>Real Estate</i>				
Rental Income	1,276	1,272	3,820	4,188
<i>Durable Medical Equipment</i>				
Medical Equipment Rental Income	5,198	4,369	16,028	9,752
Total rental revenue	6,474	5,641	19,848	13,940
Total	\$ 16,236	\$ 14,084	\$ 48,158	\$ 36,098

Revenue Accounting Under Topic 606

In determining the appropriate amount of revenue to be recognized under Topic 606, the Company performed the following steps: (i) identified the promised goods or services in the contract; (ii) determined whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measured the transaction price, including the constraint on variable consideration; (iv) allocated the transaction price to the performance obligations; and (v) recognized revenue when (or as) the Company satisfies each performance obligation.

Durable Medical Equipment Revenue

Equipment Sales and Services Revenues

The Company sells durable medical equipment, replacement parts and supplies to customers and recognizes revenue at the point control is transferred through delivery to the customer. Each piece of equipment, part or supply is distinct and separately priced thus they each represent a single performance obligation. The revenue is allocated amongst the performance obligations based upon the relative standalone selling price method, however, items are typically all delivered or supplied together. The customer and, if applicable, the Payors are generally charged at the time that the product is sold, although separate layers of insurance coverage may need to be invoiced before final billings may occur.

The Company also provides sleep study services to customers and recognizes revenue when the results of the sleep study are complete as that is when the performance obligation is met.

The transaction price on both equipment sales and sleep studies is the amount that the Company expects to receive in exchange for the goods and services provided. Due to the nature of the durable medical equipment business, billing adjustments customarily occur during the collections process when explanations of benefits are received by Payors, and as amounts are deferred to secondary Payors or to patient responsibility. As such, we constrain the transaction price for the difference between the gross charge and what we believe we will collect from Payors and from patients. The transaction price therefore is predominantly based on contractual payment rates determined by the Payors. The Company does not generally contract with uninsured customers. We determine our estimates of billing adjustments based upon contractual agreements, our policies and historical experience. While the rates are fixed for the product or service with the customer and the Payors, such amounts typically include co-payments, co-insurance and deductibles, which vary in amounts, from the patient customer. The Company includes in the transaction price only the amount that the Company expects to be entitled, which is substantially all of the Payor billings at contractual rates. The transaction price is initially constrained by the amount of customer co-payments we estimate will not be collected.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain Payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application or claim denial. The Company constrains revenue for these estimated adjustments. There were no material changes in estimates recorded in the three and nine months ended March 31, 2020, relating to prior periods.

The payment terms and conditions of customer contracts vary by customer type and the products and services offered.

The Company may provide shipping services prior to the point of delivery and has concluded that the services represent a fulfillment activity and not a performance obligation. Returns and refunds are not accepted on either equipment sales or sleep study services. The Company does not offer warranties to customers in excess of the manufacturer's warranty. Any taxes due upon sale of the products or services are not recognized as revenue. The Company does not incur contract acquisition costs. The Company does not have any partially or unfilled performance obligations related to contracts with customers. As such, the Company has no contract liabilities as of March 31, 2020 and June 30, 2019. December 31, 2019

Included in sales and services revenue are unbilled amounts for which the revenue recognition criteria had been met as of period end but were not yet billed to the Payor. The estimate of net unbilled rental revenue recognized is based on historical trends and estimates of future collectability. As of March 31, 2020 and June 30, 2019, net unbilled sales and services revenue is approximately \$1.0 million and \$0.5 million, respectively, and is included in accounts receivable.

Investment Management Revenue

The Company recognizes revenue from its investment management business at amounts that reflect the consideration to which it expects to be entitled in exchange for providing services to its customer. Investment management revenue primarily consists of fees based on a percentage of assets under management; fees based on the performance of managed assets; and administrative fees; as follows:

Management Fees

The Company earns management fees based on the investment management agreement GECC has with GECC. The performance obligation is satisfied over time as the services are rendered, since GECC simultaneously receives and consumes the benefits provided as GECC performs services. Under GECC's investment management agreement with GECC, the base management fee from GECC is calculated at an annual rate of 1.50% of GECC's average adjusted gross assets. The base management fee is calculated based on the average value of GECC's gross assets, excluding cash and cash equivalents, at the end of the two most recently completed calendar quarters, and is recognized over time as the services are provided. Management fees are billed quarterly in arrears.

Incentive Fees

The Company earns incentive fees based on the investment management agreements GECM has with GECC and separately managed accounts. Where an investment management agreement includes both management fees and incentive fees, the performance obligation is considered to be a single obligation for both fees. Incentive fees are variable consideration associated with the GECC investment management agreement. Incentive fees are recognized based on investment performance during the period, subject to the achievement of minimum return levels or high-water marks, in accordance with the terms of the respective investment management agreements. Incentive fees range from 5.0% to 20.0% of the performance-based metric specified within each agreement. Because of the uncertainty of when incentive fees will be collected due to market conditions and investment performance, incentive fees are fully constrained and not recorded until received and the probability of significant reversal of the fees is eliminated in accordance with the respective investment management agreements.

Administration Fees

The Company earns administration fees based on the administration agreement GECM has with GECC whereby GECC reimburses GECM for costs incurred in performing administrative functions for GECC. This revenue is recognized over time as the services are performed. Administrative fees are billed quarterly in arrears, which is consistent with the timing of the delivery of services and reflect agreed upon rates for the services provided. The services are accounted for as a single performance obligation that is a series of distinct services with substantially the same pattern of transfer as the services are provided on a daily basis.

Revenue Accounting Under Topic 842

Durable Medical Equipment Revenue

Equipment Rental Revenue

Under FASB Accounting Standards Codification Topic 842, *Leases*, (**Topic 842**) rental income from operating leases is recognized on a straight-line basis, based on contractual lease terms with fixed and determinable increases over the non-cancellable term of the related lease when collectability is reasonably assured. The Company leases durable medical equipment to customers for a fixed monthly amount on a month-to-month basis. The contractual length of the lease term varies based on the type of equipment that is rented to the customer, but generally is from 10 to 36-months. In the case of capped rental agreements, title to the equipment transfers to the customer at the end of the contractual rental period. The customer has the right to cancel the lease at any time during the rental period for a subsequent month's rental and payments are generally billed in advance on a month-to-month basis. Under Topic 842, rental income from operating leases is recognized on a month-to-month basis, based on contractual lease terms when collectability is reasonably assured. Certain customer co-payments are included in revenue when considered probable of payment.

The lease term begins on the date products are delivered to patients and are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including Medicare, private payors, and Medicaid. Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain Payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application or claim denial. There were no material changes in estimates recorded in the nine months ended March 31, 2020, relating to prior periods.

Although invoicing typically occurs at the beginning of the monthly rental period, we recognize revenue from rentals on a daily basis. Since rental agreements can commence at any time during a given month, we defer revenue related to the remaining monthly rental period as of period end. Deferred revenue related to rentals was \$0.9 million and \$0.9 million as of March 31, 2020 and June 30, 2019, respectively.

Included in rental revenue are unbilled amounts for which the revenue recognition criteria had been met as of period end but were not yet billed to the Payor. Net unbilled rental revenue is recognized to the extent payment is probable. As of March 31, 2020 and June 30, 2019, net unbilled rental revenue is approximately \$0.6 million and \$0.2 million, respectively, and is included in accounts receivable.

Real Estate Revenue

Rental Revenue

Consistent with the leases of durable medical equipment, the Company recognizes rental revenue on a straight-line basis over the non-cancelable term of the lease. Under the terms of the lease, the Company may recover from the tenant certain expenses, including: real estate taxes, insurance and other operating expenses. The recovery of these expenses is recognized in rental income in the accompanying condensed consolidated statements of operations, in the same periods as the expenses are incurred. These expenses recognized in both revenue and expense may fluctuate from period to period based on actual expense amounts.

4. Acquisition

Initial Acquisition of Durable Medical Equipment Businesses

On September 7, 2018, through its subsidiary, DME Holdings, the Company acquired an 80.1% interest in DME Inc., an entity formed to acquire and combine two previously unrelated durable medical equipment distribution companies, Valley and Northwest, which both specialize in the distribution of sleep and respiratory care equipment, including positive air pressure equipment and supplies, ventilators, and oxygen equipment. The medical distribution companies operate in Alaska, Arizona, Nebraska, Oregon and Washington. Operating results of the acquired businesses have been included in the consolidated statements of operations since September 1, 2018 as the impact of including the period prior to September 7, 2018 was immaterial to the condensed consolidated financial statements.

On the date of Acquisition, the Company allocated the consideration given to the individual assets acquired and the liabilities assumed based on a preliminary estimate of their fair values. The assessment of fair value initially reported, as of June 30, 2019, was preliminary as the Company had not finalized its fair value estimates.

During the three months ended September 30, 2019, the Company obtained and considered additional information related to the assets acquired and liabilities assumed, and recorded measurement period adjustments to the allocation of the purchase price noted below.

The acquisition date fair value of the consideration transferred is summarized in the following table:

<i>(in thousands)</i>	Amount
Cash	\$ 25,321
Net working capital adjustment	(254)
Increase in note payable to seller ⁽¹⁾	16,500
Debt assumed	9,275
Preferred stock in DME Holdings	5,266
Contingent consideration	961
Total Consideration	\$ 57,069

(1) Included in related party note payable on the condensed consolidated balance sheet.

As a result of the net working capital adjustment, \$0.2 million in shares of preferred stock in DME Holdings were cancelled and forfeited and the remaining difference between the adjustment and the value of the preferred stock cancelled and forfeited was paid by the sellers to DME Holdings.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition, which was finalized during the three months ended September 30, 2019.

<i>(in thousands)</i>	As Previously Reported⁽¹⁾	Adjustment	Amount
Accounts receivable	\$ 6,021	\$ -	\$ 6,021
Inventories	1,405	-	1,405
Other assets	503	-	503
Fixed assets	852	-	852
Equipment held for rent	7,947	-	7,947
Goodwill	44,741	36	44,777
Tradename	8,800	-	8,800
Non-compete agreements	1,260	(80)	1,180
Right of use asset	4,205	-	4,205
Current liabilities	(5,955)	-	(5,955)
Operating lease liabilities	(4,285)	-	(4,285)
Deferred tax liabilities	(1,160)	44	(1,116)
Non-controlling interest	(7,265)	-	(7,265)
Net assets acquired	<u>\$ 57,069</u>	<u>\$ -</u>	<u>\$ 57,069</u>

(1) As reported in our Form 10-K for the twelve months ended June 30, 2019.

The outstanding balances of the note payable to seller, debt assumed on the revolving credit facility, and the preferred stock in DME Holdings approximates fair value based upon current rates and terms available for similar instruments.

The trade name was determined to have a fair value of \$8.8 million. The valuation of the trade name was based on a relief from royalty method. The key assumptions in applying the relief from royalty approach are as follows: royalty rate of 3.0% and a discount rate of 14%.

The non-compete agreements were determined to have a fair value of \$1.2 million. The valuation of the non-compete agreements was based on a lost profits method. The key assumptions in applying the lost profits method are as follows; probability adjusted EBITDA of the acquired businesses and a discount rate of 14%.

Of the \$10.0 million of acquired identifiable intangible assets, \$8.8 million was assigned to tradenames and \$1.2 million was assigned to non-compete assets, which are associated with the former sellers of the businesses. All tradenames acquired have an expected life of 10 years over which they will be amortized on a straight-line basis, which matches the pattern of economic use of these assets. The non-compete agreements have a weighted-average expected life of 4.2 years. All non-compete agreements will be amortized on a straight-line basis, which approximates the pattern of economic use. Neither tradenames nor the non-compete agreements have renewal terms or are expected to have any net realizable value at the end of their useful lives.

The contingent consideration arrangement requires the Company to pay up to \$2.4 million of additional consideration to the acquired companies' former shareholders if certain earnings before interest, taxes, depreciation and amortization (**EBITDA**) thresholds, as adjusted per the terms of the purchase agreement, are achieved for the 12 months ended December 31, 2018 and 2019. Under the Transaction Agreement, payment of the contingent consideration for any period is subject to satisfaction of the applicable EBITDA, as adjusted threshold. The fair value of the contingent consideration arrangement at the acquisition date was \$1.0 million. The Company estimated the fair value of the contingent consideration using a Monte Carlo simulation model. The key assumptions in applying the Monte Carlo simulation model as follows: 33.5% volatility and weighted-average cost of capital of 14%, and related EBITDA forecasts of the acquired businesses. The contingent consideration is included within the current portion of related party payables in the condensed consolidated balance sheets.

These fair value measurements are based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC Topic 820, *Fair Value Measurement*. See Note 8 – Fair Value Measurements for values ascribed to the contingent consideration in reported periods.

Upon a subsequent sale of DME Inc., certain members of the DME Inc. management team will be entitled to a contingent bonus based on a percentage of the proceeds of the sale less the Company's invested capital in DME Inc.

The \$44.8 million of goodwill was assigned to the durable medical equipment segment and is attributable primarily to expected synergies and the assembled workforce of the acquired businesses. Approximately \$29.2 million of the goodwill is expected to be deductible for income tax purposes.

The fair value of the 19.9% non-controlling interest in acquired companies is estimated to be \$7.3 million. The fair value of the non-controlling interest was estimated based on the purchase price paid by the Company for its 80.1% of the acquired business since the non-controlling interest holders hold equity in DME Inc., which allows the holders to share in at least the same benefits inured from the acquisition as the Company.

The amount of \$1.1 million related to deferred tax liabilities relates primarily to identifiable intangible assets fair valued in purchase accounting that have no tax basis, as well as temporary differences of other acquired assets and liabilities.

