

REFINITIV

# DELTA REPORT

## 10-Q

AVDX - AVIDXCHANGE HOLDINGS, INC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	788
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 CHANGES	231
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 DELETIONS	221
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 ADDITIONS	336
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**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 **June** **September** 30, 2023

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: 001-40898

**AvidXchange Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**1210 AvidXchange Lane Charlotte, NC 28206**

(Address of principal executive offices)

**86-3391192**

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

**28206**

(Zip Code)

**Registrant's telephone number, including area code: (800) 560-9305**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	AVDX	Nasdaq Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 **July 31, 2023** **November 6, 2023**, the registrant had **202,146,872** **203,147,583** shares of common stock, \$0.001 par value per share, outstanding.

**AvidXchange Holdings, Inc.**  
**Form 10-Q**  
**For the Quarterly Period Ended **June 30, 2023** **September 30, 2023****  
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## PART I—FINANCIAL INFORMATION

### Item 1. Financial Statements.

**AvidXchange Holdings, Inc.**  
**Unaudited Consolidated Balance Sheets**  
*(in thousands, except share and per share data)*

	As of June 30, 2023	As of Decemb er 31, 2022	As of Septemb er 30, 2023	As of Decemb er 31, 2022
<b>Assets</b>				
Current assets				
	337,	350,5	339,9	350,5
Cash and cash equivalents	\$ 342	\$ 63	\$ 32	\$ 63
	1,18			
	9,69	1,283	1,226,	1,283
Restricted funds held for customers	7	,824	216	,824

	101,008	110,986	100,643	110,986
Marketable securities				
Accounts receivable, net of allowances of \$4,352 and \$3,123, respectively	43,010	39,668		
Supplier advances receivable, net of allowances of \$1,392 and \$1,872 respectively	10,205	10,016		
Accounts receivable, net of allowances of \$3,866 and \$3,123, respectively			40,892	39,668
Supplier advances receivable, net of allowances of \$1,313 and \$1,872 respectively			10,203	10,016
Prepaid expenses and other current assets	11,931	12,561	13,414	12,561
Total current assets	3,193	1,807,618	1,731,300	1,807,618
Property and equipment, net	102,384	103,892	101,463	103,892
Operating lease right-of-use assets	2,176	2,343	1,903	2,343
Deferred customer origination costs, net	27,567	28,284	27,499	28,284
Goodwill	165,921	165,921	165,921	165,921
Intangible assets, net	91,952	98,749	88,583	98,749
Other noncurrent assets and deposits	4,236	5,189	4,129	5,189
Total assets	2,087,429	2,211,996	2,120,798	2,211,996
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities				
Accounts payable	16,831	13,453	18,759	13,453
Accrued expenses	53,588	73,535	46,878	73,535

	1,18			
	9,69	1,283	1,226,	1,283
Payment service obligations	7	,824	216	,824
	12,5	12,06	12,52	12,06
Deferred revenue	81	3	6	3
Current maturities of lease obligations under finance leases	346	477	305	477
Current maturities of lease obligations under operating leases	1,63			
	7	1,380	1,593	1,380
	6,42			
Current maturities of long-term debt	5	6,425	6,425	6,425
	1,28			
	1,10	1,391	1,312,	1,391
Total current liabilities	5	,157	702	,157
Long-term liabilities				
	17,0	17,48	15,37	17,48
Deferred revenue, less current portion	14	7	3	7
Contingent consideration, less current portion	70	70	70	70
	62,2	61,97	62,34	61,97
Obligations under finance leases, less current maturities	52	4	0	4
Obligations under operating leases, less current maturities	3,99			
	0	4,657	3,627	4,657
	75,2	75,91	74,89	75,91
Long-term debt	36	2	8	2
	3,24			
Other long-term liabilities	5	3,295	3,385	3,295
	1,44			
	2,91	1,554	1,472,	1,554
Total liabilities	2	,552	395	,552
Commitments and contingencies				
Stockholders' equity				
Preferred stock, \$0.001 par value; 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2023 and December 31, 2022	-	-		

Common stock, \$0.001 par value; 1,600,000,000 shares authorized as of June 30, 2023 and December 31, 2022; 202,113,613 and 199,433,998 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	202	199		
Preferred stock, \$0.001 par value; 50,000,000 shares authorized, no shares issued and outstanding as of September 30, 2023 and December 31, 2022			-	-
Common stock, \$0.001 par value; 1,600,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 202,896,081 and 199,433,998 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively			203	199
	1,65			
	3,91	1,632	1,665,	1,632
Additional paid-in capital	1	,080	887	,080
	(1,0			
	09,5	(974,	(1,01	(974,
Accumulated deficit	96)	835)	7,687)	835)
	644,	657,4	648,4	657,4
Total stockholders' equity	517	44	03	44
	2,08			
	7,42	2,211	2,120,	2,211
Total liabilities and stockholders' equity	\$ 9	\$ ,996	\$ 798	\$ ,996

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

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**AvidXchange Holdings, Inc.**  
**Unaudited Consolidated Statements of Operations**  
*(in thousands, except share and per share data)*

Three Months		Six Months		Three Months		Nine Months	
Ended June 30,		Ended June 30,		Ended September 30,		Ended September 30,	
2023	2022	2023	2022	2023	2022	2023	2022

			177	147				
	91,	76,	,97	,76	98,6	82,4	276,	230,
<b>Revenues</b>	\$ 154	\$ 561	\$ 6	\$ 4	\$ 80	\$ 11	\$ 656	\$ 175
Cost of revenues (exclusive of depreciation and amortization expense)	30,	28,	59,	56,	30,7	29,8	90,4	86,6
	221	979	694	786	67	90	61	76
<b>Operating expenses</b>								
	20,	20,	40,	37,	18,7	20,2	58,9	57,9
Sales and marketing	076	448	211	687	35	41	46	28
	24,	20,	47,	40,	24,7	21,9	72,6	62,1
Research and development	740	107	862	179	54	97	16	76
	27,	19,	50,	38,	25,0	24,0	75,3	62,7
General and administrative	716	974	343	662	02	42	45	04
	8,8	8,3	17,	16,	9,05	8,36	26,5	24,3
Depreciation and amortization	78	01	464	019	1	5	15	84
			155	132				
	81,	68,	,88	,54	77,5	74,6	233,	207,
Total operating expenses	410	830	0	7	42	45	422	192
	(20,	(21,	(37,	(41,	(9,6	(22,	(47,	(63,
Loss from operations	477)	248)	598)	569)	29)	124)	227)	693)
<b>Other income (expense)</b>								
	5,2		9,7		5,10	2,03	14,8	2,90
Interest income	04	655	20	875	0	1	20	6
	(3,3	(5,0	(6,6	(10,	(3,4	(5,2	(10,	(15,
Interest expense	63)	75)	78)	052)	28)	09)	106)	261)
	1,8	(4,4	3,0	(9,1	1,67	(3,1	4,71	(12,
Other income (expense)	41	20)	42	77)	2	78)	4	355)
	(18,	(25,	(34,	(50,	(7,9	(25,	(42,	(76,
Loss before income taxes	636)	668)	556)	746)	57)	302)	513)	048)
Income tax expense	135	69	205	138	134	69	339	207
	(18,	(25,	(34,	(50,	(8,0	(25,	(42,	(76,
Net loss	\$ 771)	\$ 737)	\$ 761)	\$ 884)	\$ 91)	\$ 371)	\$ 852)	\$ 255)
Net loss per share attributable to common stockholders, basic and diluted	(0.0	(0.1	(0.1	(0.2	(0.0	(0.1	(0.2	(0.3
	\$ 9)	\$ 3)	\$ 7)	\$ 6)	\$ 4)	\$ 3)	\$ 1)	\$ 9)



Weighted average number of common shares used to compute net loss per share attributable to common stockholders, basic and diluted	201	197	200	197				
	,55	,86	,73	,44	202,	198,	201,	197,
	9,0	4,9	4,5	3,6	526,	234,	338,	710,
	07	93	55	15	844	392	550	104

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

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**AvidXchange Holdings, Inc.**  
**Unaudited Consolidated Statements of Changes in Stockholders' Equity**  
*(in thousands, except share and per share data)*

											Total
											Stock
											holder
											s'

Stock-based compensation expense for Employee Stock Purchase Plan, or ESPP	-	-	270	-	270	-	-	270	-	270
				(15,99)	(15,990)				(15,99)	(15,990)
Net loss	-	-	-	0)	990)	-	-	-	0)	990)
	20					20				
	1,0					1,0				
	28,	2	1,6	(99		28,	2	1,6	(99	
<b>Balances at March 31, 2023</b>	99	0	41,	0,8	650,	99	0	41,	0,8	650,
	2	\$ 1	\$ 376	\$ 25)	\$ 752	2	\$ 1	\$ 376	\$ 25)	\$ 752
	99,					99,				
	21					21				
Exercise of stock options	5	-	337	-	337	5	-	337	-	337
Issuance of common stock upon vesting of restricted stock units	79					79				
	2,2					2,2				
	42	1	(1)	-	-	42	1	(1)	-	-
	19					19				
Issuance of common stock under ESPP	3,1		1,1		1,17	3,1		1,1		1,17
	64	-	78	-	8	64	-	78	-	8
Stock-based compensation expense			10,		10,8			10,		10,8
	-	-	869	-	69	-	-	869	-	69
Stock-based compensation expense for ESPP										
	-	-	152	-	152	-	-	152	-	152
				(18,77)	(18,771)				(18,77)	(18,771)
Net loss	-	-	-	1)	771)	-	-	-	1)	771)
	20					20				
	2,1			(1,		2,1			(1,	
	13,	2	1,6	00		13,	2	1,6	00	
<b>Balances at June 30, 2023</b>	61	0	53,	9,5	644,	61	0	53,	9,5	644,
	3	\$ 2	\$ 911	\$ 96)	\$ 517	3	\$ 2	\$ 911	\$ 96)	\$ 517

	Common		Addit ional Paid- in Capit al	Accu mula ted Defici t	Total Stockh olders' Deficit					
	Stock									
	19									
	6,8									
	04,	1	1,5	(87						
<b>Balances at December</b>	84	9	94,	1,9	723,					
<b>31, 2021</b>	4	\$ 7	\$ 780	\$ 22)	\$ 055					
Cumulative effect adjustment from adoption of new accounting standard for current estimated credit losses	-	-	-	(1, 00 0)	(1,0 00)					
Cumulative effect adjustment from adoption of new accounting standard related to stock-based compensation	-	-	629	(62 9)	-					
	63, 11					91, 35				
Exercise of stock options	8	-	173	-	173	3	-	748	-	748
Issuance of common stock upon vesting of restricted stock units	75 8,7 01	- 1	173 (1)	-	-	69 1,1 15	- 1	748 (1)	-	748 -
Stock-based compensation expense	-	-	6,5 95	-	6,59 5	-	-	11, 043	-	11,0 43
Stock-based compensation expense for ESPP	-	-	196	-	196	-	-	186	-	186

				(25					(8,	
				,14	(25,				09	(8,0
Net loss	-	-	-	7)	147)	-	-	-	1)	91)
	19									
	7,6									
	26,	1	1,6	(89						
<b>Balances at March 31,</b>	66	9	02,	8,6	703,					
<b>2022</b>	3	\$ 8	\$ 372	\$ 98)	\$ 872					
	89,									
Exercise of stock options	20									
and warrants	4	-	252	-	252					
Issuance of common										
stock upon vesting of										
restricted stock units, net	25									
of shares surrendered	4,9									
for taxes	08	-	-	-	-					
Issuance of common	20,									
stock for settlement of	56									
contingent consideration	4	-	344	-	344					
	86,									
Issuance of common	55									
stock under ESPP	0	-	602	-	602					
Stock-based			8,1		8,11					
compensation expense	-	-	13	-	3					
Stock-based										
compensation expense										
for ESPP	-	-	145	-	145					
				(25						
				,73	(25,					
Net loss	-	-	-	7)	737)					
	19									
	8,0									
	77,	1	1,6	(92						
<b>Balances at June 30,</b>	88	9	11,	4,4	687,					
<b>2022</b>	9	\$ 8	\$ 828	\$ 35)	\$ 591					

	20				
	2,8			(1,	
	96,	2	1,6	01	
<b>Balances at September 30, 2023</b>	08	0	65,	7,6	648,
	1	\$ 3	\$ 887	\$ 87)	\$ 403

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## AvidXchange Holdings, Inc.

### Unaudited Consolidated Statements of Changes in Stockholders' Equity

(in thousands, except share and per share data)

			Additional	Accumulat	Total
			Paid-in	ed	Stockholde
			Capital	Deficit	rs' Equity
	Common Stock				
	196,804,84	19			
<b>Balances at December 31, 2021</b>	4	\$ 7	\$ 1,594,780	\$ (871,922)	\$ 723,055
Cumulative effect adjustment from adoption of new accounting standard for current estimated credit losses	-	-	-	(1,000)	(1,000)
Cumulative effect adjustment from adoption of new accounting standard related to stock-based compensation	-	-	629	(629)	-
Exercise of stock options	63,118	-	173	-	173
Issuance of common stock upon vesting of restricted stock units	758,701	1	(1)	-	-
Stock-based compensation expense	-	-	6,595	-	6,595
Stock-based compensation expense for ESPP	-	-	196	-	196
Net loss	-	-	-	(25,147)	(25,147)
	197,626,66	19			
<b>Balances at March 31, 2022</b>	3	\$ 8	\$ 1,602,372	\$ (898,698)	\$ 703,872
Exercise of stock options	89,204	-	252	-	252
Issuance of common stock upon vesting of restricted stock units, net of shares surrendered for taxes	254,908	-	-	-	-
Issuance of common stock for settlement of contingent consideration	20,564	-	344	-	344
Issuance of common stock under ESPP	86,550	-	602	-	602
Stock-based compensation expense	-	-	8,113	-	8,113

Stock-based compensation expense for ESPP	-	-	145	-	145
Net loss	-	-	-	(25,737)	(25,737)
	198,077,88	19			
<b>Balances at June 30, 2022</b>	9	\$ 8	\$ 1,611,828	\$ (924,435)	\$ 687,591
Exercise of stock options	147,788	-	403	-	403
Issuance of common stock upon vesting of restricted stock units	262,986	-	-	-	-
Stock-based compensation expense	-	-	8,514	-	8,514
Stock-based compensation expense for ESPP	-	-	204	-	204
Net loss	-	-	-	(25,371)	(25,371)
	198,488,66	19			
<b>Balances at September 30, 2022</b>	3	\$ 8	\$ 1,620,949	\$ (949,806)	\$ 671,341

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

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**AvidXchange Holdings, Inc.**  
**Unaudited Consolidated Statements of Cash Flows**  
*(in thousands)*

	<b>Six Months Ended June 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities</b>				
Net loss	\$ (34,761)	\$ (50,884)	\$ (42,852)	\$ (76,255)
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation and amortization expense	17,464	16,019	26,515	24,384
Amortization of deferred financing costs	220	679	326	1,018
Provision for credit losses	2,125	2,318	2,118	3,751
Stock-based compensation	19,952	15,049	31,181	23,767
Accrued interest	1,004	1,184	1,509	1,765
Loss on fixed asset disposal	-	26	-	36
Accretion of investments held to maturity	(2,731)	(494)	(4,091)	(1,123)
Deferred income taxes	105	108	158	162
Changes in operating assets and liabilities				
Accounts receivable	(4,711)	(5,555)	(2,221)	(9,493)

Prepaid expenses and other current assets	631	(2,791 )	(851 )	(2,337 )
Other noncurrent assets	1,247	(453 )	1,369	(1,061 )
Deferred customer origination costs	717	791	785	(66 )
Accounts payable	2,925	(2,041 )	4,679	167
Deferred revenue	45	(613 )	(1,650 )	(511 )
Accrued expenses and other liabilities	(20,636 )	(3,975 )	(27,588 )	6,097
Operating lease liabilities	(242 )	(107 )	(378 )	(165 )
Total adjustments	18,115	20,145	31,861	46,391
Net cash used in operating activities	(16,646 )	(30,739 )	(10,991 )	(29,864 )
<b>Cash flows from investing activities</b>				
	(162,99	(254,02		
Purchase of marketable securities held to maturity	6 )	6 )	(262,994 )	(310,025 )
Proceeds from maturity of marketable securities held to maturity	175,705	106,770	277,428	213,872
Purchases of equipment	(526 )	(2,470 )	(1,001 )	(2,677 )
Purchases of real estate	-	(767 )	-	(767 )
Purchases of intangible assets	(7,733 )	(16,100 )	(11,898 )	(20,363 )
Supplier advances, net	(946 )	(4,796 )	(1,309 )	(4,699 )
		(171,38		
Net cash provided by (used in) investing activities	3,504	9 )	226	(124,659 )
<b>Cash flows from financing activities</b>				
Proceeds from the issuance of long-term debt	-	2,367	-	2,367
Repayments of long-term debt	(812 )	-	(1,219 )	-
Principal payments on finance leases	(305 )	(425 )	(435 )	(666 )
Proceeds from issuance of common stock	703	425	1,452	828
Proceeds from issuance of common stock under ESPP	1,178	602	1,178	602
Debt issuance costs	(743 )	-	(743 )	-
Payment of acquisition-related liability	(100 )	(344 )	(100 )	(344 )
		(218,44		
Payment service obligations	(94,127 )	4 )	(57,607 )	(314,603 )
		(215,81		
Net cash used in financing activities	(94,206 )	9 )	(57,474 )	(311,816 )
Net (decrease) increase in cash, cash equivalents, and restricted funds held for customers	(107,34	(417,94		
	8 )	7 )		

Net decrease in cash, cash equivalents, and restricted funds held for customers			(68,239)	(466,339)
<b>Cash, cash equivalents, and restricted funds held for customers</b>				
Cash, cash equivalents, and restricted funds held for customers, beginning of year	1,634,387	1,805,163	1,634,387	1,805,163
Cash, cash equivalents, and restricted funds held for customers, end of period	<u>\$ 1,527,039</u>	<u>\$ 1,387,216</u>	<u>\$ 1,566,148</u>	<u>\$ 1,338,824</u>
<b>Supplementary information of noncash investing and financing activities</b>				
Right-of-use assets obtained in exchange for new finance lease obligations	\$ 81	\$ 499	\$ 81	\$ 689
Right-of-use assets obtained in exchange for new operating lease obligations	362	2,831	362	2,831
Common stock issued as contingent consideration	-	344	-	344
Property and equipment purchases in accounts payable and accrued expenses	818	29	939	1
Interest paid on notes payable	2,541	5,305	3,889	8,134
Interest paid on finance leases	2,914	2,863	4,386	4,323

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

## AvidXchange Holdings, Inc.

### Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

#### 1. Formation and Business of the Company

AvidXchange, Inc. was incorporated in the state of Delaware in 2000. In July 2021, the company consummated a reorganization by interposing a holding company between AvidXchange, Inc. and its stockholders. After the reorganization, all of the stockholders of AvidXchange, Inc. became stockholders of AvidXchange Holdings, Inc. and AvidXchange, Inc. became a wholly owned subsidiary of AvidXchange Holdings, Inc. To accomplish the reorganization, the company formed AvidXchange Holdings, Inc., which was incorporated in Delaware on January 27, 2021, and AvidXchange Merger Sub, Inc. ("Merger Sub") as a wholly owned subsidiary of AvidXchange Holdings, Inc. The Company merged AvidXchange, Inc. with and into Merger Sub, with AvidXchange, Inc. as the surviving entity, by issuing identical shares of stock of AvidXchange Holdings, Inc. to the stockholders of AvidXchange, Inc. in exchange for their equity interest in AvidXchange, Inc.