The Company recognized \$2.1 million of acquisition costs that were expensed in the year ended June 30, 2019. These costs are included in selling, general and administrative expenses in the accompanying condensed consolidated statement of operations. The Company also incurred \$0.5 million in costs associated with issuing debt to finance the cost of the acquired businesses, which are debt issuance costs that are amortized over the term of the debt using the effective interest rate method.

Supplemental Pro Forma Information (unaudited)

The pro forma results presented below were prepared pursuant to the requirements of ASC Topic 805, *Business Combinations*, and give effect to the acquisition as if it had been consummated on July 1, 2017. The pro forma results have been prepared for comparative purposes only and do not necessarily represent what revenue or results of operations would have been had the acquisition been completed on July 1, 2017. In addition, these results are not intended to be a projection of future operating results and do not reflect synergies that might be achieved by the Company.

<i>(in thousands)</i>	For the nine months ended March 31, 2019	
Revenues	\$	44,392
Net loss		(1,217)
Net loss attributable to Great Elm Capital Group		(1,057)

These pro forma results presented include adjustments to historical operating results include the following activity related to the acquisition: (a) interest expenses incurred on the debt paid down and borrowed upon closing; (b) amortization of intangible assets acquired; and (c) reclassification of non-recurring transaction costs to the prior period.

Acquisition of Midwest Respiratory Care, Inc. Assets and Liabilities

In June 2019, through a wholly-owned subsidiary of its majority-owned subsidiary, DME Inc., the Company acquired certain assets and liabilities of Midwest related to its durable medical equipment business which specializes in the distribution of sleep and respiratory care equipment, including positive air pressure equipment and supplies, ventilators, and oxygen equipment. The medical distribution business from which the assets were acquired operates in Nebraska, Kansas and Iowa. The acquisition is accounted for as a business combination. The Company expects to achieve synergies and costs reductions through integrating these operations into our existing DME operations. Operating results of the acquired businesses have been included in the consolidated statements of operations since June 12, 2019.

On the date of Acquisition, the Company allocated the consideration given to the individual assets acquired and the liabilities assumed based on a preliminary estimate of their fair values. The Company is in the process of obtaining finalized third-party valuations of certain intangible assets and gathering information on all assets acquired and liabilities assumed, thus, all amounts are preliminary and are subject to change as these provisional estimates are finalized.

The acquisition date fair value of the cash consideration transferred was \$6.3 million, of which \$3.4 million was funded by additional debt under our existing Corbel Facility and \$0.7 million was contributed as equity by the non-controlling interests in DME Inc. The remainder was contributed as equity by DME Holdings.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

<i>(in thousands)</i>	Amount
Inventories	\$ 7
Other assets	1
Fixed assets	52
Equipment held for rent	447
Goodwill	5,656
Non-compete agreements	180
Right of use asset	238
Operating lease liabilities	(238)
Net Assets Acquired	<u>\$ 6,343</u>

The non-compete agreements are associated with the sellers of the business and were determined to have a fair value of \$0.2 million. The agreements have a weighted-average expected life of 5 years and will be amortized on a straight-line basis, which approximates the pattern of economic use. The non-compete agreements have no renewal terms and are not expected to have any net realizable value at the end of their useful lives. The valuation of the non-compete agreements was based on a lost profits method. The key assumptions in applying the lost profits method are as follows; probability adjusted EBITDA of the acquired business and a discount rate of 27%.

These fair value measurements are based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC Topic 820, Fair Value Measurement.

The \$5.7 million of goodwill was assigned to the durable medical equipment segment and is attributable primarily to expected synergies and the assembled workforce of the acquired business. None of the goodwill is expected to be deductible for income tax purposes.

Supplemental Pro Forma Information (unaudited)

The pro forma results presented below were prepared pursuant to the requirements of ASC Topic 805, *Business Combinations*, and give effect to the acquisition as if it had been consummated on July 1, 2017. The pro forma results have been prepared for comparative purposes only and do not necessarily represent what revenue or results of operations would have been had the acquisition been completed on July 1, 2017. In addition, these results are not intended to be a projection of future operating results and do not reflect synergies that might be achieved by the Company.

<i>(in thousands)</i>	For the three months ended March 31,		For the nine months ended	
	2019		March 31, 2019	
Revenues	\$	14,919	\$	38,603
Net income (loss)		4,412		(1,451)
Net income (loss) attributable to Great Elm Capital Group		4,405		(1,607)

These pro forma results presented include adjustments to historical operating results include the following activity related to the acquisition: (a) interest expense and debt financing costs incurred on the debt borrowed upon closing; (b) amortization of intangible assets acquired; and (c) reclassification of non-recurring transaction costs to the prior period.

5. Related Party Transactions

Related party transactions are measured in part by the amount of consideration paid or received as established and agreed by the parties. Consideration paid for such services in each case is the negotiated value.

Durable Medical Equipment

In connection with the acquisition of the durable medical equipment businesses in September 2018, DME Inc. and its subsidiaries entered into a term loan agreement with Corbel Capital Partners SBIC, L.P. (**Corbel**) (the **Corbel Facility**). Jeffrey S. Serota, a member of the Company's Board of Directors, serves as Vice Chairman to Corbel Capital Partners. Corbel previously held an interest in Northwest and was one of the sellers in our acquisition of the business. As a result of the acquisition, at March 31, 2020 Corbel holds a non-controlling interest in DME Inc. Pursuant to the Corbel Facility, Corbel was paid a structuring fee, will be paid an ongoing quarterly monitoring fee, and may be paid a deferred structuring fee if the loans are subject to early repayment. See Note 11 - Borrowings for additional information on the Corbel Facility and Note 14 – Non-Controlling Interests and Preferred Stock of Subsidiary.

In connection with the acquisition of the durable medical equipment businesses, the Company issued preferred stock and non-controlling interests in DME Inc. to the former owners, including Corbel discussed above. The preferred stock was fully redeemed as of June 30, 2019. See Note 14 – Non-Controlling Interests and Preferred Stock of Subsidiary. Additionally, the Company has contingent consideration to the sellers, currently valued at zero. See Note 8 – Fair Value Measurements for additional details.

Investment Management

The Company's wholly-owned subsidiary, GECM, has agreements to provide administrative services and manage the investment portfolio for GECC. Under these agreements, GECM receives administrative fees, management fees based on GECC's assets (other than cash and cash equivalents) and incentive fees if GECC has net capital gains or if its net investment income exceeds a specified hurdle rate. Fees under the agreements began to accrue on November 4, 2016. See Note 3 – Revenue for additional discussions of the fee arrangements.

All of the Company's investment management revenue recognized for the periods presented was generated from the management and administration of GECC. Additionally, the Company receives dividends from its investment in GECC and earns unrealized profits and losses based on the mark-to-market performance of GECC. See Note 8 – Fair Value Measurements.

The following tables summarize activity and outstanding balances between GECC and the Company.

<i>(in thousands)</i>	<u>For the three months ended March 31,</u>		<u>For the nine months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Change in unrealized gain (loss) on investment in GECC	\$ (9,794)	\$ 807	\$ (11,603)	\$ (1,927)
GECC dividends recorded in the period	489	490	1,567	1,941

<i>(in thousands)</i>	<u>March 31, 2020</u>		<u>June 30, 2019</u>	
Dividends receivable from GECC	\$	163	\$	206
Investment management revenues receivable from GECC		904		1,124

Outstanding receivables are included in related party receivables in the condensed consolidated balance sheets.

The Company is the owner of approximately 19.5% of the outstanding shares of GECC, and the Company's Chief Executive Officer is also the Chief Executive Officer of GECC and Chief Investment Officer of GECM, in addition to being a member of the board of directors of the Company and chairman of the board of GECC. The Company's President and Chief Operating Officer is also the Chief Operating Officer, Chief Compliance Officer and General Counsel of GECM and the Chief Compliance Officer of GECC.

GECM has a profit sharing agreement with the Company's majority-owned subsidiary GECC GP Corp. (**Profit Sharing Agreement**). Under the Profit Sharing Agreement, GECM's profit from GECC is paid to GECC GP Corp. Since its inception in November 2016, GECM has operated at a cumulative loss through March 31, 2020; correspondingly, no profits were available to GECC GP Corp. under the Profit Sharing Agreement. Certain employees of the Company have a non-controlling interest in GECC GP Corp. See Note 14 – Non-Controlling Interests and Preferred Stock of Subsidiary.

The Company's wholly-owned subsidiary, Great Elm Opportunities GP, Inc. (**GEO GP**) serves as the general partner of Great Elm Opportunities Fund I, LP (**GEOF**). As the general partner, GEO GP provides administrative services and manages the investment portfolio of GEOF. Based on the performance of GEOF's investment portfolio, GEO GP may be entitled to certain incentive allocations. GEOF began investing in July 2018 and through March 31, 2020 no incentive allocations have been made to GEO GP.

MAST Capital Management, LLC is the beneficial owner of approximately 7.9% of the Company's outstanding common stock as of March 31, 2020. See Note 11 - Borrowings for additional discussion of the GP Corp. Note.

Real Estate

In connection with the acquisition of the real estate business in March 2018, the Company issued the former owner a 19.9% interest in Great Elm FM Holdings, Inc. (**GE FM Holdings**). See Note 14 – Non-Controlling Interests and Preferred Stock of Subsidiary.

6. Fixed Assets

The Company's fixed assets consist of its leased real estate assets, medical equipment held for rental, furniture and fixtures, and leasehold improvements used in its operations. The following tables detail the Company's fixed assets:

<i>(in thousands)</i>	March 31, 2020		June 30, 2019	
Real Estate Assets				
Buildings	\$	43,355	\$	43,355
Land and site improvements		9,170		9,170
Tenant improvements		3,500		3,500
		<u>56,025</u>		<u>56,025</u>
Accumulated depreciation		(2,531)		(1,614)
Net carrying amount	\$	53,494	\$	54,411
Property and Equipment				
Leasehold improvements	\$	825	\$	774
Vehicles		229		239
Computer equipment and software		247		187
Furniture and fixtures		404		331
Sleep study equipment		592		232
		<u>2,297</u>		<u>1,763</u>
Accumulated depreciation		(892)		(396)
Net carrying amount	\$	1,405	\$	1,367
Equipment Held for Rental				
Medical equipment held for rental	\$	15,428	\$	13,294
Accumulated depreciation		(6,463)		(4,154)
Net carrying amount	\$	8,965	\$	9,140

The following table reconciles depreciation expense included in the following lines of the condensed consolidated statements of operations to total depreciation expense for each period presented.

<i>(in thousands)</i>	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Depreciation and amortization	\$ 478	\$ 441	\$ 1,433	\$ 1,134
Cost of durable medical equipment rentals	1,882	1,904	5,895	4,066
Total depreciation expense	<u>\$ 2,360</u>	<u>\$ 2,345</u>	<u>\$ 7,328</u>	<u>\$ 5,200</u>

7. Lessor Operating Leases

Medical Equipment Leases

Through its majority-owned subsidiary DME Inc., and the subsidiaries of DME Inc., the Company owns medical equipment which is leased to customers. The Company's customers consist primarily of patients through their clinical providers including medical centers, clinics and hospices and the Company has lease arrangements with these patients. In addition, the arrangements between the Company and its customers are impacted by arrangements between the Company and Payors. The Payors may cover a portion or all of the rental payments under the agreements between the Company and its customers. The patient is responsible for any residual co-payments.

The lease terms may be for a pre-determined time period, generally 10 months to 36 months; however, the customer may cancel the lease at any time and for any reason without penalty and therefore, the Company treats all leases as month-to-month leases. Upon termination of the lease, the equipment, if not aged beyond its useful life, may be refurbished and subsequently sold or leased to another customer. As the leases are month-to-month, there are no future lease receivables under the terms of the current leases.

Real Estate Leases

The Company's majority-owned subsidiary CRIC IT Fort Myers LLC (**Property Owner**) owns a fee simple interest in two Class A office buildings, Gartner I and Gartner II (collectively, the **Property**). The Property is fully leased, on a triple net basis, to Gartner, Inc. (**Gartner**) until March 31, 2030, which may be extended at the option of Gartner in accordance with the terms of the lease. The Gartner I lease contains two five-year extensions and the Gartner II lease contains three five-year extensions (collectively, the **Leases**). Under the terms of the Leases, the renewal rates are equal to 95% of the then fair market rent, and the tenant does not have a purchase option at the end of the lease term. The leases require Gartner to make a base monthly lease payment of approximately \$0.4 million as calculated on a straight line basis over the remaining expected lease term plus additional rent payments for additional costs. Additional rental payments are due for Property Owner costs, such as property taxes, management fees, and insurance costs, as incurred. See Note 3 – Revenue for additional discussion of rental revenues.

The Property is subject to mortgage, security agreement and assignment of leases and rents with the senior and subordinated lenders, which is further described in Note 11 - Borrowings. The Property Owner has assigned all rights, title and interest in and to the Property and the Leases to the senior and subordinated lenders and all amounts received are paid to a trust which funds the operating costs associated with the Property. The Company does not have rights to these rent payments while the borrowings remain outstanding.

The Company expects to derive value from the residual value at the end of the existing lease term by further leasing the assets or through a sale transaction.

Rental income from real estate leases is summarized in the following table:

<i>(in thousands)</i>	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Revenues from base rents	\$ 1,150	\$ 1,150	\$ 3,453	\$ 3,452
Revenues from additional rental payments	126	122	367	736
Total rental revenues	\$ 1,276	\$ 1,272	\$ 3,820	\$ 4,188

The following table summarizes the base rents for the remaining lease term:

<i>(in thousands)</i>	Base Rent Payments
For the three months ending June 30, 2020	\$ 1,044
For the year ending June 30, 2021	4,213
For the year ending June 30, 2022	4,312
For the year ending June 30, 2023	4,419
For the year ending June 30, 2024	4,529
Thereafter	28,673
Total base rent	\$ 47,190

8. Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

US GAAP provides a framework for measuring fair value on either a recurring or non-recurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level. The following are the hierarchical levels of inputs to measure fair value:

- *Level 1:* Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- *Level 3:* Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

All financial assets or liabilities that are measured at fair value on a recurring and non-recurring basis have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. The assets and liabilities measured at fair value on a recurring and non-recurring basis are summarized in the tables below:

<i>(in thousands)</i>	Fair Value as of March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment in GECC	\$ 5,507	\$ -	\$ -	\$ 5,507
Total assets	<u>\$ 5,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,507</u>
Liabilities:				
Contingent consideration liability	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<i>(in thousands)</i>	Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment in GECC	\$ 17,110	\$ -	\$ -	\$ 17,110
Total assets	<u>\$ 17,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,110</u>
Liabilities:				
Contingent consideration liability	\$ -	\$ -	\$ 1,135	\$ 1,135
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,135</u>	<u>\$ 1,135</u>

The following is a reconciliation of changes in contingent consideration, a Level 3 liability, for the three and nine months ended March 31, 2020:

<i>(in thousands)</i>	
Balance as of June 30, 2019	\$ 1,135
Change in fair value	(195)
Balance as of September 30, 2019	940
Change in fair value	(940)
Balance as of December 31, 2019	-
Change in fair value	-
Balance as of March 31, 2020	<u>\$ -</u>

The following is a reconciliation of changes in contingent consideration, a Level 3 liability, for the three and nine months ended March 31, 2019:

<i>(in thousands)</i>	
Balance as of June 30, 2018	\$ -
Additions	845
Balance as of September 30, 2018	845
Change in fair value	-
Balance as of December 31, 2018	845
Change in fair value	116
Balance as of March 31, 2019	<u>\$ 961</u>

Contingent consideration is included within the current portion of related party payables in the condensed consolidated balance sheets. The contingent consideration arrangement requires the Company to pay up to \$2.4 million of additional consideration to the acquired companies' former shareholders if certain EBITDA thresholds, as adjusted per the terms of the purchase agreement, are achieved for the 12 months ended December 31, 2018 and 2019. The Company estimated the fair value of the contingent consideration using a Monte Carlo simulation model. The key assumptions in applying the Monte Carlo simulation model as of September 7, 2018 are as follows: 33.5% volatility and weighted average cost of capital of 14% and related EBITDA forecasts of the acquired businesses for the twelve months ended December 31, 2018 and 2019. As of September 30, 2019, the end of the measurement period, a fair value of \$1.0 million was calculated as of the acquisition date.

In June 2019, in conjunction with the Midwest acquisition, there was an amendment to the Transaction Agreement which adjusted certain terms of the related EBITDA target calculation for the 12 months ended December 31, 2019, making it easier to achieve. As part of this amendment, a payment of \$0.3 million was made to certain former shareholders. The fair value of the remaining contingent consideration was updated to \$1.1 million as of June 30, 2019. As of March 31, 2020, the fair value of the contingent consideration was updated to zero, resulting in a \$1.1 million benefit which is included in sales, general and administrative expenses for the nine months ended March 31, 2020.

The ultimate payout of the contingent consideration will be based on actual results achieved. The Company determined that the EBITDA achieved, as adjusted per terms of the contract, for the 12 months ended December 31, 2018 and 2019 was below the earnout threshold for payout. Final determination is subject to a review process with the sellers, which is expected to be completed during the current fiscal year. A full or partial contingent consideration payment of up to \$2.1 million may be due to the sellers following completion of the review process.

The Company is the owner of approximately 19.5% (or 1,966,667 shares) of the outstanding shares of GECC and values its ownership based on the NASDAQ-listed market price of GECC common stock (a Level 1 input in accordance with the US GAAP fair value hierarchy).

The Company recognizes transfers between levels of the hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred. There were no transfers between levels of the fair value hierarchy during the nine months ended March 31, 2020 and 2019.

See Note 11 - Borrowings for additional discussion related to the fair value of notes payable. The carrying value of all other financial assets and liabilities approximate their fair values.

9. Goodwill and Other Intangible Assets

The Company's investment management and real estate segments include identifiable intangible assets acquired through acquisitions in prior years. In connection with the acquisition of the durable medical equipment businesses, the Company has also recognized goodwill and identifiable intangible assets associated with the tradenames and non-compete agreements. See Note 4 – Acquisition.

Goodwill of \$50.4 million presented on the condensed consolidated balance sheet consists only of the goodwill acquired as part of the acquisitions of the durable medical equipment businesses in September 2018 and June 2019. See Note 4 – Acquisition for additional details.

The changes in the carrying value of goodwill are as follows:

<i>(in thousands)</i>	
Balance, June 30, 2019	\$ 50,397
Purchase accounting adjustment	36
Balance, March 31, 2020	<u>\$ 50,433</u>

The Company's annual impairment assessment date for goodwill is April 1. However, during the quarter ended March 31, 2020, the Company observed significant global market volatility attributable in part to the impacts of the COVID-19 pandemic. The market deterioration of the Company's stock price and other potential impairment triggering events were identified requiring an impairment analysis to be performed on the Company's goodwill and other long-lived assets as of March 31, 2020. Based on the analyses performed, the fair value of the durable medical equipment reporting unit exceeded the carrying value by 10% and no impairment occurred. The fair value of this reporting unit was derived using a combination of present value of estimated cash flows and the valuations and prices of comparable businesses. The discount rate used in this analysis was 15%. Other long-lived assets were assessed for impairment using undiscounted forecasted cash flows, and based on the analyses performed, no impairment occurred.

The following tables provide details associated with the Company's identifiable intangible assets subject to amortization (dollar amounts in thousands):

<i>(in thousands)</i>	As of March 31, 2020			As of June 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Durable Medical Equipment						
Tradename	\$ 8,800	\$ (1,393)	\$ 7,407	\$ 8,800	\$ (733)	\$ 8,067
Non-compete agreements	1,360	(492)	868	1,440	(210)	1,230
	<u>10,160</u>	<u>(1,885)</u>	<u>8,275</u>	<u>10,240</u>	<u>(943)</u>	<u>9,297</u>
Investment Management						
Investment management agreement	3,900	(1,776)	2,124	3,900	(1,336)	2,564
Assembled workforce	526	(240)	286	526	(180)	346
	<u>4,426</u>	<u>(2,016)</u>	<u>2,410</u>	<u>4,426</u>	<u>(1,516)</u>	<u>2,910</u>
Real Estate						
In-place lease	6,028	(1,033)	4,995	6,028	(659)	5,369
Total	<u>\$ 20,614</u>	<u>\$ (4,934)</u>	<u>\$ 15,680</u>	<u>\$ 20,694</u>	<u>\$ (3,118)</u>	<u>\$ 17,576</u>

Aggregate Amortization Expense (in thousands):	2020	2019
For the three months ended March 31,	\$ 574	\$ 546
For the nine months ended March 31,	1,816	1,391

Estimated Future Amortization Expense (in thousands):

For the three months ending June 30, 2020	\$ 868
For the year ending June 30, 2021	2,156
For the year ending June 30, 2022	2,019
For the year ending June 30, 2023	1,888
For the year ending June 30, 2024	1,697
Thereafter	7,052

10. Lessee Operating Leases

All of the Company's leases are operating leases. Certain of the leases have both lease and non-lease components. The Company has elected to account for each separate lease component and the non-lease components associated with that lease component as a single lease component for all classes of underlying assets. The following table provides additional details of the leases presented in the balance sheets:

<i>(in thousands)</i>	March 31, 2020	June 30, 2019
Facilities		
Right of use assets	\$ 5,634	\$ 6,066
Current portion of lease liabilities	1,550	1,371
Lease liabilities, net of current portion	4,376	4,989
Total liabilities	\$ 5,926	\$ 6,360
Weighted-average remaining life	4.0 years	4.4 years
Weighted-average discount rate	11.7%	11.7%
Vehicles		
Right of use assets	\$ 66	\$ 80
Current portion of lease liabilities	20	18
Lease liabilities, net of current portion	46	62
Total liabilities	\$ 66	\$ 80
Weighted-average remaining life	2.9 years	3.7 years
Weighted-average discount rate	12.3%	12.3%
Equipment		
Right of use assets	\$ 75	\$ 93
Current portion of lease liabilities	38	34
Lease liabilities, net of current portion	38	59
Total liabilities	\$ 76	\$ 93
Weighted-average remaining life	2.1 years	2.6 years
Weighted-average discount rate	12.5%	12.5%

As of March 31, 2020, the Company had remaining right of use assets of \$5.8 million and lease liabilities of \$6.1 million (consisting of \$1.6 million in current portion of lease liabilities and \$4.5 million in lease liabilities, net of current portion on the condensed consolidated balance sheet) related to the leases discussed herein.

Operating lease costs are included in the operating expense associated with the business segment leasing the asset on the statements of operations and are included in cash flows from operating activities on the statements of cash flows. Certain operating leases include variable lease costs which are not material and are included in operating lease costs. Additional details are presented in the following table:

<i>(in thousands)</i>	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Facilities				
Operating lease cost	\$ 514	\$ 527	\$ 1,561	\$ 1,248
Cash paid for operating leases	524	530	1,535	1,229
Vehicles				
Operating lease cost	\$ 6	\$ 9	\$ 20	\$ 16
Cash paid for operating leases	6	9	20	16
Equipment				
Operating lease cost	\$ 11	\$ 20	\$ 33	\$ 20
Cash paid for operating leases	11	20	33	20

The following table summarizes the Company's undiscounted cash payment obligations for its operating leases:

<i>(in thousands)</i>	
For the three months ending June 30, 2020	\$ 556
For the year ending June 30, 2021	\$ 2,177
For the year ending June 30, 2022	\$ 1,927
For the year ending June 30, 2023	\$ 1,273
For the year ending June 30, 2024	\$ 897
Thereafter	\$ 778
Total lease payments	\$ 7,608
Imputed interest	(1,540)
Total lease liabilities	\$ 6,068

Durable Medical Equipment

As part of the acquisitions discussed in Note 4 – Acquisition, the Company assumed leases for facilities, vehicles and equipment. Subsequent to the acquisitions, the Company has entered into additional similar leases.

The facility leases include offices, retail and warehouse space and sleep labs. The leases have original or amended terms ranging from 60 to 183 months, some of which include an additional option to extend the lease for up to 180 months. At the date of acquisition, the remaining lease terms ranged from 3 to 96 months. Certain of these leases have variable rental payments tied to a consumer price index or include additional rental payments for maintenance costs, taxes and insurance, which are accounted for as variable rent.

The vehicles leases have original lease terms of 60 months from the commencement date of each lease with no option to extend. Each lease may be terminated by the lessee with 30-days' notice after the first 13 months of the lease subject to certain early termination costs, including residual value guarantees. The lease costs include variable payments for taxes and other fees.

Equipment leases consist of office equipment with original lease terms ranging from 36 to 48 months from the commencement date of each lease and may include an option to extend or purchase at the end of the lease term. Certain of these leases include additional rental costs for taxes, insurance and additional fees in addition to the base rental costs.

Investment Management and General Corporate

The Company entered into a lease for office space located in Waltham, MA. This office space is allocated between the investment management and general corporate segments. On the commencement date of the lease, the non-cancellable term was for eighty-eight months from the occupancy date of June 1, 2017 and contains an option to extend for an additional sixty-month period.

The lease payments commenced on October 1, 2017, four months after the Company began to occupy the space. On an annual basis, the lease payments increase at an average rate of approximately 2.4% from \$28 to \$32 thousand per month.

11. Borrowings

Related party borrowings of the Company's subsidiaries are summarized in the following table:

<i>(in thousands)</i>	Subsidiaries	March 31, 2020	June 30, 2019
Corbel Facility	DME Inc. and subsidiaries	\$ 25,460	\$ 27,584
GP Corp. Note	GECC GP Corp.	3,148	3,148
Total principal		\$ 28,608	\$ 30,732
Unamortized debt issuance cost		(296)	(364)
Total long-term related party notes payable		28,312	30,368
Less current portion of related party notes payable		(1,494)	(2,066)
Related party notes payable, net of current portion		\$ 26,818	\$ 28,302

The Company's subsidiaries' other outstanding borrowings are summarized in the following table:

<i>(in thousands)</i>	Subsidiaries	As of March 31,	
		March 31, 2020	June 30, 2019
DME Revolver	DME Inc. and subsidiaries	\$ 7,900	\$ 7,401
Equipment Financing	DME Inc. and subsidiaries	1,747	1,475
Senior Note	CRIC IT	50,564	52,161
Subordinated Note	CRIC IT	3,664	3,277
Total principal		\$ 63,875	\$ 64,314
Unamortized debt premiums		3,242	3,205
Unamortized debt discounts and issuance costs		(2,029)	(2,250)
Total other outstanding borrowings		65,088	65,269
Less current portion of other outstanding borrowings		(11,700)	(3,530)
Other outstanding borrowings, net of current portion		\$ 53,388	\$ 61,739

All borrowings of the Company's subsidiaries are non-recourse to the Company.

The Company incurred interest expense of \$1.6 million and \$1.7 million related to these borrowings for the three months ended March 31, 2020 and 2019, respectively. The Company incurred interest expense of \$4.9 million and \$4.5 million related to these borrowings for the nine months ended March 31, 2020 and 2019, respectively.

The Company's aggregate future required principal debt repayments are summarized in the following table:

<i>(in thousands)</i>	
For the three months ending June 30, 2020	\$ 2,032
For the year ending June 30, 2021	12,350
For the year ending June 30, 2022	4,000
For the year ending June 30, 2023	4,195
For the year ending June 30, 2024	23,835
Thereafter	58,677
Total	\$ 105,089
Outstanding principal on related party borrowings	\$ 28,608
Outstanding principal on other borrowings	63,875
Future interest to be paid-in-kind	12,606
Total future required principal payments	\$ 105,089

Additional details of each borrowing by operating segment are discussed below.