The merger was considered a transaction between entities under common control. Upon the effective date of the reorganization, July 9, 2021, AvidXchange Holdings, Inc. recognized the assets and liabilities of AvidXchange, Inc. at their carrying values within its financial statements.

AvidXchange Holdings, Inc. and its wholly owned subsidiaries are collectively referred to as “AvidXchange” or “the Company” in the accompanying consolidated financial statements after the reorganization.

AvidXchange provides accounts payable (“AP”) automation software and payment solutions for middle market businesses and their suppliers. The Company provides solutions and services throughout North America spanning multiple industries including real estate, homeowners associations, construction, financial services (including banks and credit unions), healthcare facilities, social services, education, hospitality, and media.

## 2. Summary of Significant Accounting Policies

### Basis of Consolidation and Presentation

The accompanying unaudited consolidated financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair statement of the Company’s financial position, results of operations, changes in stockholders’ equity, and cash flows for the periods presented. The results of operations for the three and six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023 or for any other future annual or interim period. The unaudited consolidated balance sheet as of December 31, 2022 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by U.S. GAAP on an annual reporting basis. All significant intercompany accounts and transactions have been eliminated. There are no items of comprehensive income.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2022.

### Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities as of and during the reporting period. The Company bases estimates and assumptions on historical experience when available and on various factors that it believes to be reasonable under the circumstances. Significant estimates reflected in these unaudited consolidated financial statements include, but are not limited to, the allowance for credit losses and returns, useful lives assigned to fixed and intangible assets, capitalization of internal-use software, deferral of customer origination costs, the fair value of intangible assets acquired in a business combination, the fair value of goodwill, and the recoverability of deferred income taxes. The Company assesses estimates on an ongoing basis; however, actual results could materially differ from those estimates.

### Concentrations

### Significant Services

A substantial portion of the Company's revenue is derived from interchange fees earned on payment transactions processed as virtual commercial cards ("VCC"). The Company utilizes service providers to process these transactions. Revenue from one service provider represented 20 14% and 27 22% of total revenue for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and 20 18% and 28 26% of total revenue for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Accounts receivable from this service provider represented 26 21% and 28% of accounts receivable, net as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

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## AvidXchange Holdings, Inc.

### Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

December 31, 2022, respectively. Revenue from a second provider represented 27 31% and 26 32% of total revenue for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and 27 29% and 25 27% of total revenue for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Accounts receivable from this second service provider represented 26 35% and 29% of accounts receivable, net as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Future regulation or changes by the card brand payment networks could have a substantial impact on interchange rates and the Company's revenue from VCC transactions. If interchange rates decline, whether due to actions by the card brand payment networks, merchant/suppliers availing themselves of lower rates, or future regulation, the Company's total operating revenues, operating results, prospects for future growth and overall business could be materially affected.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase that are not recorded as marketable securities to be cash equivalents. The carrying values of cash and cash equivalents approximate their fair values due to the short-term nature of these instruments. Cash in the Company's bank accounts may exceed federally insured limits.

### Marketable Securities

Marketable securities consist of short-term investments in short-term corporate bonds, commercial paper and various U.S. government backed securities. To reflect its intention, the Company classifies its marketable securities as held-to-maturity at the time of purchase. As a result, the marketable securities are recorded at amortized cost and any gains or losses realized upon maturity are reported in other income (expense) in the consolidated statements of operations.

### Accounts Receivable, Supplier Advances and Allowance for Credit Losses

Accounts receivable represent amounts due from the Company's VCC service providers for interchange fees earned and from buyer customers who have been invoiced for the use of the Company's software offerings, but for whom payments have not been received. Accounts receivable from VCC service providers are presented net of an allowance for returns for transactions subsequently canceled that do not ultimately settle through the payment network. Accounts receivable from

buyer customers are presented net of allowances for credit losses and returns. The Company estimates expected credit losses related to accounts receivable balances based on a review of available and relevant information including current economic conditions, projected economic conditions, historical loss experience, account aging, and other factors that could affect collectability. Expected credit losses are determined individually or collectively depending on whether the accounts receivable balances share similar risk characteristics. The allowance for returns for VCC transactions subsequently canceled are assessed at each period end and recognized as a reduction of revenue. The allowances for buyer customer's credit losses and returns are assessed at each period end and are recognized as bad debt expense within general and administrative expenses in the consolidated statements of operations and as a reduction of revenue, respectively. A buyer customer receivable is written off against the allowance when it is determined that all collection efforts have been exhausted and the potential for recovery is considered remote. Historically, losses related to customer nonpayment have been immaterial and most of the accounts receivable balances have been current.

Supplier advances receivable represent amounts that have been advanced as part of the AvidXchange's Invoice Accelerator product but have not been collected. Advances are collected from the buyer customer once the buyer initiates the transfer of funds for the invoice that was previously advanced. If the buyer does not transfer the funds as expected, the Company is exposed to losses. The Company's experience with such delinquencies by buyer customers has been immaterial. Supplier advances receivable are stated net of expected credit losses. The Company estimates expected credit losses related to supplier advances receivable balances based on a review of available and relevant information including current economic conditions, projected economic conditions, historical loss experience, account aging, and other factors that could affect collectability. Expected credit losses are determined individually or collectively depending on whether the accounts receivable balances share similar risk characteristics. The allowance for credit losses for supplier advances is assessed at period end and the measurement of the allowance is included as a component of cost of revenues in the Company's consolidated statements of operations. Supplier advances receivable balances are charged against the allowance when the Company determines it is probable the receivable will not be recovered after collection efforts and legal actions have been exhausted. The Company classifies the fees charged to supplier customers as cash flows from operating activities with the remaining accelerated advancements and recoupments classified as cash flows from investing activities on a net basis within the consolidated statements of cash flows.

### **Restricted Funds Held for Customers and Payment Service Obligations**

Restricted funds held for customers and the corresponding liability of payment service obligations represent funds that are collected from customers for payments to their suppliers. The Company determines the balances of restricted funds held for customers, and the corresponding payment services obligations, by reconciling cash held by financial institutions and the corresponding payments in transit at the end of each period. The balance of these obligations may fluctuate from period to period

## **AvidXchange Holdings, Inc.**

### **Notes to the Unaudited Consolidated Financial Statements**

*(in thousands, except share and per share data)*

depending on the timing of the period end and the timing of when outstanding payments clear with financial institutions. The Company is registered as a money services business with the Financial Crimes Enforcement Network. Payment service obligations are comprised of outstanding daily transaction liabilities per state regulatory average daily transaction liability report requirements and other unregulated settlements with payees, which do not constitute a regulatory liability event under reporting requirements.

	As of June 30, 2023	As of December 31, 2022	As of September 30, 2023	As of December 31, 2022
Outstanding Transaction Liabilities	\$ 1,149,024	\$ 1,242,155	\$ 1,195,559	\$ 1,242,155
Other unregulated settlements	40,673	41,669	30,657	41,669
Total payment service obligations	\$ 1,189,697	\$ 1,283,824	\$ 1,226,216	\$ 1,283,824

The Company historically transmitted buyer customer funds using a legacy model pursuant to which buyer customer funds are held in trust accounts that are maintained and operated by a trustee pending distribution to suppliers in accordance with instructions provided through the Company's platform. The Company is not the trustee or beneficiary of the trusts which hold these buyer deposits; accordingly, the Company does not record these assets and offsetting liabilities on its consolidated balance sheets. The Company has largely phased out this model although certain banks that resell its products and services continue to leverage a similar structure. The Company contractually earns interest on funds held for certain buyers. The amount of Company and bank customer funds held in all trust-related accounts was approximately \$7,554,20,449 and \$135,058 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The Company has also transitioned most payment transmission activity to the money transmitter license model and obtained a money transmitter license in all states which require licensure. This model enables AvidXchange to provide commercial payment services to businesses through its "for the benefit of customer" bank accounts, also known as FBO, that are restricted for such purposes. The restricted funds held for customers are restricted for the purpose of satisfying the customer's supplier obligations and are not available for general business use by the Company. The Company maintains these funds in liquid cash accounts and contractually earns interest on these funds held for customers. These funds are recognized as a restricted cash asset and a corresponding liability is recorded for payments due to their suppliers on the Company's consolidated balance sheets. Restricted funds held for customers are included in the cash and cash equivalents on the consolidated statements of cash flows. The Company has transitioned most payment transmission activity to the money transmitter license model.

### Stock-Based Compensation

Compensation cost for stock-based awards issued to employees and outside directors, including stock options and restricted stock units ("RSUs"), is measured at fair value on the date of grant.

The fair value of stock options is estimated using a Black-Scholes option-pricing model, while the fair value of RSUs is determined using the fair value of the Company's underlying common stock. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period of the award. Stock-based compensation expense for RSUs with performance conditions is recognized over the requisite service period on an accelerated-basis as long as the performance condition in the form of a specified liquidity event is probable to occur. In the case of equity issued in lieu of cash bonus, expense is recognized in the period the cash bonus was earned.

### **Nonqualified Deferred Compensation Plan**

The Company adopted a nonqualified, deferred compensation plan effective October 1, 2015, which is an unfunded plan created for the benefit of a select group of management or highly compensated employees. The purpose of the plan is to attract and retain key employees by providing them with an opportunity to defer receipt of a portion of their compensation. It is exempt from the participation, vesting, funding, and fiduciary requirements set forth in Title I of the Employee Retirement Income Security Act of 1974, as amended. Deferred amounts are not subject to forfeiture and are deemed invested among investment funds offered under the nonqualified deferred compensation plan, as directed by each participant.

The Company has established a 'rabbi trust' that serves as an investment to shadow the deferred compensation plan liability. The assets of the rabbi trust primarily consist of trust-owned life insurance policies which are recorded at cash surrender value and are included in other noncurrent assets. The change in cash surrender value of the life insurance policies in the rabbi trust is recorded in other income (expense) on the Company's unaudited consolidated statements of operations. The assets of the rabbi trust are general assets of the Company and as such, would be subject to the claims of creditors in the event of bankruptcy or insolvency. The related deferred compensation liabilities are included in other long-term liabilities.

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## **AvidXchange Holdings, Inc.**

### **Notes to the Unaudited Consolidated Financial Statements**

*(in thousands, except share and per share data)*

The Company has recorded these assets and liabilities at their fair value. In association with this plan, \$1,766,170 and \$1,611 were included in other noncurrent assets and \$1,942,116 and \$1,803 were included in noncurrent liabilities as of June 30, 2023, September 30, 2023 and December 31, 2022, respectively, on the Company's unaudited consolidated balance sheets.

### **Contingent Liabilities**

Contingent liabilities require significant judgment in estimating potential losses for legal claims. The Company reviews significant new claims and litigation for the probability of an adverse outcome. Estimates are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will materially exceed the recorded provision. Contingent liabilities are often resolved over long periods of time. Estimating probable losses requires analysis of multiple forecasts

that often depend on judgments about potential actions by third parties such as regulators, and the estimated loss can change materially as individual claims develop.

## New Accounting Pronouncements

### *Recently Adopted Accounting Standards*

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments, Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the guidance on the impairment of financial instruments by requiring measurement and recognition of expected credit losses for most financial assets, including trade receivables, and other instruments that are not measured at fair value through net income (the "CECL" framework). ASU 2016-13 was effective for public business entities for fiscal years beginning after December 15, 2019. Under the Company's prior status as an emerging growth company, the Company had delayed the adoption of ASU 2016-13. The Company lost its status as an emerging growth company on December 31, 2022, and ASU 2016-13 became effective for the Company as of January 1, 2022. On adoption, the Company recorded approximately \$1,000 cumulative effect adjustment to accumulated deficit in connection with expected credit losses on its accounts receivable and supplier advances receivable. The adoption had an insignificant impact on the 2022 information presented in the Company's 2022 quarterly reports on Form 10-Q.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations* (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This standard requires contract assets and contract liabilities from contracts with customers that are acquired in a business combination to be recognized and measured as if the acquirer had originated the original contract. The Company adopted this standard on January 1, 2023, and will apply its provisions prospectively to business combinations occurring on or after this date. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

### *Accounting Pronouncements Issued but Not Yet Adopted*

In March 2023, the FASB issued ASU No. 2023-01, *Leases* (Topic 842): Common Control Arrangements. The amendments in this update that apply to public business entities clarify the accounting for leasehold improvements associated with common control leases. This update is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect the adoption of this update to have a material effect on its consolidated financial statements.

## 3. Revenue from Contracts with Customers

### Disaggregation of Revenue

The table below presents the Company's revenues disaggregated by type of services performed.

Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
June 30,		June 30,		September 30,		September 30,	
2023	2022	2023	2022	2023	2022	2023	2022

Software	27,24	24,20	54,21	48,11				
revenue	\$ 8	\$ 2	\$ 6	\$ 3	\$ 28,919	\$ 25,039	\$ 83,135	\$ 73,152
Payment	63,22	51,58	122,4	98,04			190,89	154,69
revenue	8	1	09	9	68,485	56,645	4	4
Services								
revenue	678	778	1,351	1,602	1,276	727	2,627	2,329
Total	91,15	76,56	177,9	147,7			276,65	230,17
revenues	\$ 4	\$ 1	\$ 76	\$ 64	\$ 98,680	\$ 82,411	\$ 6	\$ 5

### Contract Assets and Liabilities

The Company's rights to payments are not conditional on any factors other than the passage of time, and as such, the Company does not have any contract assets. Contract liabilities consist primarily of advance cash receipts for services (deferred revenue) and are recognized as revenue when the services are provided.

The table below presents information on accounts receivable and contract liabilities.

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### AvidXchange Holdings, Inc.

#### Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

	As of June 30, 2023	As of December 31, 2022	As of September 30, 2023	As of December 31, 2022
Trade accounts				
receivable, net	\$ 14,662	\$ 14,152	\$ 12,940	\$ 14,152
Payment processing				
receivable, net	28,348	25,516	27,952	25,516
Accounts receivable, net	\$ 43,010	\$ 39,668	\$ 40,892	\$ 39,668
Contract liabilities	\$ 29,595	\$ 29,550	\$ 27,899	\$ 29,550

Significant changes in the contract liabilities balance are as follows:

Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
2023	2022	2023	2022	2023	2022	2023	2022



Revenue recognized included in beginning of period balance	(3,5 \$ 23)	(2,6 \$ 78)	(6,0 \$ 14)	(5,3 \$ 03)	(3,35 \$ 1)	(2,74 \$ 5)	(8,26 \$ 4)	(6,22 \$ 0)
Cash received, excluding amounts recognized as revenue during the period	3,83 0	2,59 0	6,0 59	4,6 90	1,65 6	2,84 6	6,61 3	5,70 8

The tables below present a summary of changes in the Company's allowances for credit losses and returns for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022:

	Accounts Receivable			Accounts Receivable		
	Allowance for Credit Losses	Allowanc e for Returns	Supplier Advances Receivable Allowance	Allowance for Credit Losses	Allowanc e for Returns	Supplier Advances Receivable Allowance
Allowance balance, December 31, 2022	\$ 1,539	\$ 1,584	\$ 1,872	\$ 1,539	\$ 1,584	\$ 1,872
Amounts charged to contra revenue, cost of revenues and expenses	1,330	225	50	945	375	210
Amounts written off as uncollectable	(233)	-	(1,262)	(484)	(1)	(1,701)
Recoveries of amounts previously written off	-	-	732	-	-	932
Deduction released to revenue	-	(93)	-	-	(92)	-
Allowance balance, June 30, 2023	\$ 2,636	\$ 1,716	\$ 1,392			
Allowance balance, September 30, 2023				\$ 2,000	\$ 1,866	\$ 1,313

#### Accounts Receivable

#### Accounts Receivable



	Allowance for Credit Losses	Allowanc e for Returns	Supplier Advances Receivable Allowance	Allowanc e for Credit Losses	Allowan ce for Returns	Supplier Advances Receivable Allowance
Allowance balance, December 31, 2021	\$ 442	\$ 1,841	\$ 1,105	\$ 442	\$ 1,841	\$ 1,105
Adjustment to allowance on adoption of ASU 2016-13	400	-	600	400	-	600
Amounts charged to contra revenue, cost of revenues and expenses	414	-	1,250	730	-	2,100
Amounts written off as uncollectable	-	-	(1,595)	-	-	(2,586)
Recoveries of amounts previously written off	-	-	597	-	-	864
Deduction released to revenue	-	(350)	-	-	(350)	-
Allowance balance, June 30, 2022	<u>\$ 1,256</u>	<u>\$ 1,491</u>	<u>\$ 1,957</u>			
Allowance balance, September 30, 2022				<u>\$ 1,572</u>	<u>\$ 1,491</u>	<u>\$ 2,083</u>

### Transaction Price Allocated to Remaining Performance Obligations

Transaction price allocated to the remaining performance obligations represents contracted revenue that has not yet been recognized. These revenues are subject to future economic risks including customer cancellations, bankruptcies, regulatory changes and other market factors.

The Company applies the practical expedient in ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), paragraph 606-10-50-14(b) and does not disclose information about remaining performance obligations related to transaction and processing services that qualify for recognition in accordance with paragraph 606-10-55-18 of Topic 606.