Durable Medical Equipment

In September 2018, in conjunction with the acquisition of 80.1% of Great Elm DME, Inc., the Company assumed a secured note (**Corbel Facility**) with a principal balance of \$8.5 million, which was amended and increased to \$25 million concurrent with the closing of the acquisition described in Note 4 – Acquisition. In addition, the Company assumed and expanded a revolving line of credit agreement (**DME Revolver**) with a principal balance of \$0.8 million, which was amended and increased to \$6.3 million at the date of acquisition.

The Company amended and borrowed an additional \$3.4 million under the Corbel Facility in June 2019. As of March 31, 2020 the outstanding principal balance was \$25.5 million. The Corbel Facility matures on August 31, 2023, accrues interest at a variable rate of three-month LIBOR plus 10% per annum and is secured by the assets of the durable medical equipment business. At March 31, 2020 the interest rate was 11.5%. The Corbel Facility requires quarterly interest payments and principal payments of \$0.4 million through the maturity date with the final principal balance due at maturity. In addition, beginning with the quarter ending December 31, 2018, the Company is required to make additional quarterly principal payments based on a percentage of excess cash flows generated by the durable medical equipment business operations. The Company has the option to prepay the borrowings outstanding in whole or in part subject to certain prepayment penalties ranging from 1% - 5% of the early payment of the principal, based on the time that the loan has been outstanding through the first five years of the loan.

The Corbel Facility is held by a related party, Corbel, which holds a non-controlling interest in DME Inc. In connection with the issuance of the amended Corbel Facility, the borrowers paid Corbel a one-time structuring fee of \$375,000, which is included in debt issuance costs for the nine months ended March 31, 2019. See Note 5 – Related Party Transactions and Note 14 – Non-Controlling Interests and Preferred Stock of Subsidiary.

DME Inc. is required to pay to Corbel, as agent of the Corbel Facility, a quarterly monitoring fee of \$25,000 while the borrowings remain outstanding. In addition, under certain conditions, if the borrowing is repaid with proceeds of debt in full or in part at any time within the first three years from the date of issuance, the borrower shall pay an additional fee to the agent, ranging from 2.10% to 3.50% depending on the date of repayment based on the period outstanding, of the aggregate repaid principal amount.

Principal payments and interest expense incurred on the Corbel Facility are summarized in the following table:

<i>(in thousands)</i>	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Principal payments	\$ 807	\$ 455	\$ 2,123	\$ 768
Interest expense	793	765	3,251	1,755

The DME Revolver had a balance of \$7.9 million at March 31, 2020 and allows for borrowings up to \$10 million, subject to a fixed percentage of qualifying accounts receivables and inventories related to the durable medical equipment business operations. Borrowings under the line of credit are due on August 30, 2020 and accrue interest at a variable rate of the prime rate plus 0.4% per annum. At March 31, 2020 the interest rate was 4.1%. Interest is payable monthly in arrears. The Company has the option to prepay the borrowings without any penalty. If the DME Revolver is terminated within the first year, a termination fee equal to 3% of the original credit limit will be due. The Company has classified all borrowings under the DME Revolver as current in the condensed consolidated balance sheets based on the maturity date of the facility.

The borrowings under the DME Revolver are collateralized by the assets of the durable medical equipment business and DME Inc. is required to meet certain financial covenants.

The Corbel Facility and DME Revolver each include covenants that restrict DME Inc. business operations to its current business, limit additional indebtedness, liens, asset dispositions and investments, require compliance and maintenance of licenses and government approvals and other customary conditions. Events of default include the failure to pay amounts when due, bankruptcy, or violation of covenants, including a change in control of DME Inc. DME Inc. must also comply with a fixed-charge coverage and leverage ratio financial covenants, which are based in part on the DME Inc. EBITDA levels. Both the Corbel Facility and the DME Revolver are non-recourse to the Company.

Beginning in April 2019, DME Inc's operating subsidiaries also utilize equipment financing debt to fund certain inventory and equipment purchases from suppliers. These equipment financing debt agreements are entered into with 3rd party banks and are generally payable in equal installments over terms of one to three years, depending on the nature of the underlying purchases being financed. The debt is secured by the inventory and equipment, as applicable, of the operating subsidiaries entering into the agreements, and the long-term agreements have implicit interest rates between 7 – 8%. During the three and nine months ended March 31, 2020, the Company financed \$0.4 million and \$1.3 million in inventory and equipment through such financing agreements.

Investment Management

The GP Corp. Note matures in November 2026, accrues interest at a variable rate of three-month LIBOR plus 3.0% per annum and is secured by a profit sharing agreement related to GECC's management of GECC. At March 31, 2020 the interest rate was 4.5%. The GP Corp. Note requires quarterly interest only payments and annual principal payments of \$0.08 million each June 30.

The GP Corp. Note is non-recourse to any of the Company's operations or net assets not related to GECC's management services to GECC. The GP Corp. Note may be prepaid at par value at any time with prior written notice to the holders of the GP Corp. Note. Additionally, GECC GP Corp. is required to prepay the GP Corp. Note upon certain material liquidation transactions including any termination of the Profit Sharing Agreement.

The GP Corp. Note is held by MAST Capital, a related party. Payments and interest expense incurred on the GP Corp. Note are summarized in the following table:

<i>(in thousands)</i>	For the three months ended March 31,		For the nine months ended March 31,	
	2020	2019	2020	2019
Principal payments	\$ -	\$ -	\$ -	\$ -
Interest expense	42	44	130	130

The Company estimated the fair value of the GP Corp. Note as of March 31, 2020 and June 30, 2019, on a non-recurring basis, using Level 3 inputs. As of March 31, 2020 and June 30, 2019, the carrying value of the note approximated the fair value.

Real Estate

In March 2018, in connection with the acquisition of the real estate business, the Company's majority-owned subsidiary, CRIC IT, assumed a senior secured note (**Senior Note**) with a principal balance of \$54.8 million and a subordinated note (**Subordinated Note**) with a principal balance of \$2.7 million at the date of acquisition both due to Wells Fargo Bank Northwest, National as trustee. The Senior Note was recorded at an estimated fair value of \$52.2 million, reflecting a discount of \$2.6 million from the face amount; and the Subordinated Note was recorded at \$5.8 million, reflecting a premium of \$3.1 million. The discount and premium amortize over the life of the notes.

The Senior Note matures on March 15, 2030, accrues interest at a rate of 3.49% per annum and is secured by a first lien mortgage on the Property and an Assignment of Leases and Rents. The Senior Note requires monthly principal and interest payments through the maturity date, with the last payment of \$18.4 million on March 15, 2030. The principal and interest due on the Senior Note may be prepaid at the option of the borrower, based on an amount determined by discounting the remaining principal and interest payments at a rate equal to an applicable premium in excess of a rate corresponding to the specified U.S. Treasury security over the remaining average life of the Senior Note.

The Subordinated Note matures on March 15, 2030, accrues interest at a rate of 15.0% per annum, and is secured by a second lien mortgage on the Property and an Assignment of Leases and Rents. The Subordinated Note is a capital appreciation note, whereby the monthly interest is capitalized to the principal balance and due at maturity. Accordingly, a \$16.3 million payment is due on March 15, 2030. The principal and interest due on the Subordinate Note may be prepaid at the option of the borrower, based on an amount determined by discounting the remaining principal and interest payments at a rate equal to an applicable premium in excess of a rate corresponding to the specified U.S. Treasury security over the remaining average life of the Subordinated Note.

The note agreements include negative covenants that restrict the Property Owner's business operations to ownership and lease of the Property, limit additional indebtedness, require maintenance of insurance and other customary requirements related to the Property. Events of default include non-payment of amounts when due, inability to pay indebtedness or material change in the business operations or financial condition of the Property Owner or the lease tenant that in the Lender's reasonable determination would reasonably be expected to materially impair the value of the Property, prevent timely repayment of the notes or performance of any material obligations under the note and related agreements. The payments under the notes are also guaranteed on a full and several basis by the non-controlling interest holder of the Property Owner. Both the Senior Note and Subordinated Note are non-recourse to the Company, but are secured by the Property, the rights associated with the Leases and the stock owned by the Company in the Property Owner. See Note 7 – Lessor Operating Leases.

Note 12. Convertible Notes

On February 26, 2020, the Company issued Convertible Notes at par with an aggregate principal balance of \$30 million due February 26, 2030 (the **Convertible Notes**) to a consortium of investors, including \$14.1 million issued to certain related parties. Such Convertible Notes issued to related parties include:

- \$7.0 million issued to entities associated with Matthew A. Drapkin, including funds managed by Northern Right Capital Management, L.P, a significant shareholder. Mr. Drapkin, a member of the Company's Board of Directors, is the Chief Executive Officer of Northern Right Capital Management, L.P.
- \$6.4 million issued to entities associated with Jason A. Reese, including funds managed by Imperial Capital Group, LLC, a significant shareholder. Jason A. Reese, who subsequently became Executive co-Chairman of the Company's Board of Directors, is the Chief Executive Officer of Imperial Capital Group, LLC.
- \$0.65 million issued to entities associated with Eric J. Scheyer, who subsequently became a member of the Company's Board of Directors.

The Convertible Notes accrue interest at 5.0% per annum, payable semiannually in arrears on June 30 and December 31, commencing June 30, 2020, in cash or in kind at the option of the Company. Each \$1,000 principal amount of the Convertible Notes are convertible into 288.0018 shares of the Company's common stock, subject to the terms therein, prior to maturity at the option of the holder.

The Company may, subject to compliance with the terms of the Convertible Notes, effect the conversion of some or all of the Convertible Notes into shares of common stock, subject to certain liquidity and pricing requirements, as specified in the Convertible Notes.

The embedded conversion feature in the Convertible Notes qualifies for the scope exception to derivative accounting in ASC Topic 815, *Derivatives and Hedging*, for certain contracts involving a reporting entity's own equity. However, due to a Company option to settle any conversion request by holders prior to July 1, 2020 in either cash or in shares, the conversion option is bifurcated and recorded to additional paid-in-capital within equity, creating a debt discount. In valuing the conversion option, we estimated that the yield on an identical non-convertible instrument would be 12.5%, resulting in a debt discount of \$12.6 million. The Company incurred \$1.0 million in issuance costs, which were allocated ratably between the debt and equity portions of the instrument. Both the debt discount and debt issuance costs are being amortized over the 10-year Convertible Notes term, and are netted with the principal balance within convertible debt on our condensed consolidated balance sheet.

The Company incurred interest expense of \$0.2 million related to the convertible notes for the three months ended March 31, 2020.

13. Stockholders' Equity

Performance Shares (Restricted Stock Awards)

The Company did not grant any performance shares during the three and nine months ended March 31, 2020. As of March 31, 2020, the Company had 732,909 restricted stock awards that carry both performance and service requirements in connection with the formation of the investment management business. The vesting of these awards is subject to a five-year service requirement and an investment management cumulative revenue collection target of \$40 million for the five-year period ended November 3, 2021. Additionally, in September 2017, the Company modified the restricted stock awards to include a provision for changes in control.

The Company estimates that approximately 278,505 of the performance shares are probable of vesting under the performance condition. The Company accounts for forfeitures of the performance shares in the period incurred. There were no forfeitures during the three and nine months ended March 31, 2020.

For the three and nine months ended March 31, 2020, the Company recognized compensation cost totaling a benefit of \$0.6 million. This benefit related to the reversal of previously recognized stock compensation associated with the performance-based awards, due to changes in estimates regarding the amount of shares that will ultimately vest under performance conditions. For the three months ended March 31, 2019, the Company recognized compensation cost totaling a benefit of \$0.1 million associated with performance-based awards. For the nine months ended March 31, 2019, the Company recognized compensation cost totaling \$0.1 million associated with the performance-based awards.

In addition to the performance shares, the Company has also issued restricted stock to certain of its directors and employees. Such restricted stock is subject to time vesting but no performance-based vesting criteria.

The following table summarizes the Company's restricted stock award activity as of and through March 31, 2020:

Restricted Stock Awards and Restricted Stock Units	Restricted Stock (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2019	782	\$ 3.89
Granted	204	3.62
Vested	(86)	3.40
Forfeited	(12)	3.35
Outstanding at March 31, 2020	888	\$ 3.88

Stock Options

During the nine months ended March 31, 2020, the Company issued 239,523 stock options with an estimated grant date fair value of \$0.4 million. The Company utilizes a Black-Scholes option pricing model to estimate the fair value of its option awards. The assumptions used to value the stock options granted during the nine months ended March 31, 2020 consist of: expected volatility of 49.9% and 58.2%; no expected dividend yields; risk-free rate of 1.54% and 1.90%; and expected term of 4.0 and 6.4 years.

The following table summarizes the Company's option award activity as of and through March 31, 2020:

Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2019	2,656	\$ 4.33	6.49	\$ 1,590
Options granted	240	4.44		
Exercised	-	-		
Forfeited, cancelled or expired	(421)	8.16		
Outstanding at March 31, 2020	2,475	\$ 3.69	5.76	\$ -
Exercisable at March 31, 2020	1,504	\$ 3.60	4.97	\$ -
Vested and expected to vest as of March 31, 2020	2,475	\$ 3.69	5.76	\$ -

During the three months ended March 31, 2020, the Company recognized a net reversal of stock-based compensation associated with all restricted stock and stock options of \$0.3 million. During the nine months ended March 31, 2020, the Company recognized total stock-based compensation associated with all restricted stock and stock options of \$0.2 million.

As of March 31, 2020, unrecognized compensation costs associated with outstanding stock and stock-linked awards totaled approximately \$2.4 million.