These contracts contain variable consideration for stand-ready performance obligations for which the exact quantity and mix of transactions to be processed are contingent upon buyer or supplier request. These contracts also contain fixed fees and non-refundable upfront fees; however, these amounts are not considered material to total consolidated revenue.

The Company's remaining performance obligation consists of contracts with financial institutions who are using the ASCEND solution. These contracts generally have a duration of five years and contain fixed maintenance fees that are considered fixed price guarantees. Remaining performance obligation consisted of the following:

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## AvidXchange Holdings, Inc.

### Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

	Current	Noncurrent	Total	Current	Noncurrent	Total
As of June 30, 2023	\$ 15,239	\$ 21,958	\$ 37,197			
As of September 30, 2023				\$ 15,340	\$ 21,532	\$ 36,872
As of December 31, 2022	15,143	22,546	37,689	15,143	22,546	37,689

### Contract Costs

The Company incurs incremental costs to obtain a contract, as well as costs to fulfill a contract with buyer customers that are expected to be recovered. These costs consist primarily of sales commissions incurred if a contract is obtained, and customer implementation related costs.

The Company utilizes a portfolio approach when estimating the amortization of contract acquisition and fulfillment costs. These costs are amortized on a straight-line basis over the expected benefit period of generally five years, which was determined by taking into consideration customer attrition rates, estimated terms of customer relationships, useful lives of technology, industry peers, and other factors. The amortization of contract fulfillment costs associated with implementation activities are recorded as cost of revenues in the Company's consolidated statements of operations. The amortization of contract acquisition costs associated with sales commissions that qualify for capitalization is recorded as sales and marketing expense in the Company's consolidated statements of operations. Costs to obtain or fulfill a contract are classified as deferred customer origination costs in the Company's consolidated balance sheets.

The following tables present information about deferred contract costs:

Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
2023	2022	2023	2022	2023	2022	2023	2022

Capitalized sales commissions and implementation costs	2,53 \$ 9	2,89 \$ 2	5,3 \$ 77	4,96 \$ 8	3,04 \$ 5	3,93 \$ 5	8,42 \$ 2	8,90 \$ 3
<b>Amortization of deferred contract costs</b>								
Costs to obtain contracts included in sales and marketing expense	1,46 \$ 5	1,35 \$ 5	2,9 \$ 39	2,67 \$ 8	1,55 \$ 0	1,49 \$ 0	4,48 \$ 9	4,16 \$ 8
Costs to fulfill contracts included in cost of revenue	1,58 \$ 5	1,55 \$ 5	3,1 54	3,08 1	1,56 \$ 4	1,58 \$ 8	4,71 8	4,66 9

#### 4. Loss Per Common Share

Diluted loss per common share is the same as basic loss per common share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss.

The following common share equivalent securities have been excluded from the calculation of weighted average common shares outstanding because the effect is anti-dilutive for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
Anti-Dilutive Common Share Equivalents	2023	2022	2023	2022	2023	2022	2023	2022
			8,39					
Stock options	8,398 ,693	7,596 ,230	8,69 3	7,596 ,230	8,252 768	7,306 429	8,252 768	7,306 429
Restricted stock units	10,84 6,847	8,043 ,664	46,8 47	8,043 ,664	10,114 ,472	7,969 477	10,11 4,472	7,969 477
Employee stock purchase plan	52,98 0	62,10 4	52,9 80	62,10 4	168,00 2	135,55 3	168,0 02	135,5 53

Total anti-dilutive common share equivalents	19,2							
	19,29	15,70	98,5	15,70	18,535	15,411	18,53	15,41
	8,520	1,998	20	1,998	,242	,459	5,242	1,459

Basic and diluted net loss per common share is calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Numerator:								
Net loss	(18, \$ 771)	(25,7 \$ 37)	(34, \$ 761)	(50, \$ 884)	(8,09 \$ 1)	(25,3 \$ 71)	(42,8 \$ 52)	(76,2 \$ 55)
Net loss attributable to common stockholders	(18, \$ 771)	(25,7 \$ 37)	(34, \$ 761)	(50, \$ 884)	(8,09 \$ 1)	(25,3 \$ 71)	(42,8 \$ 52)	(76,2 \$ 55)
Denominator:								
Weighted-average common shares outstanding, basic and diluted	201, 559, 007	197, 864, 993	200, 734, 555	197, 443, 615	202,5 26,84 4	198,2 34,39 2	201,3 38,55 0	197,7 10,10 4
Net loss per common share, basic and diluted	(0.0 \$ 9)	(0.13 \$ (0.13)	(0.1 \$ 7)	(0.2 \$ 6)	(0.04 \$ (0.04)	(0.13 \$ (0.13)	(0.21 \$ (0.21)	(0.39 \$ (0.39)

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## AvidXchange Holdings, Inc.

### Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

#### 5. Fair Value Measurements

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade and supplier advances receivables, assets of the rabbi trust, AP, deferred compensation liabilities, and debt. The carrying amount of cash, trade and supplier advances receivables, and AP approximate fair value due to the short-term maturity. The estimated fair value of long-term debt is based on borrowing rates currently available to the Company for similar debt issues. The fair value approximates the carrying value of long-term debt.

In accordance with applicable accounting standards, the Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The following is a brief description of those three levels:

- Level 1      Observable inputs such as quoted market prices in active markets for identical assets or liabilities.
- Level 2      Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3      Unobservable inputs that reflect the reporting entity's own assumptions. The fair value for such assets and liabilities is generally determined using pricing models, discounted cash flow methodologies, or similar techniques that incorporate the assumptions a market participant would use in pricing the asset or liability.

When more than one level of input is used to determine the fair value, the financial instrument is classified as Level 1, 2 or 3 according to the lowest level input that has a significant impact on the fair value measurement. The Company performs a review of the fair value hierarchy classification on an annual basis. Changes in the observability of valuation inputs may result in a reclassification of certain financial assets or financial liabilities within the fair value hierarchy.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgment.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis using the above categories, as of the periods presented.

Description	As of June 30, 2023				As of September 30, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents								
Money market mutual funds (1)	163, \$ 203	\$ -	\$ -	163, \$ 203	167, \$ 079	\$ -	\$ -	167, \$ 079
Rabbi trust-owned life insurance policies (at cash surrender value) (2)	-	1,7 66	-	1,76 6	-	1,7 04	-	1,70 4
Total assets	163, \$ 203	1,7 \$ 66	- \$ -	164, \$ 969	167, \$ 079	1,7 \$ 04	- \$ -	168, \$ 783
Other long-term liabilities								

		1,9		1,94		2,1		2,11
Deferred compensation	\$ -	\$ 42	\$ -	2	\$ -	\$ 16	\$ -	6
		1,9		1,94		2,1		2,11
Total liabilities	\$ -	\$ 42	\$ -	\$ 2	\$ -	\$ 16	\$ -	\$ 6

Description	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market mutual funds (1)	\$ 147,149	\$ -	\$ -	\$ 147,149
Rabbi trust-owned life insurance policies (at cash surrender value) (2)	-	1,611	-	1,611
Total assets	\$ 147,149	\$ 1,611	\$ -	\$ 148,760
Other long-term liabilities				
Deferred compensation	\$ -	\$ 1,803	\$ -	1,803
Total liabilities	\$ -	\$ 1,803	\$ -	\$ 1,803

- (1) Money market funds are classified as cash equivalents in the Company's unaudited consolidated balance sheets. As short-term, highly liquid investments readily convertible to known amounts of cash with remaining maturities of three months or

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## AvidXchange Holdings, Inc.

### Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

less at the time of purchase, the Company's cash equivalent money market funds have carrying values that approximate fair value.

- (2) Fair value of insurance policies represent their cash surrender value based on the underlying investments in the account which is determined based on quoted prices for identical or similar financial instruments in active markets.

## 6. Marketable Securities

Marketable securities consist of corporate bonds, commercial paper and U.S. Treasury and agency bonds, and are classified as held-to-maturity. Investments held in marketable securities had contractual maturities of less than three four months as of June September 30, 2023. As the Company invests in short-term and high credit quality marketable securities, the Company expects to receive fixed par value without any loss of principle at the maturity of each security. Therefore, an

allowance for expected credit losses is not recognized as of June 30, 2023 September 30, 2023 and December 31, 2022. The following presents information about the Company's marketable securities:

Sector	As of June 30, 2023						As of September 30, 2023					
	Amortized Cost	Allowance for credit losses	Net Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Amortized Cost	Allowance for credit losses	Net Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Financial						5						7
a						9,						4,
n	59,					5	74,					4
ci	55		59,			3	43		74,			0
al	\$ 7	\$ -	\$ 557	\$ -	\$ (23)	\$ 4	\$ 5	\$ -	\$ 435	\$ -	\$ (27)	\$ 8
Government												
n						1						2
m						5,						6,
e	15,					1	26,					2
n	16		15,			6	20		26,			0
t	2	-	162	-	(1)	1	8	-	208	1	-	9
Industrial												
d						2						
u						6,						
st	26,					2						
ri	28		26,			7						
al	9	-	289	-	(10)	9	-	-	-	-	-	-
						1						1
						0						0
						0,						0,
	10		101			9	10		100			6
Tot	1,0		,00			7	0,6		,64			1
al	\$ 08	\$ -	\$ 8	\$ -	\$ (34)	\$ 4	\$ 43	\$ -	\$ 3	\$ 1	\$ (27)	\$ 7

As of December 31, 2022

Sector	Amortized Cost	Allowance for credit losses	Net Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Financial	\$ 80,831	\$ -	\$ 80,831	\$ 8	\$ (32)	\$ 80,807
Government	15,071	-	15,071	5	-	15,076
Industrial	15,084	-	15,084	-	(3)	15,081
Total	<u>\$ 110,986</u>	<u>\$ -</u>	<u>\$ 110,986</u>	<u>\$ 13</u>	<u>\$ (35)</u>	<u>\$ 110,964</u>

The fair value of marketable securities in the Government major security type is classified as a Level 1 in the Company's fair value hierarchy described in Note 5. The fair values of the remaining major security types are classified as Level 2.

The following table presents information about the Company's investments that were in an unrealized loss position and for which an other-than-temporary impairment has not been recognized in earnings:

	As of June 30, 2023	As of December 31, 2022	As of September 30, 2023	As of December 31, 2022
Aggregate fair value of investments with unrealized losses (1)	\$ 100,975	\$ 59,595	\$ 74,408	\$ 59,595
Aggregate amount of unrealized losses	(34)	(35)	(27)	(35)

(1) Investments have been in a continuous loss position for less than 12 months

## 7. Intangible Assets and Goodwill

### Intangible Assets

The following table presents information about capitalized software development costs:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
Capitalized software development costs	2023	2022	2023	2022	2023	2022	2023	2022
	3,87	4,79	7,73	9,33			11,89	13,59
Capitalized	\$ 8	\$ 1	\$ 3	\$ 5	\$ 4,165	\$ 4,264	\$ 8	\$ 9



	3,66	2,95	7,28	5,49			11,19	
Amortized	8	1	4	2	3,910	3,251	4	8,743

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**AvidXchange Holdings, Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
*(in thousands, except share and per share data)*

	As of June 30, 2023				As of September 30, 2023			
	Weighted Average Useful Life	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Useful Life	Gross Amount	Accumulated Amortization	Net Amount
Internally developed software	3 Years	93,656	(66,945)	26,711	3 Years	97,821	(70,855)	26,966
Non-competes	4 Years	6,194	(2,908)	3,286	4 Years	6,194	(3,323)	2,871
Technology	7 Years	45,791	(28,247)	17,544	7 Years	45,791	(29,214)	16,577
Customer relationships	9 Years	72,512	(33,464)	39,048	9 Years	72,512	(35,532)	36,980
Trade name	10 Years	7,748	(2,385)	5,363	10 Years	7,748	(2,559)	5,189
Total intangible assets		225,901	(133,949)	91,952		230,066	(141,483)	88,583

	As of December 31, 2022			
	Weighted Average Useful Life	Gross Amount	Accumulated Amortization	Net Amount
Internally developed software	3 Years	\$ 85,923	\$ (59,661)	\$ 26,262
Non-competes	4 Years	6,194	(2,079)	4,115

Technology	7 Years	45,791	(26,314)	19,477
Customer relationships	9 Years	72,512	(29,327)	43,185
Trade name	10 Years	7,748	(2,038)	5,710
Total intangible assets		<u>\$ 218,168</u>	<u>\$ (119,419)</u>	<u>\$ 98,749</u>

Total amortization expense associated with identifiable intangible assets was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Total amortization expense associated with identifiable intangible assets	\$ 7,292	\$ 6,687	\$ 14,531	\$ 12,821

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Total amortization expense associated with identifiable intangible assets	\$ 7,533	\$ 6,874	\$ 22,064	\$ 19,695

## Goodwill

There were no changes in goodwill during the three and six nine months ended June 30, 2023 September 30, 2023.

## 8. Leases and Leasing Commitments

Supplemental cash flow information related to the Company's operating and finance leases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>								
Financing cash flows for finance leases	\$ 140	\$ 188	\$ 305	\$ 425	\$ 130	\$ 241	\$ 435	\$ 666
Operating cash flows for finance leases	1,46	1,44	2,91	2,86	1,47	1,46	4,38	4,32
	6	2	4	3	2	0	6	3

Operating cash flows for operating leases	559	510	1,106	1,015	562	505	1,668	1,520
<b>Right of use assets obtained in exchange for new lease obligations:</b>								
Finance lease liabilities	81	442	81	499	-	190	81	689
Operating lease liabilities	-	-	362	2,831	-	-	362	2,831

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**AvidXchange Holdings, Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
*(in thousands, except share and per share data)*

The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
Lease expense	2023	2022	2023	2022	2023	2022	2023	2022
Finance lease expense:								
Amortization of right-of-use assets	\$ 529	\$ 636	\$ 0	\$ 6	\$ 292	\$ 615	\$ 1,352	\$ 1,921
Interest on lease liabilities	1,646	1,629	3,287	3,252	1,647	1,644	4,934	4,896
Operating lease expense	432	455	864	909	426	445	1,290	1,354
Short-term lease expense	-	163	-	323	-	168	-	491
Variable lease expense	54	43	107	78	99	63	206	141
Total lease expense	\$ 1,266	\$ 1,292	\$ 5,318	\$ 5,868	\$ 2,464	\$ 2,935	\$ 7,782	\$ 8,803

## 9. Long-Term Debt

Long-term debt as of **June 30, 2023** **September 30, 2023** and December 31, 2022:

	As of June 30, 2023	As of December 31, 2022	As of September 30, 2023	As of December 31, 2022
Term loan facility	\$ 64,188	\$ 65,000	\$ 63,781	\$ 65,000
Promissory note payable for land acquisition	18,700	18,700	18,700	18,700
Total principal due	82,888	83,700	82,481	83,700
Current portion of term loan and promissory notes	(6,425)	(6,425)	(6,425)	(6,425)
Unamortized portion of debt issuance costs	(1,227)	(1,363)	(1,158)	(1,363)
Long-term debt	<u>\$ 75,236</u>	<u>\$ 75,912</u>	<u>\$ 74,898</u>	<u>\$ 75,912</u>

On December 29, 2022 the Company, through its wholly-owned subsidiary, AvidXchange, Inc., entered into a credit agreement (the "2022 Credit Agreement") with KeyBank National Association ("KeyBank") to replace in its entirety its previous senior secured credit facility. The outstanding balances of the previous senior secured credit facility were repaid with the Company's cash balances and the proceeds from borrowing under the 2022 Credit Agreement. The 2022 Credit Agreement has a term of five years and consists of a 5-year revolving credit facility (the "2022 Revolver") and a five-year term loan facility (the "2022 Term Loan").

Under the 2022 Credit Agreement and subject to specific conditions, the Company may request, and the lenders have the right, but not the obligation, to increase the 2022 Revolver or add an additional term loan facility by an aggregate amount (for all such increases) not to exceed \$50,000 as of **June 30, 2023** **September 30, 2023**.

In January 2023, the Company increased the credit available on its 2022 Revolver by \$20,000 to an aggregate borrowing capacity of \$30,000, thereby increasing the aggregate borrowing capacity of the 2022 Credit Agreement to \$95,000. This increase in borrowing capacity reduced the amount by which the Company may request future increases of the 2022 Revolver or 2022 Term Loan from \$70,000 to \$50,000.

The 2022 Credit Agreement has a term of five years and makes available to the Company facilities in an aggregate amount of \$95,000 and consists of:

- \$30,000 pursuant to the 2022 Revolver; and
- \$65,000 pursuant to the 2022 Term Loan.

Letters of credit may be issued by KeyBank pursuant to the 2022 Credit Agreement and the availability under the 2022 Revolver will be reduced by any outstanding letters of credit. **As June 30, 2023** **Effective July 1, 2023**, **borrowing availability**

under the 2022 Revolver was reduced by Company's landlord canceled the then current amount of the standby letter of credit dated October 1, 2019 which as it was issued by KeyBank to secure the Company's obligation to make payments under the lease for the Company's headquarters building in Charlotte, North Carolina. The amount of the letter no longer required. As September 30, 2023, no letters of credit was \$6,072 as of June 30, 2023, were outstanding.

As of June 30, 2023 September 30, 2023, the aggregate amount available to borrow under the 2022 Credit Agreement was \$23,928 30,000. As of June 30, 2023 September 30, 2023, the effective interest rate of the 2022 Term Loan was 7.80 8.29%.

Proceeds from the 2022 Term Loan and corporate cash were used to pay in full all outstanding debt and expenses under the previous senior secured credit facility, and the 2022 Revolver may be used to fund working capital and for general corporate purposes.

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## AvidXchange Holdings, Inc.

### Notes to the Unaudited Consolidated Financial Statements

*(in thousands, except share and per share data)*

The maturity date for the 2022 Revolver and 2022 Term Loan is December 29, 2027. The Company may voluntarily pre-pay all or any part of the 2022 Revolver or 2022 Term Loan without premium or penalty, subject to concurrent payments of accrued and unpaid interest and any applicable breakage costs.

Interest on the loans under the 2022 Credit Agreement is equal to the daily simple secured overnight financing rate ("SOFR"), term SOFR or a base rate, plus an applicable margin. The applicable margin is between 2.5% and 3.0% for daily simple SOFR and term SOFR loans (plus a SOFR adjustment between 0.1% and 0.25%), and between 1.5% and 2.0% for base rate loans. The applicable margin fluctuates based on the ratio of debt under the 2022 Credit Agreement to the Company's consolidated software revenue. The Company may elect one-, three- or six-month interest periods in connection with term SOFR. The base rate is equal to the higher of KeyBank's prime rate, the federal funds effective rate plus 0.5%, or one-month term SOFR plus 1.0%. For purposes of the 2022 Credit Agreement, daily simple SOFR, term SOFR and the base rate will never be less than 0.5%.

The principal amount of the 2022 Term Loan amortizes at a rate of 2.5% per year for the first two years and 5% per year for the last three years, payable in equal quarterly installments. Additional principal payments are due in certain circumstances, and subject to certain limitations, including upon a sale of assets or upon receipt of proceeds of casualty insurance or condemnation.

The 2022 Credit Agreement contains certain customary representations and warranties and affirmative and negative covenants. The affirmative covenants require the Company to provide the lenders with certain financial statements, budgets, compliance certificates and other documents and reports and to comply with certain laws. The negative covenants restrict the Company's ability to incur additional indebtedness, create additional liens on its assets, make certain investments, dispose of its assets or engage in a merger or other similar transaction or engage in transactions with affiliates, which are subject, in each case, to the various exceptions and conditions described in the 2022 Credit Agreement.

The negative covenants further restrict the Company's ability to make certain restricted payments, including the payment of dividends in certain limited circumstances.

The 2022 Credit Agreement also contains three financial covenants, measured on a consolidated basis. First, there must be liquidity (which is defined as availability under the 2022 Revolver, plus unrestricted cash) that is more than the greater of (1) \$35,000, and (2) 35% of the Total Commitment Amount (as defined in the 2022 Credit Agreement). Second, as of the end of each quarter, total revenue on a trailing four-quarter basis must be greater than the requirements set forth in the 2022 Credit Agreement. Third, for each period of four consecutive quarters ending on December 31, 2024, and at the end of each fiscal quarter thereafter, Consolidated EBITDA (as defined in the 2022 Credit Agreement) must not be less than \$10,000. The Company was in compliance with its financial debt covenants as of June 30, 2023 September 30, 2023.

The 2022 Credit Agreement also includes certain customary events of default. If an event of default occurs and is continuing, the lenders are entitled to take various actions, including the acceleration of the maturity of all loans and to take all actions permitted to be taken by a secured creditor with respect to the collateral for the 2022 Credit Agreement and under applicable law.

The obligations under the 2022 Credit Agreement are secured by:

- substantially all of the tangible and intangible assets of the Company and its material subsidiaries, except for client funds, client funds accounts (as such terms are defined in the 2022 Credit Agreement) and existing real estate, and
- the capital stock of the Company's material subsidiaries.

Under the previous senior secured credit facility, the certain wholly-owned subsidiaries of the Company were co-borrowers, with the Company's parent holding company as the guarantor. By contrast, under the 2022 Credit Agreement, the Company's wholly-owned subsidiary, AvidXchange, Inc., is the only borrower, and AvidXchange, Inc.'s parent holding company and certain subsidiaries of AvidXchange, Inc. are co-guarantors.

### Revolving Credit Facility

There was no balance outstanding under either revolving credit facility as of June 30, 2023 September 30, 2023 or December 31, 2022. The Company is required to pay on a quarterly basis a commitment fee of 0.3% per annum with respect to the amount of the 2022 Revolver.

### Deferred Financing Costs

The Company has \$679,641 and \$385 in deferred financing costs included in other noncurrent assets and deposits, and \$1,227,158 and \$1,363 of deferred financing costs associated with its term loans recorded net of long-term debt as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Amortization of deferred financing costs was \$110,106 and \$280,339 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$220,326 and \$679,101 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively, which is presented in the consolidated statements of operations as interest expense.

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AvidXchange Holdings, Inc.

## Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

### Land Promissory Notes

The Company has two promissory notes executed in connection with the purchase of land parcels and improvements adjacent to its Charlotte, North Carolina headquarters campus. The aggregate outstanding principal amount was \$18,700 as of **June 30, 2023** **September 30, 2023** and will be paid in three remaining equal annual payments of \$4,800 and a final annual payment of \$4,300, plus accrued interest at 6.75%.

### 10. Stockholders' Equity

The holders of common stock are entitled to one vote for each share.

#### Authorized Shares

The Company is authorized to issue 1,600,000,000 shares of common stock, \$0.001 par value per share, and 50,000,000 shares of preferred stock, \$0.001 par value per share.

#### Common Stock

At **June 30, 2023** **September 30, 2023**, the Company had reserved a total of **46,645,336** **45,790,684** of its 1,600,000,000 shares of common stock for future issuance as follows:

	As of <b>June 30,</b> <b>2023</b> <b>September 30,</b> <b>2023</b>	
Outstanding stock options	<b>8,398,693</b>	8,252,768
	<b>10,846,847</b>	10,114,4
Restricted stock units		72
	<b>21,150,129</b>	21,173,7
Available for future issuance under stock award plans		77
Available for future issuance under employee stock purchase plan		6,249,667
	<b>46,645,336</b>	45,790,6
Total common shares reserved for future issuance		<b>84</b>

### 11. Stock-Based Compensation

Upon the adoption of ASU 2016-09 on January 1, 2022, the Company elected to recognize forfeitures as they occur. Previously, the Company estimated forfeitures based on historical experience. The change in accounting policy resulted in the recognition of a cumulative effect adjustment to the Company's accumulated deficit as of January 1, 2022 in the amount of \$629.

#### Stock Plans

The Company maintains its 2021 Long-Term Incentive Plan ("2021 Plan") under which it grants stock awards to its employees, directors and non-employee third parties. On January 1, 2023, the number of shares of common stock available to issue under the 2021 Plan automatically increased by 9,971,700 shares. As of June 30, 2023 September 30, 2023, the Company had 21,150,129 21,173,777 shares allocated to the 2021 Plan, but not yet issued or granted as an award.

The Company also maintains its 2021 Employee Stock Purchase Plan ("ESPP"), under which eligible employees may purchase the Company's common stock through accumulated payroll deductions. On January 1, 2023, the number of shares of common stock reserved for issuance under the ESPP automatically increased by 1,994,340. As of June September 30, 2023, the number of shares of common stock reserved for issuance under the ESPP was 6,249,667.

Stock Options

Stock options granted under the Company's current and prior equity incentive plans have various vesting periods ranging from fully-vested on the date of grant to vesting over a period of three or four years. The term for each incentive stock option under these plans is ten years from the grant date, or five years for a grant to a ten percent owner optionee, in each case assuming continued employment. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model.

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AvidXchange Holdings, Inc.

Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

Stock option activity for the six nine months ended June 30, 2023 September 30, 2023 was as follows:

	Stock Options				Stock Options			
	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance as of December 31, 2022	7,131,150	\$ 8.37	7.61	\$ 16,849	7,131,150	\$ 8.37	7.61	\$ 16,849
Granted	1,748,480	9.00			1,748,480	9.00		
Exercised	(222,383)	3.16			(313,736)	4.63		



Canceled	(227,584)	9.22			(281,160)	9.27		
Expired	(30,970)	8.03			(31,966)	7.78		
Balance as of June 30, 2023	8,398,693	\$ 8.62	7.70	\$ 57				
Balance as of September 30, 2023					8,252,768	\$ 8.62	7.46	\$ 52
Vested and exercisable	4,121,252	\$ 7.84	6.58	\$ 34	4,306,578	\$ 7.96	6.42	\$ 81

As of June 30, 2023 September 30, 2023, the total unamortized stock-based compensation expense related to the unvested stock options was \$16,432 14,195, which the Company expects to amortize over a weighted average period of 2.7 2.5 years.

### Restricted Stock Units

RSUs have a vesting period generally of one, two and four years. Any unvested RSUs are forfeited upon termination of employment. The grant date value of RSUs is equal to the closing price of the Company's stock on the date of grant, or, if not a trading day, the closing price of the previous trading day.

RSUs granted prior to the Company's IPO have a term of seven years, or three years for time vested RSUs after termination of employment and were also subject to a performance condition upon a predefined liquidity event such as an IPO or a change in control. The performance condition was satisfied upon completion of the Company's IPO. Prior to the IPO, RSUs were valued at the estimated value of a share of common stock at the date of grant.

RSU activity for the six nine months ended June 30, 2023 September 30, 2023 was as follows:

Restricted Stock Units		Restricted Stock Units	
Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value

Balance as of December 31, 2022	7,877,598	\$	9.07	7,877,598	\$	9.07
Granted	5,703,564		9.02	5,823,770		8.98
Released	(2,264,068)		8.98	(2,955,183)		9.11
Cancelled	(470,247)		8.47	(631,713)		8.55
Balance as of June 30, 2023	10,846,847	\$	9.06			
Balance as of September 30, 2023				10,114,472	\$	9.01

As of **June 30, 2023** **September 30, 2023**, the total unamortized stock-based compensation expense related to the unvested RSUs was **\$83,269** **73,820**, which the Company will amortize over a weighted average period of **3.1** **2.9** years upon satisfaction of the performance condition.

### Stock-Based Compensation Expense

Stock-based compensation expense from stock options and RSUs, reduced for actual forfeitures, was included in the following line items in the accompanying consolidated statement of operations:

	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Cost of revenues	\$ 1,311	\$ 1,13	\$ 8	\$ 2,05	\$ 1,109	\$ 971	\$ 3,437	\$ 3,026
Sales and marketing	1,400	1,35	5	2,23	1,212	1,190	3,747	3,421
Research and development	2,980	2,12	9	3,88	2,976	2,626	8,175	6,514
General and administrative	5,178	3,50	8	6,53	5,746	3,727	15,21	10,26
	10,86	4	19,5	4			4	1
		8,11		14,7			30,57	23,22
Total	\$ 9	\$ 3	\$ 30	\$ 08	\$ 11,043	\$ 8,514	\$ 3	\$ 2

### Employee Stock Purchase Plan

Stock-based compensation expense for the ESPP is based on the estimated fair value of the option to purchase shares at a discount and uses grant date inputs including the purchase discount, expected contributions and stock price. Total ESPP expense recorded in the Company's consolidated statements of operations was as follows:

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## AvidXchange Holdings, Inc.

### Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

	Three Months Ended June		Six Months Ended June 30,	
	30,			
	2023	2022	2023	2022
ESPP expense	\$ 152	\$ 145	\$ 422	\$ 341

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
ESPP expense	\$ 186	\$ 204	\$ 608	\$ 545

## 12. Commitments and Contingencies

### Letters of Credit

As of June 30, 2023 Effective July 1, 2023, the Company has an irrevocable Company's landlord canceled the standby letter of credit outstanding that acts as collateral with respect to it was no longer required. As a result, the lease of the Company's Charlotte corporate headquarters with an availability of approximately \$6,072 for which the Company pays a fee of 2.5% to 3.0% per annum, primarily based on the ratio of debt under the 2022 Credit Agreement to the Company's consolidated software revenue. The letter of credit reduces the Company's borrowing capacity under its 2022 Revolver increased to its limit of \$30,000 as of that date. As of September 30, 2023, the 2022 Revolver. It renews annually and expires on Company had no December 1, 2023. The letter letters of credit was canceled on outstanding.

### Loss Contingency

During the three ended September 30, 2023, the Company accrued approximately \$July 1, 2023\$1,600 for a loss contingency related to a potential commercial dispute. The amount recorded does not include an estimate for recoveries related to the matter as described they cannot be estimated. The amount was recorded in Note 14. general and administrative expenses in the consolidated statements of operations in the three and nine months ended September 30, 2023.

### Cybersecurity Incident

In early April 2023, the Company detected a cybersecurity incident as part of its routine security monitoring protocols. In response to the incident, the Company launched an investigation with the support of leading cybersecurity experts,

reached out to law enforcement, accelerated planned security enhancements, and has taken and will continue to take actions to implement additional safeguards.

Having expelled the threat actor from its systems, the Company has detected no activity from the threat actor on its network since April 27, 2023. The Company's solutions are operational, and customer transactions continue to be processed through the Company's systems. No threat actor activity has been detected. Based on the Company's network investigation and systems since April 27, 2023, the enhancements implemented to date, the Company believes that its products remain secure and safe to use.

The investigation which is ongoing as of the date of filing of this Quarterly Report on Form 10-Q, has determined that data the incident primarily affected systems that were used for back-office activities. Data was exfiltrated from certain AvidXchange these systems and posted on the dark web. The Company is reviewing data consisted of confidential information from the published data. As of the date of filing of this Quarterly Report on Form 10-Q, the Company has identified Company's files, including personally identifiable information, primarily information of Company employees, former employees, and their dependents, and the bank account information of some customers in the files published online. The Company continues to review the files published online to identify additional bank account information and any other confidential information and any personally identifiable information that requires notification under state law. The Company believes that this review will extend through the third fiscal quarter of 2023. The Company has posted notice of the event on its website and is continuously reviewing and evaluating the situation and the Company's notification and disclosure obligations as additional information becomes available. customers. The Company has cooperated with inquiries about the incident from two three state consumer and financial service regulators. regulators, provided notices to impacted customers and individuals, and complied with regulatory requirements of various states that address notice and credit monitoring. The Company expects to fully complete its investigation and to deliver all required notices during the fourth quarter of 2023.

#### *Expenses Incurred and Future Costs*

During the second fiscal quarter of 2023, three and nine months ended September 30, 2023, the Company incurred costs of \$3,616 1,918 and \$5,535, respectively in response to the incident, including professional services and legal fees. fees, before insurance recoveries. The Company expects that it will continue to experience significant expenses and increased costs associated with this cybersecurity incident. incident during the fourth quarter of 2023. While a loss from these matters is possible, the Company is unable at this time to reasonably estimate the possible loss or range of loss, and the Company's investigation into the matter is ongoing. loss. Therefore, no liability for losses has been recorded related to the incident as of June 30, 2023 September 30, 2023.

#### *Insurance Coverage*

The Company maintains cyber insurance coverage and will be tendering claims for certain expenses incurred in connection with this event. The extent to which its insurance will cover such expenses remains uncertain. As of September 30, 2023, the Company recorded a receivable for insurance recoveries, that have been approved for reimbursement, in the amount of \$1,228. This amount was recorded as a reduction of general and administrative expense in the three and nine months ended September 30, 2023.

### 13. Income Taxes

The Company's effective tax rate for each of the six three months ended June 30, 2023, September 30, 2023 and 2022 was less than (one 1.7 percent, primarily as )% and (0.3)%, respectively, and for the nine months ended September 30, 2023 and 2022 was (0.8)% and (0.3)%, respectively. The Company's effective tax rate was a result of estimated tax losses for the fiscal year-to-date offset by the increase in the valuation allowance in the net operating loss carryforwards. Tax expense includes current tax expense for estimated state income taxes and noncurrent federal taxes related to non-deductibility of goodwill in the future.

### 14. Subsequent Events

Effective July 1, 2023, the Company's landlord canceled the standby letter of credit as it was no longer required. As a result, the Company's borrowing capacity under its 2022 Revolver increased by \$6,072 to \$30,000 as of that date.

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

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the unaudited interim financial statements and notes thereto included in this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto for the year ended December 31, 2022 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2022.*

### Cautionary Note Regarding Forward Looking Statements

*The following discussion and other parts of this Quarterly Report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future operating results and financial position, our business strategy and plans, market growth, and our objectives for future operations, may constitute forward-looking statements. These statements are often identified by the use of words such as "believe," "may," "will," "estimate," "potential," "continue," "anticipate," "intend," "expect," "could," "would," "project," "plan," "target," and similar expressions or variations. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A under the heading "Risk Factors." The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.*

You should read this Quarterly Report on Form 10-Q, and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC, with the understanding that our actual future results, performance, and events and circumstances may be materially different from what we expect.

In this Quarterly Report on Form 10-Q, the words “we,” “our,” “us,” “AvidXchange,” and “our Company” refer to AvidXchange, Inc. prior to our reorganization, and to AvidXchange Holdings, Inc. and its consolidated subsidiaries following the reorganization, unless the context requires otherwise.

## Overview

AvidXchange was founded in 2000 to serve the AP automation needs of the middle market. In 2012, in response to customer demand for more efficient payment methods, we launched the AvidPay Network. Since 2012, we have had substantial growth, both organic and through a series of strategic acquisitions allowing us to expand in the markets that we serve and enter new ones.

## Our Business and Revenue Model

We sell our solutions through a hybrid go-to-market strategy that includes direct and indirect channels. Our direct sales force leverages their deep domain expertise in select verticals and over 205 referral relationships with integrated software providers, financial institutions and other partners to identify and attract buyers that would benefit from our AP software solutions and the AvidPay Network. Our indirect channel includes reseller partners and other strategic partnerships such as Mastercard, through MasterCard’s B2B Hub, which includes Fifth Third Bank and Bank of America, and other financial institutions, such as KeyBank, and third-party software providers such as MRI Software, RealPage and SAP Concur. Our referral and indirect channel partnerships provide us greater reach across the market to access a variety of buyers.

We have a highly visible revenue model based on the durability of our buyer relationships and the recurring nature of the revenues we earn. Our revenues are recurring in nature and are derived from multiple sources, predominantly through software revenue from our buyers and revenue from payments made to their suppliers. The table below represents our revenues disaggregated by type of service performed (in thousands):

Disaggregation of Revenue:	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Software revenue	27,24	24,20	54,2	48,11	28,91	25,03	83,13	
	\$ 8	\$ 2	\$ 16	\$ 3	\$ 9	\$ 9	\$ 5	\$ 73,152
Payment revenue	63,22	51,58	122,	98,04	68,48	56,64	190,8	154,69
	8	1	409	9	5	5	94	4
Services revenue			1,35					
	678	778	1	1,602	1,276	727	2,627	2,329

Total	91,15	76,56	177,	147,7	98,68	82,41	276,6	230,17
revenues	\$ 4	\$ 1	\$ 976	\$ 64	\$ 0	\$ 1	\$ 56	\$ 5

Software revenue, payment revenue and services revenue are described below in the section titled "Components of Results of Operations."