14. Non-Controlling Interests and Preferred Stock of Subsidiary

Holders of non-controlling interests (NCI) or preferred stock in a subsidiary of the Company hold certain rights, which result in the classification of the securities as either liability, temporary equity or permanent equity. The following table summarizes the non-controlling interest and preferred stock of subsidiary balances on the condensed consolidated balance sheets:

<i>(in thousands)</i>	<u>March 31, 2020</u>	<u>June 30, 2019</u>
DME Inc.		
NCI classified as temporary equity	3,615	3,912
NCI classified as permanent equity	3,615	3,912
Total DME Inc.	7,230	7,824
GECC GP Corp.		
NCI classified as permanent equity	(748)	(626)
GE FM Holdings		
NCI classified as permanent equity	770	730
Total	<u>\$ 7,252</u>	<u>\$ 7,928</u>

The following table summarizes the net income (loss) attributable to the non-controlling interests on the condensed consolidated statements of operations:

<i>(in thousands)</i>	<u>For the three months ended March 31,</u>		<u>For the nine months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
DME Holdings				
Preferred stock classified as liability		\$ -	\$ -	\$ -
DME Inc.				
NCI classified as temporary equity	(139)	1	(297)	59
NCI classified as permanent equity	(139)	1	(297)	59
Total DME Inc.	(278)	2	(594)	117
GECC GP Corp.				
NCI classified as permanent equity	(37)	(46)	(122)	(116)
GE FM Holdings				
NCI classified as permanent equity	14	9	40	29
Total	<u>\$ (301)</u>	<u>\$ (35)</u>	<u>\$ (676)</u>	<u>\$ 30</u>

Preferred stock in DME Holdings classified as liability

In connection with the acquisition of the acquired businesses on September 7, 2018, the Company issued 5,266 shares of preferred stock in DME Holdings valued at \$1,000 per share at issuance. In January 2019, as a result of adjustments to the net working capital adjustment to the total consideration for the acquisition, 214 shares of preferred stock were cancelled and forfeited. The Company redeemed 1,500 shares of preferred stock in March 2019 and the remaining 3,552 shares of preferred stock were redeemed in June 2019. As of March 31, 2020 and June 30, 2019, there were no shares of preferred stock in DME Holdings outstanding.

Non-controlling interest in DME Inc. classified as temporary equity

In connection with the acquisition of the acquired businesses on September 7, 2018, the Company issued a 9.95% common stock equity ownership in DME Inc. The holder of the interest has a board observer rights for the DME Inc. board of directors, but no voting rights. DME Inc. has the right of first offer if the holder desires to sell the security and in the event of a sale of DME Inc., the holder must sell their securities (drag along rights) and has the right to participate in sales of DME Inc. securities (tag along rights). In addition, upon the seventh anniversary of issuance date, if (i) the holder owns 50% of the common shares issued to it at the closing of the transaction, (ii) an initial public offering of DME Inc. has not commenced and (iii) the holder has not had an earlier opportunity to sell its shares at their fair market value, the holder has the right to request a marketing process for a sale of DME Inc. and has the right to put its common shares to DME Inc. at the price for such shares implied by such marketing process. The Company also has the right to call the holder's common shares at such price. The holder of the non-controlling interest is entitled to participate in earnings of DME Inc. and is not required to fund losses. As the redemption is contingent upon future events outside of the Company's control which are not probable, the Company has classified the non-controlling interest as temporary equity and its fair value on the date of issuance, adjusted for any earnings in DME Inc.

The holder of this non-controlling interest, Corbel, is also the holder of the Corbel Facility and was the holder of the preferred stock in DME Holdings discussed above. See Note 5 – Related Party Transactions and Note 11 – Borrowings.

Non-controlling interest in DME Inc. classified as permanent equity

In connection with the acquisition of the acquired businesses on September 7, 2018, the Company issued one of the former owners, a 9.95% common stock equity ownership in DME Inc. The rights are consistent with the non-controlling interest classified as temporary equity, other than the holder does not have a contingent put right. Accordingly, Company has classified the non-controlling interest as permanent equity at its fair value on the date of issuance, adjusted for any earnings in DME Inc.

GECC GP Corp. – Non-controlling interest classified as permanent equity

In September 2017, the Company eliminated the vesting provisions and removed the call rights for the GECC GP Corp. stock owned by employees of the Company. As a result of the elimination, the Company recognized stock-based compensation expense of \$1.5 million, equal to the estimated fair value of the non-controlling interest held by our employees in GECC GP Corp.

GE FM Holdings – Non-controlling interest classified as permanent equity

In connection with the acquisition of the real estate business in March 2018, the Company issued the former owner a 19.9% interest in GE FM Holdings.

15. Income Tax

As of June 30, 2019, the Company had net operating loss (NOL) carryforwards for federal and state income tax purposes of approximately \$1.6 billion and \$199 million, respectively. The federal NOL carryforwards generated prior to fiscal year 2018 will expire from 2020 through 2037. The federal NOL carryforwards generated in fiscal year 2018 or later can be carried forward indefinitely. The state NOL carryforwards will expire from 2029 through 2037. The Company assesses NOL carryforwards based on taxable income on an annual basis.

In light of the Company's history of cumulative operating losses, the Company recorded a valuation allowance for all of its federal and state deferred tax assets, as it is presently unable to conclude that it is more likely than not that the federal and state deferred tax assets in excess of deferred tax liabilities will be realized.

16. Segment Information

The Company allocates resources based on four operating segments: durable medical equipment, investment management, real estate and general corporate.

The following tables illustrate results of operations by segment:

	For the three months ended March 31, 2020					
<i>(in thousands)</i>	Durable Medical Equipment	Investment Management	Real Estate	General Corporate	Reconciliation to Consolidated Total ⁽¹⁾	Consolidated Total
Revenue:						
Total revenue	\$ 14,131	\$ 829	\$ 1,276	\$ 34	\$ (34)	\$ 16,236
Operating costs and expenses:						
Cost of durable medical equipment sold and services	(3,966)	-	-	-	-	(3,966)
Cost of durable medical equipment rentals	(2,072)	-	-	-	-	(2,072)
Depreciation and amortization	(472)	(150)	(430)	(1)	-	(1,053)
Stock-based compensation ⁽²⁾	-	373	-	(106)	-	267
Transaction costs ⁽³⁾	-	-	-	(286)	-	(286)
Other selling, general and administrative	(8,113)	(522)	(125)	(1,409)	34	(10,135)
Total operating expenses	(14,623)	(299)	(555)	(1,802)	34	(17,245)
Other income (expense):						
Interest expense	(906)	(39)	(654)	(155)	-	(1,754)
Other income (expense)	-	-	-	(9,303)	-	(9,303)
Total other expense, net	(906)	(39)	(654)	(9,458)	-	(11,057)
Total pre-tax income (loss) from continuing operations	\$ (1,398)	\$ 491	\$ 67	\$ (11,226)	\$ -	\$ (12,066)

	For the three months ended March 31, 2019					
<i>(in thousands)</i>	Durable Medical Equipment	Investment Management	Real Estate	General Corporate	Reconciliation to Consolidated Total ⁽¹⁾	Consolidated Total
Revenue:						
Total revenue	\$ 11,752	\$ 1,060	\$ 1,272	\$ (5)	\$ 5	\$ 14,084
Operating costs and expenses:						
Cost of durable medical equipment sold and services	(2,633)	-	-	-	-	(2,633)
Cost of durable medical equipment rentals	(1,969)	-	-	-	-	(1,969)
Depreciation and amortization	(371)	(180)	(436)	-	-	(987)
Stock-based compensation ⁽²⁾	-	(19)	-	(83)	-	(102)
Transaction costs ⁽³⁾	(7)	-	-	(75)	-	(82)
Other general and administrative	(5,891)	(977)	(131)	(1,824)	(5)	(8,828)
Total operating expenses	(10,871)	(1,176)	(567)	(1,982)	(5)	(14,601)
Other income (expense):						
Interest expense	(998)	(47)	(667)	-	-	(1,712)
Other income (expense)	(400)	-	-	1,722	-	1,322
Total other expense, net	(1,398)	(47)	(667)	1,722	-	(390)
Total pre-tax income (loss) from continuing operations	\$ (517)	\$ (163)	\$ 38	\$ (265)	\$ -	\$ (907)

For the nine months ended March 31, 2020

<i>(in thousands)</i>	Durable Medical Equipment	Investment Management	Real Estate	General Corporate	Reconciliation to Consolidated Total⁽¹⁾	Consolidated Total
Revenue:						
Total revenue	\$ 41,753	\$ 2,585	3,820	\$ 114	\$ (114)	\$ 48,158
Operating costs and expenses:						
Cost of durable medical equipment sold and services	(11,118)	-	-	-	-	(11,118)
Cost of durable medical equipment rentals	(6,522)	-	-	-	-	(6,522)
Depreciation and amortization	(1,449)	(508)	(1,291)	(2)	-	(3,250)
Stock-based compensation ⁽²⁾	-	100	-	(334)	-	(234)
Transaction costs ⁽³⁾	-	-	-	(863)	-	(863)
Other selling, general and administrative	(22,721)	(1,604)	(375)	(3,738)	114	(28,324)
Total operating expenses	(41,810)	(2,012)	(1,666)	(4,937)	114	(50,311)
Other income (expense):						
Interest expense	(2,839)	(122)	(1,967)	(155)	-	(5,083)
Other income (expense)	3	-	-	(9,995)	-	(9,992)
Total other income (expense), net	(2,836)	(122)	(1,967)	(10,150)	-	(15,075)
Total pre-tax income (loss) from continuing operations	<u>\$ (2,893)</u>	<u>\$ 451</u>	<u>\$ 187</u>	<u>\$ (14,973)</u>	<u>\$ -</u>	<u>\$ (17,228)</u>

For the nine months ended March 31, 2019

<i>(in thousands)</i>	Durable Medical Equipment⁽⁴⁾	Investment Management	Real Estate	General Corporate	Reconciliation to Consolidated Total⁽¹⁾	Consolidated Total
Revenue:						
Total revenue	\$ 28,995	\$ 2,915	\$ 4,188	\$ 65	\$ (65)	\$ 36,098
Operating costs and expenses:						
Cost of durable medical equipment sold and services	(7,122)	-	-	-	-	(7,122)
Cost of durable medical equipment rentals	(4,229)	-	-	-	-	(4,229)
Depreciation and amortization	(774)	(453)	(1,298)	-	-	(2,525)
Stock-based compensation ⁽²⁾	-	(601)	-	(343)	-	(944)
Transaction costs ⁽³⁾	(551)	-	-	(1,534)	-	(2,085)
Other selling, general and administrative	(13,665)	(2,585)	(768)	(4,967)	65	(21,920)
Total operating expenses	(26,341)	(3,639)	(2,066)	(6,844)	65	(38,825)
Other income (expense):						
Interest expense	(2,365)	(135)	(1,995)	-	-	(4,495)
Other income (expense)	(380)	-	-	503	-	123
Total other income (expense), net	(2,745)	(135)	(1,995)	503	-	(4,372)
Total pre-tax income (loss) from continuing operations	<u>\$ (91)</u>	<u>\$ (859)</u>	<u>\$ 127</u>	<u>\$ (6,276)</u>	<u>\$ -</u>	<u>\$ (7,099)</u>

- (1) The Company's wholly-owned subsidiary, Great Elm DME Manager, LLC (**DME Manager**), provides advisory services to DME Inc. and receives consulting fee from DME Inc. for those services. DME Manager is considered part of the general corporate segment of the Company. The corresponding expense to DME Inc. and revenue to DME Manager are eliminated in consolidation.
- (2) Stock-based compensation attributable to the investment management segment is included in investment management expenses in the condensed consolidated statements of operations. Stock-based compensation attributable to the general corporate segment is included in selling, general and administrative expense in the condensed consolidated statements of operations.
- (3) Transaction costs, which consist of legal and other professional services incurred in connection with consummated and unconsummated transactions, are included in selling, general and administrative expense in the condensed consolidated statements of operations.
- (4) Our durable medical equipment business began in September 2018 and there was no related activity prior to that date.

The following tables illustrate assets by segment:

As of March 31, 2020					
<i>(in thousands)</i>	Durable Medical Equipment	Investment Management	Real Estate	General Corporate	Total
Fixed assets, net	\$ 10,330	\$ 36	\$ 53,494	\$ 4	\$ 63,864
Identifiable intangible assets, net	8,275	2,410	4,995		15,680
Goodwill	50,433	-	-	-	50,433
Other assets	17,093	2,602	2,084	43,041	64,820
Total	\$ 86,131	\$ 5,048	\$ 60,573	\$ 43,045	\$ 194,797

As of June 30, 2019					
<i>(in thousands)</i>	Durable Medical Equipment	Investment Management	Real Estate	General Corporate	Total
Fixed assets, net	\$ 10,464	\$ 43	\$ 54,411	\$ -	\$ 64,918
Identifiable intangible assets, net	9,297	2,910	5,369	-	17,576
Goodwill	50,397	-	-	-	50,397
Other assets	17,300	3,065	1,534	27,936	49,835
Total	\$ 87,458	\$ 6,018	\$ 61,314	\$ 27,936	\$ 182,726

17. Commitments and Contingencies

From time to time, the Company is involved in lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. The Company maintains insurance to mitigate losses related to certain risks. The Company is not a named party in any other pending or threatened litigation that we expect to have a material adverse impact on our business, results of operations, financial condition or cash flows.

18. Subsequent Events

On March 27, 2020, the President of the United States passed into law the Coronavirus Aid, Relief, and Economic Security Act (**CARES Act**). Section 1102 of the CARES Act, the Paycheck Protection Program Loan (**PPP Loan**) provided additional funding for small businesses, as defined by the Small Business Act, to keep workers employed during through the COVID-19 crisis. In April 2020, our 80.1% owned subsidiary Great Elm DME, Inc. applied for and received \$3.6 million in PPP Loans. These loans accrue interest at 1% per annum, are due April 17, 2022 and uses of proceeds can only be used for specified covered purposes including payroll, rent and utilities in accordance with the CARES Act. To the extent proceeds are used for these covered purposes during the 8-week period following funding, related principal balances are forgiven. The Company intends to use the majority of these proceeds for covered purposes during this 8-week period.