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## Macroeconomic Environment's Impact on Revenue

Throughout 2023, we have continued to see the impact of several macroeconomic events on our business and on our buyers and suppliers. These events have included, but are not limited to, a higher than normal level of inflation in the U.S. economy, ongoing interest rate increases, fears of a possible recession, general economic conditions including increased volatility in the U.S. banking market as a result of several highly publicized distressed or closed banks, a higher than normal level of inflation in the U.S. economy, ongoing interest rate increases, fears of a possible recession, supply chain disruptions, and geopolitical tensions including those resulting from the conflict between Russia conflicts in Ukraine and Ukraine, the Middle East. We believe that these macroeconomic events have caused our customers to moderate certain of their expenditures and purchasing decisions, impacting the transactions processed across our network, and have moderately slowed made our sales cycle for new customers. customers more volatile and unpredictable. While we continue to be encouraged by leading indicators in our sales process, or including our top of the funnel activity, top of the funnel activity has not always directly correlated, nor may it in subsequent periods directly correlate, to future revenue growth, and the ongoing uncertainty created by these the macroeconomic events environment could continue to have a negative impact on purchasing decisions by certain buyers, delaying new sales and longer extending sales cycles, and cycles. The impact of these macroeconomic conditions, including a potential or actual recession, on the acceptance rate of electronic forms of payment on our top of the funnel activity has not always and may not network that result in future periods directly correlate to future interchange revenue growth. These events have made it and may continue to make it more difficult for us to acquire new buyers and to close new sales opportunities which in turn adversely impacts revenue growth in future periods, also remains uncertain.

In particular, the long-term impacts of inflation and rising interest rate environment on the economy and our business remain unclear. On the one hand, our revenue could be, and we believe has been, positively impacted by inflation as the value of our customer's payments could rise, increasing our payment volume and the base on which we earn interchange revenue. Also, inflationary pressure could be a catalyst for sales acceleration associated with increased interest by potential customers in automating back-office processing. Additionally, the Federal Reserve has raised interest rates in an effort to reduce inflation. These rate increases have in turn substantially increased the interest we earn on funds held for buyers, which we recognize as payment revenue. The Federal Reserve could in near to mid term mid-term future periods reduce interest rates which would in turn have a negative impact on our payment revenue. Conversely, the impact of inflationary pressures and a rising interest rate environment on the macro economy could slow, and we believe has slowed, the spending of our customers and decrease depressed payment volume. In particular, we have seen softness in top of funnel activity within the commercial office sub-sector of our real estate vertical which we attribute, in part, to the



rising interest rate environment. Inflation could also negatively impact our operating costs by increasing costs incurred by us to operate our business due to higher costs from our vendors and increased personnel costs, some of which we may not be able to recoup from our customers. The impact of inflation and a rising interest rate environment on our business and on our buyers and suppliers in future periods remains highly uncertain, as does the Federal Reserve's response to these conditions. We may not see these impacts of inflation and increased interest rates in future periods, which could lead to difficulty in comparing our current consolidated financial results to our results in future reporting periods.

In addition, increased volatility in the domestic banking sector can impact access to liquidity for our buyers and suppliers and strategic partners, and we continue to closely monitor this situation and the potential impacts this volatility may have on our business, buyers, suppliers, and strategic partners.

### Cybersecurity Incident

In early April 2023, we detected a cybersecurity incident as part of our routine security monitoring protocols. In response to the incident, we launched and undertook an investigation with the support of leading cybersecurity experts, reached out to law enforcement, accelerated planned security enhancements, and have taken and will continue to take actions to implement additional safeguards.

Having expelled the threat actor from our systems, we have detected no activity from the threat actor on our network since April 27, 2023. Our solutions are operational, and customer transactions continue to be processed through our systems. No threat actor activity has been detected. Based on the investigation and the enhancements implemented to date, we believe that our network products remain secure and systems since April 27, 2023, safe to use.

The investigation, which is ongoing as of the date of filing of this Quarterly Report on Form 10-Q, has determined that data the incident primarily affected systems that were used for back-office activities. Data was exfiltrated from certain AvidXchange these systems and posted on the dark web. We are reviewing the published data. As The data consisted of the date of filing of this Quarterly Report on Form 10-Q, we have identified confidential information from our files, including personally identifiable information, primarily information of our employees, former employees, and their dependents, and the bank account information of some customers in the files published online. We continue to review the files published online to identify additional bank account information and any other confidential information and any personally identifiable information that requires notification under state law. We believe that this review will extend through the third fiscal quarter of 2023. We have posted notice of the event on our website and are continuously reviewing and evaluating the situation and our notification and disclosure obligations as additional information becomes available. customers. We have cooperated with inquiries about the incident from two three state consumer and financial service regulators, regulators, provided notices to impacted customers and individuals, and complied with regulatory requirements of various states that address notice and credit monitoring. We expect to fully complete our investigation and to deliver all required notices during the fourth quarter of 2023.

### Expenses Incurred and Future Costs

During the second fiscal quarter of 2023, three and nine months ended September 30, 2023, we incurred \$3.6 million \$1.9 million and \$5.5 million in response costs related to the incident, including professional services and legal fees, fees, before insurance recoveries. We expect that we will continue to experience significant expenses and increased costs associated



with this cybersecurity incident. incident during the fourth quarter of 2023. While a loss from these matters is possible, we are unable at this time to reasonably estimate the possible loss or range of loss, and our investigation into the matter is ongoing. loss. Therefore, no liability for losses has been recorded related to the incident as of June 30, 2023 September 30, 2023.

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Insurance Coverage

We maintain cyber insurance coverage and will be tendering claims for certain expenses incurred in connection with this event. The extent to which our insurance will cover such expenses remains uncertain. As of September 30, 2023, we have recorded a receivable for insurance recoveries, that have been approved for reimbursement, in the amount of \$1.2 million. Insurance recoveries are recorded as a reduction of general and administrative expense.

Refer to Note 12 to our Unaudited Consolidated Financial Statements for additional information concerning the incident.

Key Financial and Business Metrics

We regularly review several financial and business metrics to measure our performance, identify trends affecting our business, prepare financial projections, and make strategic decisions. We believe that these key business metrics provide meaningful supplemental information for management and investors in assessing our historical and future operating performance. The calculation of the key metrics and other measures discussed below may differ from other similarly titled metrics used by other companies, securities analysts or investors.

	Three Months			Six Months			Three Months			Nine Months		
	Ended June 30,			Ended June 30,			Ended September 30,			Ended September 30,		
			Perce			Perce			Perc			Perc
	2023	2022	ntage	2023	2022	ntage	2023	2022	enta	2023	2022	enta
			Chan			Chan			ge			Chan
			ge			ge			ge			ge
Transa	18,	17,		37	34							
ctions	81	31		,0	,1		19,	18,		56,	52,	
Proces	9,6	8,5		77	71		17	02		25	19	
sed	19	93	8.7%	,3	,0		5,8	0,1		3,1	1,2	
Transa				15	82	8.5%	66	65	6.4%	81	47	7.8%
ction	4.8	4.4		4.	4.	11.	5.1	4.5	12.	4.9	4.4	11.
Yield	\$ 4	\$ 2	9.5%	\$ 80	\$ 32	1%	\$ 5	\$ 7	7%	\$ 2	\$ 1	6%

Total Payment Volume (in million dollars)	18,675	16,579	12.6%	36,413	31,776	14.6%	19,627	18,108	8.4%	56,040	49,884	12.3%
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### **Transactions processed**

We believe that transactions processed is an important measure of our business because it is a key indicator of the use by both buyers and suppliers of our solutions and our ability to generate revenue, since a majority of our revenue is generated based on transactions processed. We define transactions processed as the number of invoice transactions and payment transactions, such as invoices, purchase orders, checks, ACH payments and VCCs, processed through our platform during a particular period.

### **Transaction yield**

We believe that transaction yield is an important measure of the value of our solutions to buyers and suppliers as we scale. We define transaction yield as the total revenue during a particular period divided by the total transactions processed during such period.

### **Total payment volume**

We believe total payment volume is an important measure of our AvidPay Network business as it quantifies the demand for our payment services. We define total payment volume as the dollar sum of buyers' AP payments paid to their suppliers through the AvidPay Network during a particular period.

## **Components of Results of Operations**

### **Revenue**

We generate revenue from the following sources: (i) software, (ii) payments, and (iii) services.

#### **Software Revenue**

We generate software revenue from our buyers primarily through (i) fees calculated based on the number of invoices and payment transactions processed and (ii) recurring maintenance and SaaS fees. Software revenue is typically billed to and paid by our buyers on a monthly basis. Our software offerings, many of which are built for specific verticals, address the needs of buyers and together they comprise our suite of predominately cloud-based solutions designed to manage invoices and automate the AP function. We generally sign multi-year contracts with buyers and revenue is recognized over the term of the contract. We also receive initial upfront implementation fees and software maintenance fees for ongoing support, which are recognized ratably over the term of the applicable support period.

#### **Payment Revenue**

We generate revenue from the payments our buyers make to their suppliers through (i) offering electronic payment solutions to suppliers, (ii) fees charged to suppliers from our invoice factoring product, and (iii) interest on funds held for

buyers pending disbursement.

Our electronic payment solutions currently include VCC and an enhanced ACH payment product, or AvidPay Direct, which eliminate paper checks and increase the speed of payment to the supplier. AvidPay Direct also provides suppliers with enhanced remittance data allowing the supplier to reconcile the payment and the underlying invoice. VCC revenues result from interchange fees applied to the spend processed and are recorded net of fees and incentives. AvidPay Direct revenue is based on a per

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transaction fee that we charge to suppliers that generally includes a cap and is based on the spend per payment and is recorded net of incentives.

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Our invoice factoring product, Invoice Accelerator, provides certain suppliers with the opportunity to better manage cash flows and receive payments even faster by allowing suppliers to receive advance payment on qualifying invoices. Revenues are generated on a per transaction basis for each payment that is advanced. We currently fund the purchase of invoices from our balance sheet.

Interest income represents interest received from buyer deposits held during the payment clearing process. We receive interest on funds held through our contractual relationship with our buyers, which we recognize as payment revenue. The rate we earn on buyer funds is difficult to predict in the short and long term and will continue to be impacted by the Federal Reserve's monetary policy and any adjustments that are made in response to inflation. Due to the current high levels of inflation in the U.S. economy, and the resulting increases in interest rates, we experienced an increase in revenues generated on funds held during the payment clearing process in recent periods. This level of interest income on buyer deposits may not be sustainable in future years or in nearer term periods depending on the Federal Reserve's future actions.

Our media payments business includes customers that are involved in political advertising in the U.S. Revenue from these customers is cyclical as it is connected to U.S. election advertising spend which tends to increase during significant election years, such as mid-term and presidential elections. In 2022, we experienced growth in our media payments business due to spending associated with the 2022 mid-term elections. Due to the intermittent nature of the U.S. election cycle, we expect a significant decrease in these revenues during fiscal year 2023.

We utilize service providers to process a substantial portion of our payment revenue that is derived from interchange fees earned on payment transactions processed as VCCs. A large percentage of our revenue is processed by a small number of providers and our revenue is also dependent on the rates we are able to negotiate with these providers. See Note 2 "Summary of Significant Accounting Policies" of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for disclosures regarding this concentration.

### **Services Revenue**

Services revenue includes fees charged to process buyer change in service requests.

## **Total Revenue**

We expect our total revenue to increase year over year due to an increase in the number of transactions processed, and the number of buyers and suppliers using the AvidPay Network, and that payment revenue should comprise a greater proportion of total revenue as the volume of transactions on the AvidPay Network continues to increase.

## **Cost of Revenues and Operating Expenses**

### **Cost of Revenues**

Cost of revenues includes personnel related costs, which include direct compensation, fringe benefits, short- and long-term incentive plans and stock-based compensation expense. Cost of revenues includes teams responsible for buyer and supplier onboarding and setup, invoice processing, payment operations, money movement execution, and customer service. Personnel costs also include internal labor associated with the employees who monitor the performance and reliability of our buyer and supplier solutions and the underlying delivery infrastructure (i.e., application and data hosting administration, product support and escalations, payment monitoring and settlement functions).

Cost of revenues also includes external expenses that are directly attributed to the processing of invoice and payment transactions. These expenses include the cost of scanning and indexing invoices, printing checks, postage for mailing checks, expenses for processing payments (ACH, check, and wires), bank fees associated with buyer deposits held during the payment clearing process, and other transaction execution costs. Additionally, cost of revenues includes fees paid to third parties for the use of their technology, data hosting services, customer relationship management tools used in the delivery of our services or in support of the delivery infrastructure, and adjustments to the allowance for uncollectible advancements processed through Invoice Accelerator. Lastly, cost of revenues includes estimates for treasury losses that occur in treasury operations. Treasury losses include various unrecoverable internal payment processing errors that occur in the ordinary course of business, such as duplicate payments, overpayments, payments to the wrong party and reconciliation errors.

We have elected to exclude amortization expense of capitalized developed software and acquired technology, as well as allocations of fixed asset depreciation expense and facility expenses from cost of revenues.

Our long-term strategy to transition to public cloud services and decommission on-premise infrastructure hosted in co-located **datacenters** **data centers** was substantially completed in the second quarter of 2022.

We expect our cost of revenues as a percentage of revenue to decrease as we continue to realize operational efficiencies and shift more of our transactions to electronic payments.

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## **Sales and Marketing**

Sales and marketing consists primarily of costs related to our direct sales force and partner channels that are incurred in the process of setting up go-to-market strategies, generating leads, building brand awareness and acquiring new buyers and

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suppliers, including efforts to convert suppliers from paper check payments to electronic forms of payments and efforts to enroll them into the Invoice Accelerator solution.

Personnel costs include salaries, wages, direct and amortized sales commissions, fringe benefits, short- and long-term incentive plans and stock-based compensation expense. Most of the commissions paid to the direct sales force are incremental based upon invoice and payment volume from the acquisition of a new buyer and are deferred and amortized ratably over an estimated benefit period of five years.

The partner ecosystem consists of reseller, referral and accounting system partners. Compensation paid to referral and accounting system partners in exchange for the referral and marketing efforts of the partner is classified as sales and marketing expense.

In addition, we focus on generating awareness of our platform and products through a variety of sponsorships, user conferences, trade shows, and integrated marketing campaigns. Costs associated with these efforts, including travel expenses, external consulting services, and various technology applications are included in sales and marketing as well.

We expect our sales and marketing expenses to increase in absolute dollars while remaining fairly consistent as a percentage of revenue as we continue to expand our market presence, grow our customer base, and continue to develop new offerings to sell to our buyers and suppliers. We are focused on the efficient deployment of marketing resources to drive our sales efforts and expect to continue to increase marketing activities over the coming periods.

### ***Research and Development***

Research and development efforts focus on the development of new products and business intelligence tools or the enhancements of existing products and applications, as well as large scale infrastructure projects that improve the underlying architecture of our technology.

The main contributors of research and development costs are (i) personnel related expenses, including fringe benefits, short- and long-term incentive plans and stock-based compensation expense, and (ii) fees for outsourced professional services. We capitalize certain internal and external development costs that are attributable to new products or new functionality of existing products and amortize such costs to depreciation and amortization on a straight-line basis over an estimated useful life, which is generally three years.

We also incur research and development costs attributable to the use of software tools and technologies required to facilitate our research and development activities. Examples of such costs include fees paid to third parties to host lower technical environments and the associated virtual machine ware fees paid to support agile development efforts, and fees paid for software tools and licenses used in quality control testing and code deployment activities.

We expect our research and development expense to increase in absolute dollars but to decrease as a percentage of revenue over the longer term as we are able to efficiently deploy our development resources against a larger revenue base.

### ***General and Administrative***

General and administrative expenses consist primarily of our finance, human resources, legal and compliance, facilities, information technology, administration, and information security organizations. Significant cost contributors are (i)

personnel expenses, including fringe benefits, short- and long-term incentive plans and stock-based compensation expense, and (ii) costs of software applications, including end user computing solutions, and various technology tools utilized by these organizations. Occupancy expenses, which include personnel, rent, maintenance and property tax costs are not allocated to other components of the statements of operations and remain in general and administrative expenses. General and administrative expenses are reduced by incentives we have received from state and local government agencies as part of various local job development investment grants.

While we expect our general and administrative expenses to decrease as a percentage of revenue over the longer term, we expect our general and administrative expenses to increase in absolute dollars over the shorter term as we continue to build out our infrastructure to support our operations as a public company, and to support a larger customer base. We also expect our general and administrative expenses to increase in absolute dollars over the shorter term as we **continue to** address cybersecurity threats, accelerate cybersecurity enhancements, and implement additional safeguards.

**Depreciation and Amortization**

Depreciation and amortization expense includes depreciation of property and equipment over the estimated useful life of the applicable asset, as well as amortization of acquired intangibles (i.e., non-compete agreements, customer relationships,

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technology, and trade name) with a useful life between 3 and 15 years, and amortization of capitalized software development costs with an estimated benefit of 3 years.

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**Other Income (Expense)**

Other income (expense) consists primarily of interest expense on our bank borrowings and headquarters finance leases, offset by interest income on non-customer corporate funds. Additionally in periods before our IPO, other income (expense) included changes in the fair value of our derivative instrument, which required adjustments to fair value each reporting period.

**Income Tax Expense (Benefit)**

Income tax expense (benefit) consists of federal and state income taxes.

**Results of Operations**

The following table sets forth our results of operations for the periods presented (in thousands, except share and per share data):

				Three Months		Nine Months	
				Ended September		Ended September	
Three Months		Six Months		30,		30,	
Ended June 30,		Ended June 30,					
2023	2022	2023	2022	2023	2022	2023	2022

			177	147				
	91,	76,	,97	,76	98,6	82,4	276,	230,
<b>Revenues</b>	\$ 154	\$ 561	\$ 6	\$ 4	\$ 80	\$ 11	\$ 656	\$ 175
Cost of revenues (exclusive of depreciation and amortization expense)	30,	28,	59,	56,	30,7	29,8	90,4	86,6
	221	979	694	786	67	90	61	76
<b>Operating expenses</b>								
	20,	20,	40,	37,	18,7	20,2	58,9	57,9
Sales and marketing	076	448	211	687	35	41	46	28
	24,	20,	47,	40,	24,7	21,9	72,6	62,1
Research and development	740	107	862	179	54	97	16	76
	27,	19,	50,	38,	25,0	24,0	75,3	62,7
General and administrative	716	974	343	662	02	42	45	04
	8,8	8,3	17,	16,	9,05	8,36	26,5	24,3
Depreciation and amortization	78	01	464	019	1	5	15	84
			155	132				
	81,	68,	,88	,54	77,5	74,6	233,	207,
Total operating expenses	410	830	0	7	42	45	422	192
	(20,	(21,	(37,	(41,	(9,6	(22,	(47,	(63,
Loss from operations	477)	248)	598)	569)	29)	124)	227)	693)
<b>Other income (expense)</b>								
	5,2		9,7		5,10	2,03	14,8	2,90
Interest income	04	655	20	875	0	1	20	6
	(3,3	(5,0	(6,6	(10,	(3,4	(5,2	(10,	(15,
Interest expense	63)	75)	78)	052)	28)	09)	106)	261)
	1,8	(4,4	3,0	(9,1	1,67	(3,1	4,71	(12,
Other income (expense)	41	20)	42	77)	2	78)	4	355)
	(18,	(25,	(34,	(50,	(7,9	(25,	(42,	(76,
Loss before income taxes	636)	668)	556)	746)	57)	302)	513)	048)
Income tax expense	135	69	205	138	134	69	339	207
	(18,	(25,	(34,	(50,	(8,0	(25,	(42,	(76,
Net loss	\$ 771)	\$ 737)	\$ 761)	\$ 884)	\$ 91)	\$ 371)	\$ 852)	\$ 255)
Net loss per share attributable to common stockholders, basic and diluted	(0.0	(0.1	(0.1	(0.2	(0.0	(0.1	(0.2	(0.3
	\$ 9)	\$ 3)	\$ 7)	\$ 6)	\$ 4)	\$ 3)	\$ 1)	\$ 9)

Weighted average number of common shares used to compute net loss per share attributable to common stockholders, basic and diluted	201,559,007	197,864,993	200,734,555	197,443,615	202,526,844	198,234,392	201,338,550	197,710,104
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## Comparison of the Three Months Ended June 30, 2023 September 30, 2023 and 2022

### Revenues

	Three Months Ended June 30,		Period-to-Period Change	
	2023	2022	Amount	Percentage
	(in thousands)			
Revenues	\$ 91,154	\$ 76,561	\$ 14,593	19.1 %

	Three Months Ended September 30,		Period-to-Period Change	
	2023	2022	Amount	Percentage
	(in thousands)			
Revenues	\$ 98,680	\$ 82,411	\$ 16,269	19.7 %

The increase in revenues was largely comprised of an increase in payment revenue of \$11.6 million \$11.8 million, or 22.6% 20.9%, driven primarily by increased electronic payments on the AvidPay Network due to the addition of new and existing buyer payment transaction volume and an increase in payment yield, that resulted, in part, from a rising interest rate environment. Payment revenue and payment yield were positively impacted by interest on funds held for customers as the rate earned on those funds increased during the period due to the Federal Reserve raising rates in response to the higher than normal level of inflation in the U.S. economy. Payment revenue from interest increased \$8.0 million \$7.9 million to \$9.2 million \$10.6 million in the second third quarter of 2023 from \$1.2 million \$2.7 million in the second third quarter of 2022. These The increases in from payment transaction volume were partially offset by decreases in volume in media payments associated with political media spend, due to prior increases from the 2022 mid-term elections which did not occur in the current period, resulting in a decrease of \$2.0 million \$3.2 million. Software revenue increased by \$3.0 million \$3.9 million, or 12.6% 15.5%, primarily driven by increased invoice and payment transaction volume from new and existing customers as well as price increases and certain subscription-based revenue. The quarter ended September 30, 2023 included an out of period adjustment of \$1.5 million increase to revenue, primarily comprised of an increase in software revenue of \$1.1 million and an increase in services revenue of \$0.5 million, offset by a decrease in payment revenue of \$0.1 million.



**Cost of Revenues**

	Three Months Ended June 30,					
	2023		2022			
	Percentage of		Percentage of		Period-to-Period Change	
	Amount	Revenue	Amount	Revenue	Amount	Percentage
	(in thousands)					
Cost of revenues (excluding depreciation and amortization expense)	\$ 30,221	33.2%	\$ 28,979	37.9%	\$ 1,242	4.3%

	Three Months Ended September 30,					
	2023		2022			
	Percentage of		Percentage of		Period-to-Period Change	
	Amount	Revenue	Amount	Revenue	Amount	Percentage
	(in thousands)					
Cost of revenues (excluding depreciation and amortization expense)	\$ 30,767	31.2%	\$ 29,890	36.3%	\$ 877	2.9%

The increase in cost of revenues (excluding depreciation and amortization expense) was due primarily to an increase in employee costs of \$0.5 million \$0.9 million, including an increase in stock-based compensation of \$0.2 million \$0.1 million. We also experienced increases in invoice and check processing fees of \$0.6 million and consulting and contract labor of \$0.3 million. Additionally, we experienced increases in IT infrastructure costs, including cloud hosting fees and software costs, of \$0.1 million primarily related to our transition of services from data centers to cloud hosting \$0.7 million and an increase of \$0.2 million for misdirected payments. These increases were partially offset by a decrease of \$0.6 million decrease \$0.7 million in the reserve for Invoice Accelerator purchased invoices compared to the prior year. year and a decrease in consulting and contract labor of \$0.2 million.

**Operating Expenses**

Three Months Ended June 30,		Three Months Ended September 30,	
2023	2022	2023	2022

Deprecia  
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ation

in employee costs relates to both headcount and compensation increases and includes an increase of stock-based compensation of \$0.9 million and an increase of annual bonus accrual of \$0.6 million \$0.4 million. We experienced an additional increase of \$0.2 million in IT infrastructure. These increases were offset, in part, by a \$1.0 million net decrease in costs associated with engaging consultants and contractors. We also experienced an additional increase of \$0.9 million from a lower amount of costs capitalized in the current period compared to the prior period.

General and Administrative Expenses

The General and administrative expense included an increase in general employee costs of \$0.9 million as increases in stock-based compensation of \$2.0 million were partially offset by a decrease in annual bonus accrual of \$0.9 million and administrative expenses is primarily attributable to a decrease in wages and other employee costs incurred, of \$0.2 million as a result of headcount reduction. We experienced an increase of \$1.9 million in costs, including professional services and legal fees, related to our threat response in connection with the cybersecurity incident that was detected in April 2023. This increase was offset by insurance recoveries of \$1.2 million related to this incident. We incurred \$3.6 million experienced a decrease of \$0.7 million in credit losses as we released part of our reserve for trade accounts receivable, reflecting improved collections. Additionally, we experienced decreases in legal and professional fees of \$0.2 million and facilities costs in of \$0.2 million. In the second third quarter of 2023, in connection with general and administrative expenses also included a loss contingency of \$1.6 million related to a potential commercial dispute. Compared to the third quarter of 2022, this incident. An additional increase of \$3.0 million is attributable charge was offset by \$1.6 million related to employee costs, including increases in stock-based compensation of \$1.7 million and annual bonus accrual of \$0.9 million. We also experienced an increase of \$0.9 million in credit losses and an increase of \$0.1 million in professional, accounting and consulting fees, contract labor, and insurance non-reoccurring restructuring costs. We experienced an additional increase of \$0.3 million in IT infrastructure. These increases were offset, in part, by a \$0.3 million decrease in facilities costs and a \$0.1 million decrease in transaction costs.

General and administrative expenses in the second half fourth quarter of 2023 and 2024 are expected to reflect continued significant increases in costs related to our threat response, our acceleration of cybersecurity and enhancements, and our implementation of additional safeguards in connection with our cybersecurity incident.

Depreciation and Amortization

Depreciation and amortization increased in absolute terms primarily due to the amortization of intangible assets associated with capitalized software development costs.

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Other Income (Expense)

	Three Months Ended June 30,		Period-to-Period Change
	2023	2022	
	Percent age of	Percentag e of	

	Amount	Revenue	Amount	Revenue	Amount	Percentage
			(in thousands)			
Other Income (Expense)	\$ 1,841	2.0%	\$ (4,420)	(5.8)%	\$ 6,261	(141.7)%

	Three Months Ended September 30,					
	2023		2022			
	Percent		Percentage		Period-to-Period	
	age of		e of		Change	
	Amount	Revenue	Amount	Revenue	Amount	Percentage
			(in thousands)			
Other Income (Expense)	\$ 1,672	1.7%	\$ (3,178)	(3.9)%	\$ 4,850	(152.6)%

Other income increased primarily due to an increase in interest income of \$4.5 million \$3.1 million and a decrease in interest expense of \$1.7 million \$1.8 million. The decrease in interest expense is primarily the result of our new credit facility which was entered into at the end of 2022 at a lower level of borrowing with more favorable interest rates.

#### Income Tax Expense

	Three Months Ended June 30,					
	2023		2022			
	Percenta		Percentage		Period-to-Period	
	ge of		e of		Change	
	Amount	Revenue	Amount	Revenue	Amount	Percentage
			(in thousands)			
Income tax expense	\$ 135	0.1%	\$ 69	0.1%	\$ 66	95.7%

	Three Months Ended September 30,					
	2023		2022			
	Percenta		Percentage		Period-to-Period	
	ge of		e of		Change	
	Amount	Revenue	Amount	Revenue	Amount	Percentage
			(in thousands)			
Income tax expense	\$ 134	0.1%	\$ 69	0.1%	\$ 65	94.2%

The provision for income taxes relates primarily to state income taxes and noncurrent federal taxes related to the non-deductibility of goodwill in the future.

## Comparison of the Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

### Revenues

	Six Months Ended June 30,		Period-to-Period Change	
	2023	2022	Amount	Percentage
	(in thousands)			
Revenues	\$ 177,976	\$ 147,764	\$ 30,212	20.4%

	Nine Months Ended September 30,		Period-to-Period Change	
	2023	2022	Amount	Percentage
	(in thousands)			
Revenues	\$ 276,656	\$ 230,175	\$ 46,481	20.2%

The increase in revenues was largely comprised of an increase in payment revenue of \$24.4 million \$36.2 million, or 24.8% 23.4%, driven primarily by increased electronic payments on the AvidPay Network due to the addition of new and existing buyer payment transaction volume and an increase in payment yield, that resulted, in part, from a rising interest rate environment. Payment revenue and payment yield were positively impacted by interest on funds held for customers as the rate earned on those funds increased during the period due to the Federal Reserve raising rates in response to the higher than normal level of inflation in the U.S. economy. Payment revenue from interest increased \$13.9 million \$21.7 million to \$16.3 million \$26.9 million in the first half nine months of 2023 from \$2.4 million \$5.2 million during the same period in the first half of 2022. These increases Increases in payment transaction volume were offset by decreases in volume in media payments associated with political media spend, due to prior increases from the 2022 mid-term elections which did not occur in the current period, resulting in a decrease of \$2.8 million \$6.0 million. Software revenue increased by \$6.1 million \$10.0 million, or 12.7% 13.6%, primarily driven by increased invoice and payment transaction volume from new and existing customers as well as price increases and certain subscription-based revenue.

### Cost of Revenues

	Six Months Ended June 30,				Period-to-Period Change	
	2023		2022			
	Percent		Percentag		Amount	
	age		e			
	of		of		Percenta	
Amount	Revenue	Amount	Revenue	Amount	ge	

(in thousands)

Cost of revenues (excluding depreciation and amortization expense)	\$ 59,694	33.5 %	\$ 56,786	38.4 %	\$ 2,908	5.1 %
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	Nine Months Ended September 30,					
	2023			2022		
	Percent		Amount	Percentage		Period-to-Period Change
	age			of		
	Amount	of Revenue	Amount	of Revenue	Amount	Percentage
(in thousands)						
Cost of revenues (excluding depreciation and amortization expense)	\$ 90,461	32.7 %	\$ 86,676	37.7 %	\$ 3,785	4.4 %

The increase in cost of revenues (excluding depreciation and amortization expense) was due primarily to an increase in employee costs of \$1.6 million \$2.5 million, including an increase in stock-based compensation of \$0.3 million \$0.4 million. We also experienced increases in IT infrastructure costs, including cloud hosting fees and software costs, of \$1.0 million primarily related to our transition of services from data centers to cloud hosting. Additionally, we experienced increases in invoice and check processing fees of \$1.1 million \$1.8 million and consulting and contract labor of \$0.6 million \$0.3 million. These increases were partially offset by a decrease of \$0.3 million for misdirected payments primarily due to higher costs in the comparable period and a \$1.2 million decrease \$1.9 million in the reserve for Invoice Accelerator purchased invoices compared to the prior year which included a greater reserve increase related to higher receivables balance, year.

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## Operating Expenses

Six Months Ended June 30,						Nine Months Ended September 30,					
2023		2022		Period-to-Period Change		2023		2022		Period-to-Period Change	
Perc enta ge	Perc enta ge	Perc enta ge	Perc enta ge								
Amo unt	of Reve nue	Amo unt	of Reve nue	Amo unt	Perce ntage	Amo unt	of Reve nue	Amo unt	Rev enu e	Amo unt	Perc enta ge
(in thousands)						(in thousands)					

Sales and marketing	40,211	22.6%	37,687	25.5%	2,524	6.7%	58,946	21.3%	57,928	25.2%	1,018	1.8%
Research and development	47,862	26.9%	40,179	27.2%	7,683	19.1%	72,616	26.2%	62,176	27.0%	10,440	16.8%
General and administrative	50,343	28.3%	38,662	26.2%	11,681	30.2%	75,345	27.2%	62,704	27.2%	12,641	20.2%
Depreciation and amortization	17,464	9.8%	16,019	10.8%	1,445	9.0%	26,515	9.6%	24,384	10.6%	2,131	8.7%

#### Sales and Marketing Expenses

The increase in sales and marketing expenses was due primarily to an increase of \$2.5 million \$2.0 million in employee costs (net of capitalized sales commissions), including an increase in stock-based compensation of \$0.3 million. We experienced increases in partner commissions of \$0.5 million \$0.4 million as well as increases in amortization of deferred costs of \$0.3 million and travel expenses of \$0.1 million. These increases were partially offset by a decrease in marketing costs of \$0.5 million \$0.7 million from sponsorship costs incurred in the prior year that did not occur in the current period. We experienced other decreases in recruiting expenses of \$0.2 million and \$0.4 million, consulting and other expenses of \$0.2 million \$0.5 million, and IT infrastructure costs of \$0.1 million.

#### Research and Development Expenses

Research and development expenses increased primarily due to increased employee costs of \$7.7 million \$10.4 million. The investments in our platform are intended to increase the quality, reliability and efficiency of our technology. The increase in employee costs relates to both headcount and compensation increases and includes an increase of stock-based compensation of \$1.4 million and an increase of annual bonus accrual of \$0.3 million \$1.7 million. We experienced an additional increase of \$0.8 million \$1.0 million in IT infrastructure. These increases were offset, in part, by a \$2.5 million \$2.6 million net decrease in costs associated with engaging consultants and contractors. We also experienced an additional increase of \$1.6 million \$1.7 million from a lower amount of costs capitalized in the current period compared to the prior period.

#### General and Administrative Expenses

The increase in general and administrative expenses is attributable to a \$6.3 million \$7.2 million increase in employee costs, including increases in stock-based compensation of \$2.9 million \$5.0 million and annual bonus accrual of \$1.2 million \$0.3 million. An additional increase is attributable to costs incurred, including professional services and legal fees, related to our

threat response and our implementation of additional safeguards in connection with the cybersecurity incident that was detected in April 2023. We incurred \$3.6 million \$5.5 million of costs in the first half nine months of 2023 in connection with this incident. This increase was offset by insurance recoveries of \$1.2 million related to this incident. We also experienced an increase of \$0.9 million in credit losses and an increase of \$0.3 million in professional, accounting and consulting fees, contract labor, and insurance costs and \$0.5 million \$0.8 million in other costs. We experienced an additional increase of \$0.8 million \$1.1 million in IT infrastructure. These increases were offset, in part, by a \$0.5 million \$0.6 million decrease in facilities costs and \$0.3 million in transaction costs. In the first nine months of 2023, general and administrative expenses also included a loss contingency of \$1.6 million related to a potential commercial dispute. Compared to the third quarter of 2022, this charge was offset by \$1.6 million in costs in the prior year related to non-reoccurring restructuring costs.

General and administrative expenses in the second half fourth quarter of 2023 and 2024 are expected to reflect continued significant increases in costs related to our threat response, our acceleration of cybersecurity enhancements, and our implementation of additional safeguards in connection with our cybersecurity incident.

#### *Depreciation and Amortization*

Depreciation and amortization increased in absolute terms primarily due to the amortization of intangible assets associated with capitalized software development costs.

#### **Other Income (Expense)**

	Six Months Ended June 30,					
	2023		2022		Period-to-Period Change	
	Percent		Percenta			
	age		ge			
	of		of			
	Amount	Revenu	Amount	Revenue	Amount	Percenta
	e				ge	
	(in thousands)					
Other Income (Expense)	\$ 3,042	1.7%	\$ (9,177)	(6.2)%	\$ 12,219	(133.1)%

	Nine Months Ended September 30,					
	2023		2022		Period-to-Period Change	
	Percent		Percenta			
	age		ge			
	of		of			
	Amount	Revenu	Amount	Revenue	Amount	Percenta
	e				ge	
	(in thousands)					
Other Income (Expense)	\$ 4,714	1.7%	\$ (12,355)	(5.4)%	\$ 17,069	(138.2)%



Other income increased primarily due to an increase in interest income of \$8.8 million \$11.9 million and a decrease in interest expense of \$3.4 million \$5.2 million. The decrease in interest expense is the result of our new credit facility entered into at the end of 2022 at a lower level of borrowing at more favorable interest rates.

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## Income Tax Expense

	Six Months Ended June 30,					
	2023		2022		Period-to-Period Change	
	Percent		Percentag			
	age		e			
	Amount	of Revenue	Amount	of Revenue	Amount	Percenta ge
	(in thousands)					
Income tax (benefit) expense	\$ 205	0.1 %	\$ 138	0.1 %	\$ 67	48.6 %

	Nine Months Ended September 30,					
	2023		2022		Period-to-Period Change	
	Percent		Percentag			
	age		e			
	Amount	of Revenue	Amount	of Revenue	Amount	Percenta ge
	(in thousands)					
Income tax (benefit) expense	\$ 339	0.1 %	\$ 207	0.1 %	\$ 132	63.8 %

The provision for income taxes relates primarily to state income taxes and noncurrent federal taxes related to the non-deductibility of goodwill in the future.