Additionally, under the CARES Act, the U.S. Department of Health and Human Services provided targeted stimulus funding to the healthcare industry. In April 2020, as part of this stimulus, subsidiaries of Great Elm DME Inc. received \$1.4 million in additional provider relief funds (**HHS Funds**) to continue providing health care treatment to patients during the COVID-19 pandemic. The HHS Funds are subject to certain covenants and restrictions, and are subject to recoupment if not used for designated purposes.

We continue to monitor developments on these programs in order to conclude whether such amounts received represent debt or in-substance government grants.

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

Overview

We are a holding company seeking to acquire assets and businesses, where our people and other assets provide a competitive advantage. We currently have four business operating segments: durable medical equipment, investment management, real estate, and general corporate.

In September 2018, we launched our durable medical equipment segment by acquiring two durable medical equipment businesses that specialize in the distribution of respiratory care equipment, including positive air pressure equipment and supplies, ventilators and oxygen equipment, and also provide sleep study services.

Through our investment management business we manage a business development company, Great Elm Capital Corp. (**GECC**), a credit-focused private fund, Great Elm Opportunities Fund I, LP, and separate accounts for an institutional investor. The combined assets under management of these entities at March 31, 2020 was approximately \$202.8 million, down from approximately \$228.8 million as of December 31, 2019. See also “—Results of Operations” for further discussion of the investment management business.

Our real estate business, which we launched in March 2018, has a majority-interest in two Class A office buildings totaling 257,000 square feet situated on 17 acres of land in Fort Myers, Florida (collectively, the **Property**). The Property is fully-leased, on a triple-net basis, to a single tenant through March 31, 2030.

The operations of our general corporate segment encompass our corporate headquarters operations, in addition to management consulting services provided to certain of our subsidiaries.

We continue to explore other opportunities in the durable medical equipment, investment management and real estate sectors, as well as opportunities in other areas that we believe provide attractive risk-adjusted returns on invested capital. As of the date of this report, we have not entered into any binding commitments to make additional acquisitions or investments in any of these areas.

As of June 30, 2019, we had \$1.6 billion of net operating loss (**NOL**) carryforwards for federal income tax purposes.

COVID-19

In the quarter ended March 31, 2020, the Company’s revenues declined relative to its prior expectations in part due to the impact of the Coronavirus Disease 2019 (**COVID-19**) pandemic. During the quarter ended March 31, 2020, the Company experienced a decrease in assets under management in our managed portfolios within the investment management business and observed higher patient cancellation rates for attended sleep studies at DME Inc. The impact of COVID-19 continues to evolve and its duration and ultimate disruption to the Company’s customers and to its operations cannot be estimated at this time. However, the Company expects to experience decreased referrals in the near future due to these factors. Should the disruption continue for an extended period of time, the impact could have a more severe adverse effect on our business and operations

In addition, COVID-19 may impact our ability to act on new acquisitions or other business opportunities.

The Company prioritizes the health and safety of employees and customers. Beginning in early March 2020, all employees at our GEC headquarters as well as certain employees of DME Inc. moved to a remote-working model. In addition, the officers of GEC have maintained regular communications with key service providers, including legal and accounting professionals, other consultants and vendors, noting that those firms have similarly moved to remote-working models to the extent possible. Such employees and key service providers have been able to effectively transition to working remotely while maintaining a consistent level of capabilities and service, however, we will continue to monitor and make adjustments as necessary.

At DME Inc. we invested in virtual patient set-ups which allow our respiratory therapists to interact with patients by video to maintain social distance. Certain other employees whose responsibilities have been impacted by social distancing have been temporarily redeployed within the organization.

We cannot predict the full impact of the COVID-19 pandemic, including its duration in the United States and worldwide and the magnitude of the economic impact of the outbreak, particularly with respect to the travel restrictions, business closures and other quarantine measures imposed on our employees, suppliers and service providers by various local, state, and federal governmental authorities, as well as non-U.S. governmental authorities. As such, we are unable to predict the duration of any business and supply-chain disruptions, the extent to which the COVID-19 pandemic will negatively affect our operating companies' operating results or the impact that such disruptions may have on our results of operations and financial condition.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (**US GAAP**). The preparation of these financial statements requires our management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are monitored and analyzed by our management for changes in facts and circumstances, and material changes in these estimates could occur in the future. During the nine months ended March 31, 2020, we did not make material changes in our critical accounting policies or underlying assumptions as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 as it relates to recurring transactions.

Results of Operations

The following discussion reflects the historical performance of our four business operating segments. The durable medical equipment segment commenced operations in September 2018 and thus the results of operations for this segment for the nine months ended March 31, 2020 presented are not comparable to the corresponding period ended March 31, 2019. We expect that our results of operations in future periods will be adversely impacted by the COVID-19 outbreak and its negative effects on the global economic conditions.

The following table provides the results of our consolidated operations for the three and nine months ended March 31, 2020 and 2019:

<i>(in thousands)</i>	For the three months ended March 31,			For the nine months ended March 31,		
	2020	Percent Change	2019	2020	Percent Change	2019
Revenue:						
Total revenue	\$ 16,236	15%	\$ 14,084	\$ 48,158	33%	\$ 36,098
Operating costs and expenses:						
Cost of goods sold	(3,966)	51%	(2,633)	(11,118)	56%	(7,122)
Cost of rentals	(2,072)	5%	(1,969)	(6,522)	54%	(4,229)
Other selling, general and administrative	(10,154)	13%	(9,012)	(29,421)	18%	(24,949)
Depreciation and amortization	(1,053)	7%	(987)	(3,250)	29%	(2,525)
Total operating expenses	(17,245)		(14,601)	(50,311)		(38,825)
Operating income (loss)	(1,009)		(517)	(2,153)		(2,727)
Other income (expense):						
Interest expense	(1,754)	2%	(1,712)	(5,083)	13%	(4,495)
Other income (expense)	(9,303)	(804)%	1,322	(9,992)	(8224)%	123
Total other expense, net	(11,057)		(390)	(15,075)		(4,372)
Total pre-tax income (loss) from continuing operations	\$ (12,066)		\$ (907)	\$ (17,228)		\$ (7,099)

Revenue

For the three and nine months ended March 31, 2020, revenues included \$14.1 million and \$41.8 million, respectively, from the durable medical equipment businesses, \$0.8 million and \$2.6 million, respectively, from the investment management business, and \$1.3 million and \$3.8 million, respectively, from the real estate business. For the three and nine months ended March 31, 2019, revenues included \$11.8 million and \$29.0 million, respectively, from the durable medical equipment businesses, \$2.6 million and \$2.9 million, respectively, from the investment management business, and \$1.3 million and \$4.2 million, respectively, from the real estate business.

The increases in revenues for the three and nine months ended March 31, 2020 as compared to the corresponding periods in the prior year are primarily attributable to growth in the durable medical equipment businesses which is partially offset in the nine month comparison by decreases in the real estate business resulting from the adoption of a new accounting standard. This adoption impacted the accounting recognition related to certain rental revenues effective January 1, 2019. Although we saw a decline in DME sleep services revenue in March, that did not have a material impact on revenue year over year.

Operating costs and expenses

The increase in operating costs for the three and nine months ended March 31, 2020, as compared to the three and nine months ended March 31, 2019, is primarily attributable to the additional costs associated with the durable medical equipment business, including cost of goods sold and cost of rentals, as well as the general and administrative costs of the durable medical equipment business, depreciation on fixed assets and amortization of the intangible assets associated with the durable medical equipment business. The increase in costs are primarily due to increase in topline sales, along with increase in expenses to enhance scalability of the durable medical equipment business.

Other income (expense)

Interest expense decreased for the three months ended March 31, 2020, as compared to the three months ended March 31, 2019 due to the redemption of the 10% preferred stock of DME Holdings, Inc. in June 2019, resulting in no related interest expensed in the current period, however this was partially offset by interest expense for the 5.0% Convertible Senior PIK Notes due 2030 (the **Convertible Notes**) which were issued in February 2020. Interest expense increased for the nine months ended March 31, 2020, as compared to the nine months ended March 31, 2019, due to the fact that borrowings related to our acquisition of the durable medical equipment business were not outstanding until September 2018, along with interest expense for the Convertible Notes which were issued in February 2020. Other income and expense consisted of dividend income and unrealized gains or losses on the Company's investment in GECC and interest income earned on cash balances. The period over period decrease in net other expense is primarily attributable to changes in unrealized losses on the Company's investment in GECC, which is discussed under "—General Corporate" below.

Durable Medical Equipment Business

The key metrics of our durable medical equipment business include:

- Patients and setup growth – which drives revenue growth and takes advantage of scalable operations
- Earnings before interest, taxes, depreciation and amortization (EBITDA)

The following table provides the results of our durable medical equipment business for the three months ended March 31, 2020 and 2019 and for nine months ended March 31, 2020 and the period from the inception of the durable medical equipment business on September 7, 2018 to March 31, 2019 (the **inception period**).

<i>(in thousands)</i>	For the three months ended March 31,			For the nine months ended March 31,		
	2020	Percent Change	2019	2020	Percent Change	2019
Revenue:						
Total revenue	\$ 14,131	20%	\$ 11,752	\$ 41,753	44%	\$ 28,995
Operating costs and expenses:						
Cost of goods sold	(3,966)	51%	(2,633)	(11,118)	56%	(7,122)
Cost of rentals	(2,072)	5%	(1,969)	(6,522)	54%	(4,229)
Transaction costs	-	(100)%	(7)	-	(100)%	(551)
Other selling, general and administrative	(8,113)	38%	(5,891)	(22,721)	66%	(13,665)
Stock-based compensation	-		-	-		-
Depreciation and amortization	(472)	27%	(371)	(1,449)	87%	(774)
Total operating expenses	(14,623)		(10,871)	(41,810)		(26,341)
Other income (expense):						
Interest expense	(906)	9%	(998)	(2,839)	20%	(2,365)
Other income (expense)	-	-%	(400)	3	(101)%	(380)
Total other expense, net	(906)		(1,398)	(2,836)		(2,745)
Operating income (loss):						
Total pre-tax income (loss) from continuing operations	\$ (1,398)		\$ (517)	\$ (2,893)		\$ (91)

Durable Medical Equipment Revenue

Durable medical equipment revenues include revenue from the sale of medical equipment, sleep study services and medical equipment rentals. For the three months ended March 31, 2020, revenues from the sale of medical equipment and sleep study services were \$7.5 million and \$1.4 million, respectively, compared with the three months ended March 31, 2019, for which such revenues were \$6.0 million and \$1.4 million, respectively. The increase in sale of medical equipment were due to organic growth within the segment and the asset acquisition in June 2019. For the nine months ended March 31, 2020, revenues from the sale of medical equipment and sleep study services were \$21.5 million and \$4.2 million respectively, while for the inception period ended March 31, 2019 such revenues were \$15.8 million and \$3.4 million, respectively. The increases for the nine months ended March 31, 2020 as compared to the inception period ended March 31, 2019 are primarily attributable to the acquisition of the durable medical equipment businesses in September 2018 resulting in a shorter period in the prior year.

Revenue from medical equipment rentals was \$5.2 million for the three months ended March 31, 2020 as compared to \$4.4 million for the nine months ended March 31, 2019, with the increase attributable to higher volumes of patient setups, as well as the expansion resulting from the acquisition of Midwest Respiratory Care, Inc. (**Midwest**). For the nine months ended March 31, 2020, rental revenue was \$16.0 million as compared to \$9.8 million for the corresponding period in the prior year due to the shorter period in the prior year, along with incremental revenue from increases in patient setups and the acquisition of Midwest.

Due to the recent outbreak of COVID-19, we have seen a decline in our sleep study services related to increased patient cancellations of attended sleep studies towards the end of the most recent quarter. Though this did not have a material impact on total revenues for the three and nine months ended March 31, 2020, we expect this decline in referrals to continue into future periods as some local governments have issued advisories or regulations limiting certain non-essential business operations.

In addition, a portion of our equipment sales and rentals, are dependent on the availability and accessibility of primary physicians to patients. If patients are unable to access their physicians it may negatively impact our referrals for new patient set-ups.

Durable Medical Equipment Costs and Expenses

Cost of goods sold includes inventory costs for medical equipment sold and direct costs associated with running sleep study services, including staff compensation to perform the studies and the purchase of supplies used in the studies. Cost of rentals includes depreciation on medical equipment held for lease and costs related to maintenance expenses. The changes in these costs for the three and nine months ended March 31, 2020 as compared to the corresponding periods in the prior year are consistent with the changes in the related revenues and sales volumes.

General and administrative expenses primarily consist of payroll related costs, facility expenses, including lease costs, and professional fees. For the three months ended March 31, 2020 and 2019, payroll related costs were \$5.0 million and \$4.3 million, respectively, facility expenses were \$0.9 million and \$0.9 million, respectively, and professional fees were \$1.0 million and \$0.1 million, respectively. The increases in payroll related costs is due to growth in the business and additional employee hires. The increase in professional fees is largely attributable to consulting costs and investments in technology to integrate the durable medical equipment business into the Company and prepare for future growth and scalability.

For the nine months ended March 31, 2020 and the inception period ended March 31, 2019, payroll related costs were \$9.8 million and \$5.6 million respectively, facility expenses were \$1.9 million and \$1.0 million, respectively, and professional fees were \$1.3 million and \$0.1 million, respectively. In addition to the factors discussed above, increases in expenses for the nine months ended March 31, 2020 as compared to the inception period ended March 31, 2019 are primarily attributable to having a longer period in the current period whereas the inception period was of limited duration.