## Liquidity and Capital Resources

We On an annual basis, we do not currently generate positive cash flow through our operations. We have financed our operations and capital expenditures primarily through sales of common and preferred stock, through borrowings under our credit facilities, as described below, and through our IPO that was completed in October 2021, which resulted in net proceeds of \$621.4 million, including the exercise of the overallotment option and after deducting underwriting discounts and commissions of \$40.4 million and offering expenses of approximately \$11.8 million. As of June 30, 2023 September 30, 2023, our principal sources of liquidity are our unrestricted cash and cash equivalents of \$337.3 million \$339.9 million, marketable securities of \$101.0 million \$100.6 million, and funds available under our term loan and revolving credit facilities, which we collectively refer to as the 2022 Credit Agreement, which we entered into in December 2022. In January 2023, we

increased the borrowing capacity of the 2022 Credit Agreement which resulted in an additional \$20.0 million borrowing capacity on our revolving line of credit. As of **June 30, 2023** **September 30, 2023**, our unused committed capacity under the 2022 Credit Agreement was **\$23.9 million** **\$30.0 million** comprised of a revolving commitment.

We believe that our unrestricted cash, cash equivalents, marketable securities, and funds available under our 2022 Credit Agreement will be sufficient to meet our working capital requirements for at least the next twelve months. To the extent existing cash, marketable securities, cash from operations, and amounts available for borrowing under the 2022 Credit Agreement are insufficient to fund future activities, we may need to raise additional capital. In the future, we may attempt to raise additional capital through the sale of equity securities or through equity-linked or debt financing arrangements. If we raise additional capital by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional capital by the incurrence of additional indebtedness, we may be subject to increased fixed payment obligations and could also be subject to additional restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. Our ability to raise additional debt may be limited by applicable regulatory requirements as a licensed money transmitter that require us to meet certain net worth requirements. Any future indebtedness we incur may result in terms that could be unfavorable to equity investors. There can be no assurances that we will be able to raise additional capital. The inability to raise capital would adversely affect our ability to achieve our business objectives.

## Cash Flows

Below is a summary of our consolidated cash flows:

Selected Cash Flow Data:	Six Months Ended June 30,		Nine Months Ended September 30,			
	Selected Cash Flow Data:	2023	2022	Selected Cash Flow Data:	2023	2022
		(in thousands)			(in thousands)	
Net cash (used in) provided by:						
		(16,64	(30,73		(10,99	
Operating activities	\$	6)	\$	1)	\$	(29,864)
			(171,3			(124,65
Investing activities		3,504	89)		226	9)
		(94,20	(215,8		(57,47	(311,81
Financing activities		6)	19)		4)	6)
Net decrease in cash and cash equivalents, and restricted funds held for customers		(107,3	(417,9		(68,23	(466,33
	\$	48)	\$	9)	\$	9)

## Net Cash Used in Operating Activities

Our primary source of cash provided by our operating activities is from our software and payment revenue. Our primary uses of cash in our operating activities include payments for employee salary and related costs, payments to third party service providers to execute our payment transactions, sales and marketing costs, and other general corporate expenditures.

Net cash used in operating activities decreased improved to \$16.6 million \$11.0 million during the six nine months ended June 30, 2023 September 30, 2023 from \$30.7 million \$29.9 million during the six nine months ended June 30, 2022 September 30, 2022 due primarily to an increase in revenue and an improved net loss offset by changes in working capital, primarily due to variations in timing of payment of accrued expenses.

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### **Net Cash Provided by (Used in) Investing Activities**

Cash flows related to our investing activities consist primarily of the maturity and purchases of marketable securities, purchases of property and equipment, purchases of intangible assets, capitalization of internal-use software, and supplier advances related to our Invoice Accelerator product.

Net cash provided by investing activities increased to \$3.5 million \$0.2 million during the six nine months ended June 30, 2023 September 30, 2023 compared to \$171.4 million \$124.7 million used in investing activities during the six nine months ended June 30, 2022 September 30, 2022, primarily driven by the timing of purchases and maturities in our portfolio of held-to-maturity marketable securities as well as the acquisition in the prior year period of a customer list and non-complete agreement in our media payments market.

### **Net Cash Used in Financing Activities**

Cash flows related to our financing activities consist primarily of changes in restricted buyer fund deposits related to buyer payment transactions, exercise of stock options, principal payments on financing leases, and borrowings and repayments of long-term debt.

Net cash used in financing activities was \$94.2 million \$57.5 million during the six nine months ended June 30, 2023 September 30, 2023 compared to \$215.8 million \$311.8 million during the six nine months ended June 30, 2022 September 30, 2022, due primarily to variations in the inflows and outflows from payment service obligations of our customers.

### **Outstanding Debt**

Below is a summary of our outstanding debt (in thousands):

	As of June 30, 2023	As of December 31, 2022	As of September 30, 2023	As of December 31, 2022
Term loan facility	\$ 64,188	\$ 65,000	\$ 63,781	\$ 65,000
Promissory note payable for land acquisition	18,700	18,700	18,700	18,700

Total principal due	82,888	83,700	82,481	83,700
Current portion of term loan and promissory notes	(6,425)	(6,425)	(6,425)	(6,425)
Unamortized portion of debt issuance costs	(1,227)	(1,363)	(1,158)	(1,363)
Long-term debt	<u>\$ 75,236</u>	<u>\$ 75,912</u>	<u>\$ 74,898</u>	<u>\$ 75,912</u>

### **Credit Facilities**

On December 29, 2022, we entered into a credit agreement to replace our previous credit facility. In January 2023, we expanded the borrowing capacity of this agreement by \$20 million. As of **June 30, 2023** **September 30, 2023**, the aggregate available borrowing capacity under this agreement was **\$23.9 million** **\$30.0 million**. On July 1, 2023, the available borrowing capacity under this agreement increased to \$30 million upon the cancellation of our letter of credit by our landlord.

We were in compliance with our financial covenants as of **June 30, 2023** **September 30, 2023**. Refer to Note 9 of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional details about our credit facilities.

### **Land Promissory Notes**

We have promissory notes in connection with land and improvements adjacent to our Charlotte, North Carolina headquarters campus. Refer to Note 9 of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information on our promissory notes.

### **Issuances of Common Stock**

During the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, we issued shares of common stock under our existing stock plans. Refer to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for details.

### **Payment Obligations**

We process payments for our customers. As part of our payment product offering we have recorded payment service obligations in our consolidated balance sheets of **\$1,189.7 million** **\$1,226.2 million** as of **June 30, 2023** **September 30, 2023** and an offsetting asset of restricted funds held for customers. This balance is short-term in nature and represents our obligation to pay our customers' suppliers as directed by our customers.

The Company historically transmitted buyer customer funds using a legacy model pursuant to which buyer customer funds are held in trust accounts that are maintained and operated by a trustee pending distribution to suppliers in accordance with instructions provided through the Company's platform. The Company is not the trustee or beneficiary of the trusts which hold these buyer deposits; accordingly, the Company does not record these **trust** assets and offsetting liabilities on its consolidated balance sheets. The Company has largely phased out this model although certain banks that resell our products and services continue to leverage a similar structure. The Company contractually earns interest on funds held for certain buyers. The amount of Company and bank customer funds held in all trust-related accounts was approximately **\$7.6 million** **\$20.4 million** and \$135.1 million at **June 30, 2023** **September 30, 2023** and

December 31, 2022, December 31, 2022, respectively. Having obtained a money transmitter license in all states which

require licensure, the Company is providing commercial payment services to businesses through its “for the benefit of customer” bank accounts that are restricted for such purposes and is continuing to work towards transitioning away from the legacy trust model.

### Contractual Obligations

There were no material changes in our contractual obligations and commitments during the six nine months ended June 30, 2023 September 30, 2023 from the contractual obligations and commitments disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. See Note 8 of the notes to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding contractual obligations and commitments.

### Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported revenue generated, and reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies as compared to the critical accounting policies and significant judgments and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC on March 1, 2023.

### Recent Accounting Pronouncements

See Note 2 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of June 30, 2023 September 30, 2023.

## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

### Interest Rate Risk

Our overall investment portfolio is comprised of (i) our operating cash and (ii) buyer funds. Our operating cash includes cash received from revenues generated, the sale of common and preferred stock and increased borrowings. Buyer funds are funds that have been collected from buyers, but not yet remitted to the applicable supplier. The funds are held in either company-owned accounts, which are subject to applicable state money transmitter laws, or in trust trust-related

accounts. We are generally entitled to retain any interest earned on the investment of all buyer funds, funds as specified by our contractual arrangements with our buyers.

Our operating cash may be invested in accordance with our cash investment policy. Under that policy, we invest with the objective of preserving capital while optimizing yield. Permissible investments include U.S. Treasury instruments, U.S. Government Agency securities, commercial paper, investment grade corporate bonds, certificates of deposit, time deposits, and money market funds. As of June 30, 2023, September 30, 2023, we held marketable securities with an amortized cost basis of \$101.0 million, \$100.6 million and money market funds with an aggregate value of \$163.2 million, \$167.1 million. The remaining amount of operating cash was held in interest-bearing demand deposit accounts.

Our buyer funds assets are invested with safety of principal, liquidity, and diversification as the primary objectives. Consistent with these objectives, we also seek to maximize interest income and to minimize the volatility of interest income with emphasis on liquidity. Pursuant to our investment policy and subject to applicable law, buyer funds may be invested in U.S. Treasury securities, U.S. Government Agency securities, money market funds that invest in investment grade securities, or other cash equivalents, including certificates of deposit, deposit and time deposits. As of June 30, 2023, September 30, 2023, all buyer funds have been invested in interest-bearing demand deposit accounts.

We are exposed to interest-rate risk relating to our investment portfolio, which consists principally of interest-bearing demand deposit accounts as well as investments made in accordance with our cash investment policy. We recognize interest earned from buyer funds assets as revenue. We generally do not pay interest to buyers. Factors that influence the rate of interest we earn include the short-term market interest rate environment and the weighting of balances by security type. The annualized interest rate earned on our investment of operating cash and funds held for buyers increased to 3.85%, 4.11% during the first six, nine months of fiscal year 2023 from 1.32% during fiscal year 2022. Based on current investment practices, an increase in the Federal Funds interest rate of 100 basis points would have changed our interest income in the first six, nine months of fiscal year 2023 from our investment of operating cash by approximately \$1.4 million, \$2.1 million and our interest on buyer funds assets by approximately \$5.3 million, \$8.1 million based upon the average balances for the first six, nine months of fiscal year 2023 of \$450.5 million, \$449.5 million in operating cash investments and \$891.3 million, \$912.8 million in buyer funds investments, respectively. In addition to interest rate risks, we also have exposure to risks associated with changes in

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laws and regulations that may affect buyer fund balances. For example, a change in regulations that restricts the permissible investment alternatives for buyer funds may reduce our interest earned revenue.

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We are also exposed to interest-rate risk relating to existing variable rate bank borrowings. As of June 30, 2023, September 30, 2023 and December 31, 2022, we had outstanding borrowings on variable rate debt of \$64.2 million, \$63.8 million and \$65.0 million, respectively. A 100 basis points increase in the variable rate would have resulted in incremental interest expense of \$0.3 million, \$0.5 million during the six, nine months ended June 30, 2023, September 30, 2023.

Our interest-rate risk will continue to be impacted by the Federal Reserve's monetary policy and response to the higher than normal level of inflation in the U.S. economy.

### **Credit Risk**

We may be exposed to credit risk in connection with our investments, as our cash on deposit, including buyer funds, regularly exceed Federal Deposit Insurance Company ("FDIC") limits. We limit credit risk by diversifying our portfolio, including a requirement that no more than 5% of invested funds may be held in the issues of a single corporation. Additionally, the minimum credit quality of any investment shall be not less than an '(A-) or (A3)' rating equivalent from any single rating services based on ratings by any of Standard and Poor's Ratings Services, Moody's Investors Service, or Fitch Investor Services. The maximum maturity of any security in the portfolio shall not exceed 24 months. The weighted average maturity of the portfolio shall not exceed 12 months. In addition, maximum maturities of individual securities are further limited by the security type and cash segment of the investment. We are also exposed to credit risk related to the timing of payments made from buyer funds collected. We typically remit buyer funds to our buyers' suppliers in advance of having good or confirmed funds collected from our buyers. Our buyers generally have three days to dispute transactions and if we remit funds in advance of receiving confirmation that no dispute was initiated by our buyer, then we could suffer a credit loss. We mitigate this credit exposure by leveraging our data assets to make credit underwriting decisions about whether to accelerate disbursements, managing exposure limits, and various controls in our operating systems.

There can be no assurance that our deposits in excess of the FDIC or other comparable insurance limits will be backstopped by the U.S. government, or that any bank or financial institution with which we do business will be able to obtain needed liquidity from other banks, government institutions or by acquisition in the event of a failure or liquidity crisis. While we do not currently maintain private insurance to mitigate this risk, we seek to mitigate this risk by monitoring financial institutions that we conduct business with and endeavoring to maintain our cash balances at large well-capitalized financial institutions.

We are also exposed to risks associated with our Invoice Accelerator product, in which our supplier customers can accelerate the receipt of payment for outstanding invoices before our buyers initiate the transfer of funds. If those invoices are not approved or the buyer does not transfer the requisite funds then we are exposed to the risk of not being able to recoup our advances to the supplier. We mitigate this risk through data analytics to determine which invoices are available for advance payment and also monitor the credit quality of suppliers.

### **Liquidity Risk**

As part of our buyer funds investment strategy, we use the daily collection of funds from our buyers to satisfy other unrelated buyer funds obligations. We minimize the risk of not having funds collected from a buyer available at the time the buyer's obligation becomes due by collecting the buyer's funds in advance of the timing of payment of the buyer's obligation. As a result of this practice, we have consistently maintained the required level of buyer funds assets to satisfy all of our obligations.

### **Concentration Risk**

A substantial portion of our revenue is derived from interchange fees earned on payment transactions processed from VCC service providers. Prior to 2022, our interchange fees were processed primarily through a single provider. To mitigate



this concentration risk, we began processing a substantial portion of these transactions through a second provider during 2022. Revenue from each of these two suppliers was greater than 10% of our total revenue. Refer to Note 2 of our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding this concentration.

Future regulation or changes by the payment networks could have a substantial impact on our revenue from VCC transactions. If interchange rates decline, whether due to actions by the payment networks, merchant/suppliers availing themselves of lower rates, or future regulation, our total operating revenues, operating results, prospects for future growth and overall business could be materially affected.

We are also exposed to concentration risk associated with buyer funds that we hold in Company-owned accounts, which are subject to applicable state money transmitter laws, and in trust accounts. As of June 30, 2023 September 30, 2023, all buyer funds have been invested in interest-bearing demand deposit accounts. The majority of these demand accounts are maintained at one institution which is a full-service, FDIC-insured national bank supervised by the Office of the Comptroller of the Currency (OCC) and is a subsidiary of a bank holding company subject to regulation, supervision, and examination by the Federal Reserve. As indicated above, while we

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do not currently maintain private insurance to mitigate this risk, we seek to mitigate this risk by monitoring financial institutions that we conduct business with and endeavoring to maintain our cash balances at large well-capitalized financial institutions.

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## ITEM 4. Controls and Procedures.

### (a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, and as a result of the material weakness described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2023 September 30, 2023, our disclosure controls and procedures were not effective at the reasonable assurance level.

In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weakness in our internal control over financial reporting, the unaudited consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-



Q fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

### **Previously Identified Material Weakness in Internal Control over Financial Reporting**

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 the following material weakness, which still existed as of the end of the period covered by this report:

- We lack a sufficient complement of personnel with an appropriate level of accounting knowledge, training, and experience to appropriately analyze, record and disclose accounting matters timely and accurately.

This material weakness resulted in material misstatements related to our preferred stock, additional-paid-in-capital accounts, and the classification of cash flows from operating and investing activities as of and for the year ended December 31, 2019, which resulted in the restatement of the 2019 consolidated financial statements, errors identified and corrected in the aforementioned accounts as of and for the periods ended December 31, 2020 and June 30, 2021, and in immaterial misstatements related to our cost of revenues, sales and marketing expense, research and development expense, general and administrative expense, and additional-paid-in-capital accounts, which resulted in the revision of our December 31, 2020 and June 30, 2021 financial statements. Additionally, this material weakness could result in a misstatement of substantially all of our accounts or disclosures that such material weakness could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

### **Remediation Plan for Material Weakness**

As of the date of this Quarterly Report on Form 10-Q we have completed the following steps of our remediation plan.

- We have hired a controller with prior public company experience as well as an experienced SEC reporting leader with prior IPO, technical accounting, and financial reporting experience, in addition to technical accounting resources with public company experience to assess complex technical accounting and reporting matters. We continue to hire accounting resources with public company experience to enhance our accounting and financial reporting function.
- We will engage third-party resources to supplement our resources and current processes where needed.

After integrating these professionals into our control environment, and once they have demonstrated the ability to perform their responsibilities for a sufficient period of time, including the execution of controls for which they are responsible, we expect that the remediation of the material weakness will be completed.

### **(b) Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter ended **June 30, 2023** **September 30, 2023**, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

## Item 1. Legal Proceedings.

From time to time, we have been and will continue to be subject to legal proceedings and claims. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on

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our business, results of operations, financial condition, or cash flows. Defending such proceedings is costly and can impose a significant burden on management and employees. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

### Item 1A. Risk Factors.

We are supplementing Item 1A. Risk Factors found in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on March 1, 2023 (the "Annual Report"), and in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023, as filed with the Securities and Exchange Commission on May 10, 2023 (the "First Quarter Report"), and in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023, as filed with the Securities and Exchange Commission on August 7, 2023 (the "Second Quarter Report"). The following risk factors should be read in conjunction with the risk factors set forth in that Annual Report, First Quarter Report, and First Second Quarter Report.

***The cybersecurity incident that we detected in early April 2023, or other cyber incidents that we may encounter in the future, may have a material adverse impact on our business and results of operations.***

In early April 2023, we detected a cybersecurity incident as part of our routine security monitoring protocols. In response to the incident, we launched undertook an investigation with the support of leading cybersecurity experts, reached out to law enforcement, accelerated planned security enhancements, and have taken and will continue to take actions to implement additional safeguards.