Transaction costs decreased for the nine months ended March 31, 2020 as compared to the inception period ended March 31, 2019 as they primarily relate to one-time expenses incurred in the period of acquisition.

Depreciation and amortization includes the depreciation of fixed assets, excluding depreciation on the equipment held for rental, which is included in the cost of rentals, and amortization of the intangible assets resulting from the acquisition of the durable medical equipment businesses. The increase in depreciation and amortization for the three months ended March 31, 2020 as compared to the corresponding period in the prior year was primarily driven by increases in leasehold improvements and sleep study equipment in existing locations as well as the acquisition of Midwest. In addition to the factors discussed above, the increase in depreciation and amortization for the nine months ended March 31, 2020 as compared to the inception period ended March 31, 2019 are primarily attributable to having a longer period in the current period whereas the inception period was of limited duration.

Investment Management Business

The key metrics of our investment management business are:

- Assets under management — which provides the basis on which our management fees and performance milestones for vesting of certain equity awards are based; and
- Investment performance — on which our incentive fees (if any) are based and on which we are measured against our competition.

The following table provides the results of our investment management business for the three and nine months ended March 31, 2020 and 2019.

<i>(in thousands)</i>	For the three months ended March 31,			For the nine months ended March 31,		
	2020	Percent Change	2019	2020	Percent Change	2019
Revenue:						
Total revenue	\$ 829	(22)%	\$ 1,060	\$ 2,585	(11)%	\$ 2,915
Operating costs and expenses:						
Stock-based compensation	373	(2063)%	(19)	100	(117)%	(601)
Consulting agreement	-	(100)%	(296)	(285)	(51)%	(580)
Other general and administrative	(522)	(23)%	(681)	(1,319)	(34)%	(2,005)
Depreciation and amortization	(150)	(17)%	(180)	(508)	12%	(453)
Total operating expenses	(299)		(1,176)	(2,012)		(3,639)
Other income (expense):						
Interest expense	(39)	(17)%	(47)	(122)	(10)%	(135)
Other income (expense)	-	-%	-	-	-%	-
Total other expense, net	(39)		(47)	(122)		(135)
Operating income (loss):						
Total pre-tax income (loss) from continuing operations	\$ 491		\$ (163)	\$ 451		\$ (859)

Investment Management Revenue

Investment management revenues include management fees and administrative fees. For the three months ended March 31, 2020 and 2019, management fees were \$0.7 million and \$0.7 million, respectively, and administrative fees were \$0.1 million and \$0.4 million, respectively. For the nine months ended March 31, 2020 and 2019, management fees were \$2.2 million and \$2.2 million, respectively, and administrative fees were \$0.4 million and \$0.7 million, respectively.

The decrease in administration fee revenue for the three and nine months ended March 31, 2020 as compared to the administration fee revenue for the corresponding periods in the prior year is primarily due to lower allocations of overhead costs as a result of internal restructuring in January 2019.

Though management fee revenue remained consistent for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019, we expect that such fees may be impacted by the COVID-19 pandemic resulting in decreased revenues going forward. Assets under management was approximately \$202.8 million as of March 31, 2020, down from approximately \$228.8 million as of December 31, 2019. The decrease in net assets was largely due to the immediate adverse economic effects of the COVID-19 pandemic and the continuing uncertainty around its long-term impact, as well as the re-pricing of credit risk in the broadly syndicated credit market. Portfolio companies of GECC have and may continue to experience disruptions in their business operations and supply-chains. As a result, these companies may experience financial distress and possibly default on financial obligations or significantly curtail business operations which may further impair their business on a permanent basis. As the duration of the COVID-19 pandemic and resulting economic effects is uncertain, we cannot fully predict the impact to our asset-based fee revenue in future periods.

Investment Management Costs and Expenses

Stock-based compensation decreased by approximately \$0.4 million for the three months ended March 31, 2020, as compared to the three months ended March 31, 2019 in connection with updated estimates related to performance-based awards, which were awarded in connection with internal restructuring in September 2017. The decrease in stock-based compensation for the nine months ended March 31, 2020 as compared to the nine months ended March 31, 2019 also reflects the impact of updated estimates related to these performance-based awards.

Costs associated with the consulting agreement decreased for the three and nine months ended March 31, 2020 as compared to the corresponding periods in the prior year due to the expiration of the contractual arrangement in November 2019.

The decrease in general and administrative costs for the nine months ended March 31, 2020 as compared to the nine months ended March 31, 2019 is primarily attributable to the increased allocation of overhead costs, including payroll-related costs, to the general corporate segment in connection with the acquisition of the durable medical equipment businesses in September 2018, thus reducing the allocation to the investment management segment. In addition, the three months ended March 31, 2019 includes certain onetime expenses related to internal restructuring that did not recur during the three months ended March 31, 2020.

Real Estate Business

The key metrics of our real estate business include rental revenues, depreciation on rental properties and interest expense on the related debt.

The following table provides the results of our real estate business for the three and nine months ended March 31, 2020 and 2019.

(in thousands)	For the three months ended March 31,			For the nine months ended March 31,		
	2020	Percent Change	2019	2020	Percent Change	2019
Revenue:						
Total revenue	\$ 1,276	0%	\$ 1,272	\$ 3,820	(9)%	\$ 4,188
Operating costs and expenses:						
General and administrative	(125)	(5)%	(131)	(375)	(51)%	(768)
Depreciation and amortization	(430)	(1)%	(436)	(1,291)	(1)%	(1,298)
Total operating expenses	(555)		(567)	(1,666)		(2,066)
Other income (expense):						
Interest expense	(654)	(2)%	(667)	(1,967)	(1)%	(1,995)
Other income (expense)	-	-%	-	-	-%	-
Total other expense, net	(654)		(667)	(1,967)		(1,995)
Operating income (loss):						
Total pre-tax income (loss) from continuing operations	<u>\$ 67</u>		<u>\$ 38</u>	<u>\$ 187</u>		<u>\$ 127</u>

Real Estate Revenue

Real estate rental revenue for the three and nine months ended March 31, 2020 decreased as compared to the three and nine months ended March 31, 2019 as a result of the adoption of updated lease accounting guidance, which excludes from revenue and the corresponding real estate expenses any lessor costs paid directly to third parties by the lessee.

Real Estate Costs and Expenses

General and administrative costs primarily consisted of management fees, insurance, real estate taxes and state sales tax expense. The decrease in general and administrative costs for the three and nine months ended March 31, 2020 as compared to the three and nine months ended March 31, 2019 is primarily due to the adoption of updated lease accounting guidance, which excludes from revenue and the corresponding real estate expenses any lessor costs paid directly to third parties by the lessee.

General Corporate

The following table provides the results of our general corporate activities for the three and nine months ended March 31, 2020 and 2019.

(in thousands)	For the three months ended March 31,			For the nine months ended March 31,		
	2020	Percent Change	2019	2020	Percent Change	2019
Revenue:						
Total revenue	\$ 34	780%	\$ (5)	\$ 114	75%	\$ 65
Operating costs and expenses:						
Stock-based compensation	(106)	28%	(83)	(334)	(3)%	(343)
Transaction costs	(286)	281%	(75)	(863)	(44)%	(1,534)
Other general and administrative	(1,409)	(23)%	(1,824)	(3,738)	(25)%	(4,967)
Depreciation and amortization	(1)	-%	-	(2)	-%	-
Total operating expenses	(1,802)		(1,982)	(4,937)		(6,844)
Other income (expense):						
Interest expense	(155)	-%	-	(155)	-%	-
Other income (expense)	(9,303)	640%	1,722	(9,995)	(2087)%	503
Total other income (expense), net	(9,458)		1,722	(10,150)		503
Operating income (loss):						
Total pre-tax income (loss) from continuing operations	\$ (11,226)		\$ (265)	\$ (14,973)		\$ (6,276)

General Corporate Revenue

For the three and nine months ended March 31, 2020 and 2019, all revenue was derived from fees earned by DME Manager, which provides consulting services to Great Elm DME, Inc. (**DME Inc.**) Both DME Manager and DME Inc. were formed in connection with the acquisition of the durable medical equipment businesses in September 2018 and there was no corresponding activity prior to this acquisition.

Revenues for the three and nine months ended March 31, 2020 increased as compared to the corresponding periods in the prior year due to stronger adjusted EBITDA results, the metric on which the fee is based, for the durable medical equipment business in the same periods.

General Corporate Costs and Expenses

Our general and administrative costs primarily consisted of professional fees and payroll costs in connection with our general corporate oversight of our subsidiaries and diligence efforts towards identifying asset and business acquisition opportunities. The decrease in general and administrative costs for the nine months ended March 31, 2020 as compared to the nine months ended March 31, 2019 is primarily due to the \$1.1 million decrease in the fair value of the contingent consideration during the nine months ended March 31, 2020. In addition, general and administrative costs for the three and nine months ended March 31, 2019, include one-time costs related to internal restructuring which occurred during January 2019.

Transaction costs primarily consist of professional fees in connection with our acquisitions of assets and businesses, as well as diligence for potential future opportunities. The decrease in transaction costs for the nine months ended March 31, 2020 as compared to the nine months ended March 31, 2019 is attributable to the one-time costs incurred in connection with the acquisition of the durable medical equipment businesses in September 2018. The increase in transaction costs for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019 is primarily related to our ongoing diligence of potential business opportunities.

Interest expense for the three and nine months ended March 31, 2020 consists of interest on the Convertible Notes which were issued in February 2020. There is no corresponding debt or related interest expense for the three and nine months ended March 31, 2019.

Other Income (Expense)

Other income (expense) primarily consists of dividends and unrealized gains or losses on the Company's investment in GECC and interest income earned on cash balances. The decreases in other income (expense) is primarily driven by fluctuations in the fair value of the investment in GECC, which resulted in unrealized losses of \$9.8 million and \$11.6 million for the three and nine months ended March 31, 2020, respectively, as compared to unrealized gain of \$0.8 million and unrealized loss of \$1.9 million for the three and nine months ended March 31, 2019, respectively.

Income Taxes

As of June 30, 2019, the Company had NOL carryforwards for federal and state income tax purposes of approximately \$1.6 billion and \$199 million, respectively. The federal NOL carryforwards generated prior to fiscal year 2018 will expire from 2020 through 2037. The federal NOL carryforwards generated in fiscal year 2018 or later can be carried forward indefinitely. The state NOL carryforwards will expire from 2029 through 2037. The Company assesses NOL carryforwards based on taxable income on an annual basis.

The Company's tax provision benefit for the nine months ended March 31, 2020 is immaterial and primarily relates to provision to return adjustments recorded during the current quarter.

Liquidity and Capital Resources

Cash Flows

Operating cash flows provided by continuing operations for the nine months ended March 31, 2020 were \$4.6 million. The net cash inflow in our continuing operations was primarily the result of our net loss of \$17.2 million offset by non-cash charges of \$21.7 million. Additional net cash inflows from operations are attributable to an increase of \$3.5 million in accounts payable, accrued liabilities and other liabilities partially offset by outflows due to decreases of \$1.1 million and \$0.8 million related to operating leases and related party payables, respectively. The fluctuations in these accounts are due to the timing of cash payments and cash receipts in the normal course of business.

Operating cash flows provided by continuing operations for the nine months ended March 31, 2019 were \$1.3 million, which includes a gain of \$3.8 million from discontinued operations. The net cash inflow in our continuing operations was primarily the result of our net loss of \$2.1 million offset by non-cash charges of \$10.3 million. Additional net cash outflows from operations are attributable to increases in accounts receivable and related party receivable which are partially offset by increases in accounts payable, accrued liabilities and other liabilities. The fluctuations in these accounts are due to the timing of cash payments and cash receipts in the normal course of business.

Investing cash flows used in continuing operations for the nine months ended March 31, 2020 were \$4.5 million. The net cash outflow primarily consisted of \$3.5 million in purchases of equipment for rental partially offset by proceeds from sale of equipment held for rental and disposal of property and equipment.

Investing cash flows used in continuing operations for the nine months ended March 31, 2019 were \$46.9 million. The net cash outflow primarily consisted of \$41.8 million used in our acquisition of the durable medical equipment businesses in September 2018 and an additional \$4.4 million used in subsequent purchases of equipment for rental.

Financing cash flows used in continuing operations for the nine months ended March 31, 2020 were \$26.7 million which primarily consisted of issuance of Convertible Notes during February 2020, offset by principal payments on long term debt, related party notes payable and our revolving line of credit.

Financing cash flows provided by continuing operations for the nine months ended March 31, 2019 were \$20.0 million. Approximately \$16.1 million and \$5.5 million was provided by net proceeds on the note payable from a seller and a revolving line of credit, respectively, established with the acquisition of the durable medical equipment businesses. Subsequent to the acquisition, an additional \$0.7 million in cash proceeds was drawn from the revolving line of credit. During the nine months ended March 31, 2019 principal payments of \$2.3 million were made on long-term debt and related party notes payable. An additional \$1.4 million was provided by the exercise of warrants by MAST Capital in July 2018.

On March 27, 2020, the President of the United States passed into law the Coronavirus Aid, Relief, and Economic Security Act (**CARES Act**). Section 1102 of the CARES Act, the Paycheck Protection Program Loan (**PPP Loan**) provided additional funding for small businesses, as defined by the Small Business Act, to keep workers employed during through the COVID-19 crisis. In April 2020, our 80.1% owned subsidiary Great Elm DME, Inc. applied for and received \$3.6 million in PPP Loans. These loans accrue interest at 1% per annum, are due April 17, 2022 and uses of proceeds can only be used for specified covered purposes including payroll, rent and utilities in accordance with the CARES Act. To the extent proceeds are used for these covered purposes during the 8-week period following funding, related principal balances are forgiven. The Company intends to use the majority of these proceeds for covered purposes during this 8-week period.

Additionally, under the CARES Act, the U.S. Department of Health and Human Services provided targeted stimulus funding to the healthcare industry. In April 2020, as part of this stimulus, subsidiaries of Great Elm DME Inc. received \$1.4 million in additional provider relief funds (**HHS Funds**) to continue providing health care treatment to patients during the COVID-19 pandemic. The HHS Funds are subject to certain covenants and restrictions and are subject to recoupment if not used for designated purposes. However, no assurance is provided that the Company will obtain forgiveness of the HHS Funds in whole or in part. We continue to monitor developments on these programs in order to conclude whether such amounts received represent debt or in-substance government grants.

Financial Condition

As of March 31, 2020, we had an unrestricted cash balance of \$38.7 million. We also beneficially own 1,966,667 shares of GECC common stock with an estimated fair value of \$5.5 million as of March 31, 2020.

We intend to make acquisitions or investments that we believe will result in the investment of all of our liquid financial resources, to issue equity securities and to incur indebtedness. If we are unsuccessful at raising additional capital resources, through either debt or equity, it is unlikely we will be able execute our strategic growth plan.

Borrowings

As of March 31, 2020, the Company has \$30.0 million face value in Convertible Notes outstanding. The Convertible Notes are held by a consortium of investors, including related parties.

The Convertible Notes accrue interest at 5.0% per annum, payable semiannually in arrears on June 30 and December 31, in cash or in kind at the option of the Company.

The Convertible Notes are due on February 26, 2030, but are convertible at the option of the holders, subject to the terms therein, prior to maturity into shares of our common stock.

As of March 31, 2020, the Company has a note due to a non-controlling interest holder of DME Inc., Corbel Capital Partners SBIC, L.P. (**Corbel**), totaling \$25.5 million that accrues interest at a rate of three-month LIBOR plus 10.0% (at March 31, 2020, the effective interest rate was 11.9%) through maturity on August 31, 2023 (the **Corbel Facility**). The Corbel Facility requires quarterly interest payments along with principal payments of \$0.4 million plus an additional amount based on excess cash flows, if any, generated by the durable medical equipment business operations. The Corbel Facility is secured by all of the assets of the durable medical equipment business.

The Company has the option to prepay the borrowings outstanding under the Corbel Facility in whole or in part subject to certain prepayment penalties ranging from 1.0% - 5.0% of the early payment of the principal, based on the time that the Corbel Facility has been outstanding through the first five years of the loan.

DME Inc. is required to pay to Corbel, as agent of the Corbel Facility, a quarterly monitoring fee of \$25,000 per quarter while the borrowings remain outstanding. In addition, under certain conditions, if the borrowing is repaid with proceeds of debt in full or in part at any time within the first three years from the date of issuance, the borrower shall pay an additional fee to the agent, ranging from 2.10% to 3.50% depending on the date of repayment based on the period outstanding, of the aggregate repaid principal amount.

As of March 31, 2020, the Company has a credit facility with Pacific Mercantile Bank totaling \$7.9 million that accrues interest at the prime rate plus 0.4% (at March 31, 2020, the effective rate was 5.2%) through maturity on August 30, 2020 (the **DME Revolver**). The DME Revolver allows for borrowings up to \$10 million. The DME Revolver requires monthly interest payments. The DME Revolver is secured by all of the assets of the durable medical equipment business and the Company is required to meet certain financial covenants.

The Corbel Facility and DME Revolver each include covenants that restrict DME Inc. business operations to its current business, limit additional indebtedness, liens, asset dispositions and investments, require compliance and maintenance of licenses and government approvals and other customary conditions. Events of default include the failure to pay amounts when due, bankruptcy, or violation of covenants, including a change in control of DME Inc. DME Inc. must also comply with a fixed-charge coverage and leverage ratio financial covenants, which are based in part on the DME Inc. EBITDA levels.

As of March 31, 2020, the Company has a related party GP Corp. Note due to MAST Capital totaling \$3.1 million that accrues interest at a variable rate of three-month LIBOR plus 3.0%, as adjusted for each 90-day period (at March 31, 2020, the effective rate was 4.9%) through maturity on November 3, 2026. The GP Corp. Note requires minimum annual principal payments of \$0.08 million and quarterly interest-only payments. The GP Corp. Note is secured by the profit sharing agreement between one of our wholly-owned subsidiaries, Great Elm Capital Management, Inc. (**GECM**) and GECC GP Corp. (the **Profit Sharing Agreement**) that transfers profits generated by our management of GECC, with no recourse to any of our other assets, entities or operations.

The GP Corp. Note is non-recourse to any of the Company's operations or net assets not related to GECM's management services to GECC. The GP Corp. Note may be prepaid at par value at any time with prior written notice to the holders of the GP Corp. Note. Additionally, GECC GP Corp. is required to prepay the GP Corp. Note upon certain material liquidation transactions including any termination of the Profit Sharing Agreement.

As of March 31, 2020, the Company has a senior note due to Wells Fargo Bank Northwest, National as trustee totaling \$50.6 million that accrues interest at a rate of 3.49% through maturity on March 15, 2030 (the **Senior Note**). The Senior Note requires monthly principal and interest payments through the maturity date. The Senior Note is secured by a first lien mortgage on the Property and an Assignment of Leases and Rents, with no recourse to any of our assets, entities or operations.

The principal and interest due on the Senior Note may be prepaid at the option of the borrower, based on an amount determined by discounting the remaining principal and interest payments at a rate equal to an applicable premium in excess of a rate corresponding to the specified U.S. Treasury security over the remaining average life of the Senior Note.

As of March 31, 2020, the Company has a subordinated note due to Wells Fargo Bank Northwest, National as trustee totaling \$3.7 million that accrues interest at a rate of 15.0% through maturity on March 15, 2030 (the **Subordinated Note**). The Subordinated Note is a capital appreciation note, whereby the monthly interest is capitalized to the principal balance and due at maturity. The Subordinated Note is secured by a second lien mortgage on the Property, and an Assignment of Leases and Rents, with no recourse to any of our assets, entities or operations.

The principal and interest due on the Subordinated Note may be prepaid at the option of the borrower, based on an amount determined by discounting the remaining principal and interest payments at a rate equal to an applicable premium in excess of a rate corresponding to the specified U.S. Treasury security over the remaining average life of the Subordinated Note.

The note agreements for both the Senior Note and the Subordinated Note include negative covenants that restrict the Company's majority-owned subsidiary, CRIC IT Fort Myers LLC's (the **Property Owner**), business operations to ownership and lease of the Property, limit additional indebtedness, require maintenance of insurance and other customary requirements related to the Property. Events of default include non-payment of amounts when due, inability to pay indebtedness or material change in the business operations or financial condition of the Property Owner or the lease tenant that in the lender's reasonable determination would reasonably be expected to materially impair the value of the Property, prevent timely repayment of the notes or performance of any material obligations under the notes and related agreements. The payments under the notes are also guaranteed on a full and several basis by the non-controlling interest holder of the Property Owner. Both the Senior Note and Subordinated Note are non-recourse to the Company, but are secured by the Property, the rights associated with the leases and the stock owned by the Company in the Property Owner.

Off-Balance Sheet Arrangements

As of March 31, 2020, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the market risks discussed in Item 7A. of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, other than those noted in Item 1A Risk Factors. of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures.

We evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2020. Disclosure controls and procedures include, without limitation, controls and procedures that are designed to ensure that the information we are required to disclose in reports that we file under the Securities Exchange Act of 1934, as amended, (the **Exchange Act**) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (**CEO**) and Chief Financial Officer (**CFO**), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of March 31, 2020, our disclosure controls and procedures were not effective.

As disclosed in our Annual Report on Form 10-K, Item 9A. for the fiscal year ended June 30, 2019, our management concluded that our internal controls over financial reporting were not effective at June 30, 2019. As of that date, material weaknesses were identified in the principals associated with each component of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework.

We have taken numerous actions to remediate the control deficiencies which contributed to the material weaknesses, including engaging an outside consultant to assist us in our remediation efforts, redesign of existing controls, the implementation of new controls and the development of an ongoing control testing plan. When all remedial actions are complete and in operation for a sufficient period of time, we will test the controls to determine whether the applicable controls are operating effectively. The material weaknesses will not be considered remediated until our controls are operational for a period of time, tested and management concludes that these controls are operating effectively.

There were no changes in our internal control over financial reporting for the quarter ended March 31, 2020, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

We and our board of directors believe that these remediation efforts will result in significant improvements in our control environment. Notwithstanding the identified material weaknesses and the conclusion that our controls were not effective as of June 30, 2019, management believes that the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with US GAAP.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

No changes required to be disclosed.

Item 1A. Risk Factors.

In addition to the risk factors set forth below and the other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, which could materially affect our business, financial condition and/or operating results. In addition, because we cannot predict the impact that COVID-19 will ultimately have, the actual impact may also exacerbate other risks discussed in “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, any of which could have a material effect on us. The situation remains fluid and the likelihood of further adverse impact on us will increase the longer the COVID-19 pandemic persists.

Our business is subject to risks arising from epidemic diseases, such as the recent outbreak of the COVID-19 illness. The recent outbreak of COVID-19, which has been declared by the World Health Organization to be a pandemic, has spread across the globe and is impacting worldwide economic activity. A pandemic, including COVID-19, or other public health epidemic poses the risk that we or our employees, contractors, suppliers, portfolio companies and other partners may be prevented from conducting business activities for an indefinite period of time, including due to the spread of the disease within these groups or due to shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 could have on our business, the continued spread of COVID-19 and the measures taken by local governments has disrupted the referral pipeline for sleep studies and DME equipment set-ups and the impact could become more severe the longer the COVID-19 pandemic persists. It could also temporarily disrupt the supply chain and the manufacture or shipment of DME equipment and supplies.

Disruptions in the capital markets have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. These and future market disruptions and/or illiquidity would be expected to have an adverse effect on our business, financial condition, results of operations and cash flows. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events have limited and could continue to limit our investment originations, limit our ability to grow and have a material negative impact on our operating results and the fair values of our debt and equity investments. As a result, we may experience additional losses on our investments in GECC stock. Decreases in the market values of investments held within GECC’s portfolio companies would also lead to decreases in asset-based fee revenues within the investment management business.

The COVID-19 outbreak and mitigation measures have and may continue to have an adverse impact on global economic conditions which could have an adverse effect on our business, financial condition, result of operations, and the recovery of our long-lived assets, as well as our ability to obtain third party financing for potential acquisitions on terms acceptable to us, if at all. The extent to which the COVID-19 outbreak impacts our results and financial condition will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

EXHIBIT INDEX

All references are to filings by GEC, formerly known as Unwired Planet, Inc. (the **Registrant**) with the SEC under File No. 001-16073.

Exhibit Number	Description
2.1	<u>Contract of Purchase and Sale, dated as of March 6, 2018, by and between IT Fort Myers Holdings LLC and Great Elm FM Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on March 6, 2018)</u>
2.2	<u>Transaction Agreement, dated as of September 7, 2018, by and among Corbel Capital Partners SBIC, L.P., NWMI Manager LLC, Valley Healthcare Holding, LLC and Great Elm DME Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on September 11, 2018)</u>
3.1	<u>Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on November 15, 2013)</u>
3.2	<u>Certificate of Ownership and Merger merging Unwired Planet, Inc. with and into Openwave Systems Inc. (incorporated by reference to Exhibit 3.3 to the Form 10-Q filed on May 10, 2012)</u>
3.3	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on January 5, 2016)</u>
3.4	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on January 11, 2016)</u>
3.5	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on June 16, 2016)</u>
3.6	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on October 17, 2017)</u>
3.7	<u>Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Form 8-K filed on November 15, 2013)</u>
4.1	<u>Amended and Restated Form of the Registrant's Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Form 10-Q filed on May 15, 2018)</u>
4.2	<u>Amended and Restated Certificate of Designations of Series A Junior Participating Cumulative Preferred Stock (incorporated by reference to Exhibit 3.1 to the Form 8-A filed on January 29, 2018)</u>
4.3	<u>Stockholders' Rights Agreement, dated as of January 28, 2018, between the Registrant and Computershare Trust Company, N.A., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Form 8-A filed on January 29, 2018)</u>
4.4	<u>Form of 5.0% Convertible Senior PIK Notes due 2030 (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on March 2, 2020)</u>
4.5	<u>Form of Registration Rights Agreement (incorporated by reference to Exhibit 4.2 to the Form 8-K filed on March 2, 2020)</u>
10.1	<u>Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on March 2, 2020)</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1*	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

Exhibit Number	Description
101	Materials from the Great Elm Capital Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Stockholders' Equity and Contingently Redeemable Non-Controlling Interest,, (iv) Condensed Consolidated Statements of Cash Flows, and (v) related Notes to the Condensed Consolidated Financial Statements, tagged in detail (furnished herewith).

*Filed herewith.

SIGNATURES

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

GREAT ELM CAPITAL GROUP, INC.

Date: May 11, 2020

/s/ Peter A. Reed

Peter A. Reed

Chief Executive Officer

Date: May 11, 2020

/s/ Brent J. Pearson

Brent J. Pearson

Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Peter A. Reed, certify that:

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

Date: May 11, 2020

By: /s/ Peter A. Reed

Peter A. Reed

(Principal Executive Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Brent J. Pearson, certify that:

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

Date: May 11, 2020

By: /s/ Brent J. Pearson
Brent J. Pearson
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Great Elm Capital Group, Inc. (the "Company") for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Peter A. Reed, Principal Executive Officer of the Company, and Brent J. Pearson, Principal Financial Officer of the Company, each certify, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934 as amended (the "Exchange Act") and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Peter A. Reed
Peter A. Reed
(Principal Executive Officer)

By: /s/ Brent J. Pearson
Brent J. Pearson
(Principal Financial Officer)

May 11, 2020