The investigation which is ongoing as of the date of filing of this Quarterly Report on Form 10-Q, has determined that data the incident primarily affected systems that were used for back-office activities. Data was exfiltrated from certain AvidXchange these systems and posted on the dark web. We are reviewing the published data. As The data consisted of the date of filing of this Quarterly Report on Form 10-Q, we have identified confidential information from our files, including personally identifiable information, primarily of our employees, former employees, and their dependents, and the bank account information of some customers. We have cooperated with inquiries about the incident from three state consumer and financial regulators, provided notices to impacted customers in and individuals and complied with regulatory requirements of various states that address notice and credit monitoring. We expect to fully complete our investigation and to deliver all required notices during the files published online. We continue to review the files published online to identify additional bank account information and any other confidential information and any personally identifiable information that requires notification under state law. We believe that this review will extend through the third fiscal fourth quarter of 2023. We have posted notice

As of the event on our website and are continuously reviewing and evaluating end of the situation and our notification and disclosure obligations as additional information becomes available.

During the second third fiscal quarter of 2023, we have incurred \$3.6 million \$5.5 million in response costs related to the incident, including professional services and legal fees. fees and recorded insurance recoveries of \$1.2 million. We expect that we will continue to experience significant expenses and increased costs associated with this cybersecurity incident. While a incident during the fourth fiscal quarter of 2023. No liability for loss from these matters is possible, we are unable at this time to reasonably estimate the possible loss or range of loss, and our investigation into the matter is ongoing. Therefore, no liability has been recorded related to the incident as of June 30, 2023 September 30, 2023.

Any perceived or actual breach of security, regardless of how it occurs or the extent of the breach, could have a significant impact on our reputation as a trusted brand, cause us to lose existing partners or other customers, prevent us from obtaining new partners and other customers, require us to expend significant funds to remedy problems caused by breaches and implement measures to prevent further breaches, and expose us to legal risk and potential liability including those resulting from governmental or regulatory investigations, class action litigation, and costs associated with remediation, such as fraud monitoring and forensics. Accordingly, our recent cybersecurity incident or other cyber incidents that we may encounter in the future may have a material adverse impact on our business and results of operations.

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

### (a) Unregistered Sales of Equity Securities

None.

### (b) Use of Proceeds

#### *Use of Proceeds from Initial Public Offering of Common Stock*

On October 12, 2021, our Registration Statement on Form S-1, as amended (Reg. No. 333-259632), was declared effective in connection with the IPO of our common stock, pursuant to which we issued and sold 26,400,000 shares of common stock, par value \$0.001 per share. The price per share to the public was \$25.00. Gross proceeds from the IPO were \$660.0 million and net proceeds, after deducting (i) underwriters' discounts and commissions and (ii) offering expenses of approximately \$12.1 million,

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were approximately \$608.3 million. Following the sale of these shares, the offering terminated. Shares of our common stock began trading on the Nasdaq Global Select Market on October 13, 2021.

On October 15, 2021, we used \$169.0 million of the net proceeds to redeem the shares of redeemable preferred stock issuable upon conversion of our senior preferred stock.

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On November 15, 2021, the underwriters notified us of the partial exercise of the overallotment option. Upon closing on November 18, 2021, we issued 544,928 shares of common stock at the offering price of \$25.00 per share and received net proceeds of \$12.8 million after deducting underwriters' discounts and commissions.

There have been no material changes in the planned use of proceeds from the IPO from those described in our Final Prospectus. We have invested a portion of the funds received in short-term, interest bearing, investment-grade securities.

### ***Issuer Repurchases of Equity Securities***

None.

### **Item 3. Defaults Upon Senior Securities.**

Not applicable.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

On September 21, 2023, the Board of Directors adopted the Policy for Recovery of Erroneously Awarded Compensation which complies with recent amendments to the Nasdaq continued listing standards requiring the recoupment of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements.

(c) Trading Plans of Directors and Executive Officers

			Trading Agreement		Total Shares to be Sold	Expiration Date
			Rule 10b5-1*	Non-Rule 10b5-1**		
Michael Praeger, Chief Executive Officer and Chairman of the Board	Adopt	May 16, 2023	X		340,173	February 23, 2024
Michael Praeger, Chief Executive Officer and Chairman of the Board	Adopt	May 10, 2023	X		N/A (1)	N/A
Joel Wilhite, Chief Financial Officer, Senior Vice President	Adopt	June 16, 2023	X		120,000	March 14, 2024
Todd Cunningham, Chief People Officer, Senior Vice President	Adopt	June 16, 2023	X		13,500	December 29, 2023
		September 15, 2023				N/A

Angelic Gibson	Todd Cunningham, Chief Information People Officer, Senior Vice President	Adopt	June 16, September 15, 2023	X	32,000	5	December 29, 2023	June 28, 2024
Ryan Stahl, General Counsel and Secretary, Senior Vice President		Adopt	September 15, 2023	X	13,067		December 1, 2023	N/A

Ryan Stahl, General Counsel and Secretary, Senior Vice President		Adopt	September 15, 2023	X	60,331			
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\* Intended to satisfy the affirmative defense of Rule 10b5-1(c)
\*\* Not intended to satisfy the affirmative defense of Rule 10b5-1(c)

(1) Trading arrangement was adopted to cover the sale of shares to satisfy any tax withholding obligations in connection with the release of restricted stock units.

Item 6. Exhibits.

Incorporated by Reference (Unless Otherwise Indicated)	Incorporated by Reference (Unless Otherwise Indicated)
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Exhibit Number	Description	Form	File	Exhibit	Filing Date	Description	Form	File	Exhibit	Filing Date
2.1	<a href="#">Agreement and Plan of Merger, dated as of March 4, 2021, by and among AvidXchange Holdings, Inc., AvidXchange Holdings, Inc., Merger Sub, Inc., and AvidXchange, Inc.</a>	S-1	333-259632	2.1	September 17, 2021	<a href="#">Agreement and Plan of Merger, dated as of March 4, 2021, by and among AvidXchange Holdings, Inc., AvidXchange Holdings, Inc., Merger Sub, Inc., and AvidXchange, Inc.</a>	S-1	333-259632	2.1	September 17, 2021

3.1	<a href="#">Restated Certificate of Incorporation of AvidXchange Holdings, Inc.</a>	8-K	001-40898	3.1	October 15, 2021	<a href="#">Restated Certificate of Incorporation of AvidXchange Holdings, Inc.</a>	8-K	001-40898	3.1	October 15, 2021
3.2	<a href="#">Second Amended and Restated Bylaws of AvidXchange Holdings, Inc.</a>	8-K	001-40898	3.1	September 15, 2022	<a href="#">Second Amended and Restated Bylaws of AvidXchange Holdings, Inc.</a>	8-K	001-40898	3.1	September 15, 2022
4.1	<a href="#">Form of Commission Stock Certificate</a>	S-1/A	333-259632	4.1	October 1, 2021	<a href="#">Form of Commission Stock Certificate</a>	S-1/A	333-259632	4.1	October 1, 2021

4.2	<a href="#">Eighth</a>	S-1	333-	10.1	Sept	<a href="#">Eighth</a>	S-1	333-	10.1	Sept
	<a href="#">Amend</a>		2596		emb	<a href="#">Amend</a>		2596		emb
	<a href="#">ed and</a>		32		er	<a href="#">ed and</a>		32		er
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	<a href="#">Rights</a>					<a href="#">Rights</a>				
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31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	—	—	—	Filed here with	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	—	—	—	Filed here with
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31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	—	—	—	Filed here with	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	—	—	—	Filed here with
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32.1	<a href="#">Certification</a> <a href="#">of</a> <a href="#">Chief Executive Officer</a> <a href="#">and</a> <a href="#">Chief Financial Officer</a> <a href="#">Pursuant to</a> <a href="#">18 U.S.C. Section 1350,</a> <a href="#">as</a> <a href="#">Adopted</a> <a href="#">Pursuant to</a> <a href="#">Section 906 of</a> <a href="#">the</a> <a href="#">Sarbanes-Oxley Act of</a> <a href="#">2002.</a>	—	—	—	Furnished here with	<a href="#">Certification</a> <a href="#">of</a> <a href="#">Chief Executive Officer</a> <a href="#">and</a> <a href="#">Chief Financial Officer</a> <a href="#">Pursuant to</a> <a href="#">18 U.S.C. Section 1350,</a> <a href="#">as</a> <a href="#">Adopted</a> <a href="#">Pursuant to</a> <a href="#">Section 906 of</a> <a href="#">the</a> <a href="#">Sarbanes-Oxley Act of</a> <a href="#">2002.</a>	—	—	—	Furnished here with
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99.1	<a href="#">AvidXchange Holdings, Inc. Policy for Recovery of Erroneously Awarded Compensation</a>	—	—	—	Filed here with
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101.1 NS	— — —				Inline XBRL Instanc e Docum ent – the instanc e docum ent does not appear in the Interac tive Data File becaus e XBRL tags are embed ded within the Inline XBRL docum ent.
	— — —				Inline XBRL Instanc e Docum ent – the instanc e docum ent does not appear in the Interac tive Data File becaus e XBRL tags are embed ded within the Inline XBRL docum ent.

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101. CAL	Inline XBRL Taxon omy Extensi on Calcula tion Linkba se Docum ent	—	—	—	Filed here with	Inline XBRL Taxon omy Extensi on Calcula tion Linkba se Docum ent	—	—	—	Filed here with
101. DEF	Inline XBRL Taxon omy Extensi on Definiti on Linkba se Docum ent	—	—	—	Filed here with	Inline XBRL Taxon omy Extensi on Definiti on Linkba se Docum ent	—	—	—	Filed here with

101.L AB	Inline XBRL Taxonomy Extension Label Linkbase Document	—	—	—	Filed here with	Inline XBRL Taxonomy Extension Label Linkbase Document	—	—	—	Filed here with
101. PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	Filed here with	Inline XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	Filed here with
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	—	—	—	Filed here with	Cover Page Interactive Data File (embedded within the Inline XBRL document)	—	—	—	Filed here with

**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.

AvidXchange Holdings, Inc.

Date: August 4, 2023 November 9, 2023

By: /s/ Joel Wilhite

Joel Wilhite

Chief Financial Officer

(Authorized Signatory and Principal Financial and Accounting Officer)

**Exhibit 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Michael Praeger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AvidXchange Holdings, Inc. (the registrant);
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 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: August 4, 2023 November 9, 2023

/s/ Michael Praeger

Michael Praeger

*Chief Executive Officer and Chairman of the Board*

(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302 OF**

## THE SARBANES-OXLEY ACT OF 2002

I, Joel Wilhite, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AvidXchange Holdings, Inc. (the registrant);
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 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: August 4, 2023 November 9, 2023

/s/ Joel Wilhite

Joel Wilhite

*Chief Financial Officer*

(Principal Financial and Accounting Officer)

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**Exhibit 32.1**

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

In accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Michael Praeger, Chief Executive Officer (principal executive officer) of AvidXchange Holdings, Inc. (the "Company"), and Joel Wilhite, Chief Financial Officer (principal financial and accounting officer) of the Company, each hereby certify that, to the best of their knowledge:

1. The Quarterly Report on Form 10-Q for the period ended June 30, 2023 September 30, 2023 of the Company, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a)/15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2023 November 9, 2023

/s/ Michael Praeger

Michael Praeger

*Chief Executive Officer and Chairman of the Board*

(Principal Executive Officer)

/s/ Joel Wilhite

Joel Wilhite

*Chief Financial Officer*

(Principal Financial and Accounting Officer)

**AVIDXCHANGE HOLDINGS, INC.****POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

AvidXchange Holdings, Inc. (the “**Company**”) has adopted this Policy for Recovery of Erroneously Awarded Compensation (the “**Policy**”), effective as of September 21, 2023 (the “**Effective Date**”). Capitalized terms used in this Policy but not otherwise defined herein are defined in Section 11.

**1. Persons Subject to Policy**

This Policy shall apply to current and former Officers of the Company.

**2. Compensation Subject to Policy**

This Policy shall apply to Incentive-Based Compensation received on or after the Effective Date. For purposes of this Policy, the date on which Incentive-Based Compensation is “received” shall be determined under the Applicable Rules, which generally provide that Incentive-Based Compensation is “received” in the Company’s fiscal period during which the relevant Financial Reporting Measure is attained or satisfied, without regard to whether the grant, vesting or payment of the Incentive-Based Compensation occurs after the end of that period.

**3. Recovery of Compensation**

In the event that the Company is required to prepare a Restatement, the Company shall recover, reasonably promptly, the portion of any Incentive-Based Compensation that is Erroneously Awarded Compensation, unless the Committee has determined that recovery would be Impracticable. Recovery shall be required in accordance with the preceding sentence regardless of whether the applicable Officer engaged in misconduct or otherwise caused or contributed to the requirement for the Restatement and regardless of whether or when restated financial statements are filed by the Company. For clarity, the recovery of Erroneously Awarded Compensation under this Policy will not give rise to any person’s right to voluntarily terminate employment for “good reason,” or due to a “constructive termination” (or any similar term of like effect) under any plan, program or policy of or agreement with the Company or any of its affiliates.

**4. Manner of Recovery; Limitation on Duplicative Recovery**

The Committee shall, in its sole discretion, determine the manner of recovery of any Erroneously Awarded Compensation, which may include, without limitation, reduction or cancellation by the Company or an affiliate of the Company of Incentive-Based Compensation or

Erroneously Awarded Compensation, reimbursement or repayment by any person subject to this Policy of the Erroneously Awarded Compensation, and, to the extent permitted by law, an offset of the Erroneously Awarded Compensation against other compensation payable by the Company or an affiliate of the Company to such person. Notwithstanding the foregoing, unless otherwise prohibited by the Applicable Rules, to the extent this Policy provides for recovery of Erroneously Awarded Compensation already recovered by the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 or Other Recovery Arrangements, the amount of Erroneously Awarded Compensation already recovered by the Company from the recipient of such Erroneously Awarded Compensation may be credited to the amount of Erroneously Awarded Compensation required to be recovered pursuant to this Policy from such person.

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## 5. **Administration**

This Policy shall be administered, interpreted and construed by the Committee, which is authorized to make all determinations necessary, appropriate or advisable for such purpose. The Board of Directors of the Company (the “**Board**”) may re-vest in itself the authority to administer, interpret and construe this Policy in accordance with applicable law, and in such event references herein to the “Committee” shall be deemed to be references to the Board. Subject to any permitted review by the applicable national securities exchange or association pursuant to the Applicable Rules, all determinations and decisions made by the Committee pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company and its affiliates, equityholders and employees. The Committee may delegate administrative duties with respect to this Policy to one or more directors or employees of the Company, as permitted under applicable law, including any Applicable Rules.

## 6. **Interpretation**

This Policy will be interpreted and applied in a manner that is consistent with the requirements of the Applicable Rules, and to the extent this Policy is inconsistent with such Applicable Rules, it shall be deemed amended to the minimum extent necessary to ensure compliance therewith.

## 7. **No Indemnification; No Liability**

The Company shall not indemnify or insure any person against the loss of any Erroneously Awarded Compensation pursuant to this Policy, nor shall the Company directly or indirectly pay or reimburse any person for any premiums for third-party insurance policies that such person may elect to purchase to fund such person’s potential obligations under this Policy.

None of the Company, an affiliate of the Company or any member of the Committee or the Board shall have any liability to any person as a result of actions taken under this Policy.

## **8. Application; Enforceability**

Except as otherwise determined by the Committee or the Board, the adoption of this Policy does not limit, and is intended to apply in addition to, any other clawback, recoupment, forfeiture or similar policies or provisions of the Company or its affiliates, including any such policies or provisions of such effect contained in any employment agreement, bonus plan, incentive plan, equity-based plan or award agreement thereunder or similar plan, program or agreement of the Company or an affiliate or required under applicable law (the “**Other Recovery Arrangements**”). The remedy specified in this Policy shall not be exclusive and shall be in addition to every other right or remedy at law or in equity that may be available to the Company or an affiliate of the Company. Each Officer shall sign an Acknowledgment Agreement in substantially the form attached to this Policy pursuant to which such Officer will agree to be bound by the terms of, and comply with, this Policy and any Other Recovery Arrangements; however, any Officer’s failure to sign any such Acknowledgment Agreement shall not negate the application of this Policy to the Officer.

## **9. Severability**

The provisions in this Policy are intended to be applied to the fullest extent of the law; provided, however, to the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

## **10. Amendment and Termination**

The Board or the Committee may amend, modify or terminate this Policy in whole or in part at any time and from time to time in its sole discretion. This Policy will terminate automatically when the Company does not have a class of securities listed on a national securities exchange or association.

## **11. Definitions**

“**Applicable Rules**” means Section 10D of the Exchange Act, Rule 10D-1 promulgated thereunder, the listing rules of the national securities exchange or association on which the Company’s securities are listed, and any applicable rules, standards or other guidance adopted by the

Securities and Exchange Commission or any national securities exchange or association on which the Company's securities are listed.

**"Committee"** means the committee of the Board responsible for executive compensation decisions comprised solely of independent directors (as determined under the Applicable Rules), or in the absence of such a committee, a majority of the independent directors serving on the Board.

**"Erroneously Awarded Compensation"** means the amount of Incentive-Based Compensation received by a current or former Officer that exceeds the amount of Incentive-Based Compensation that would have been received by such current or former Officer based on a restated Financial Reporting Measure, as determined on a pre-tax basis in accordance with the Applicable Rules.

**"Exchange Act"** means the Securities Exchange Act of 1934, as amended.

**"Financial Reporting Measure"** means any measure determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures derived wholly or in part from such measures, including GAAP, IFRS and non-GAAP/IFRS financial measures, as well as stock or share price and total equityholder return.

**"GAAP"** means United States generally accepted accounting principles.

**"IFRS"** means international financial reporting standards as adopted by the International Accounting Standards Board.

**"Impracticable"** means (a) the direct costs paid to third parties to assist in enforcing recovery would exceed the Erroneously Awarded Compensation; provided that the Company (i) has made reasonable attempts to recover the Erroneously Awarded Compensation, (ii) documented such attempt(s),

and (iii) provided such documentation to the relevant listing exchange or association, (b) to the extent permitted by the Applicable Rules, the recovery would violate the Company's home country laws pursuant to an opinion of home country counsel; provided that the Company has (i) obtained an opinion of home country counsel, acceptable to the relevant listing exchange or association, that recovery would result in such violation, and (ii) provided such opinion to the relevant listing exchange or association, or (c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the

Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and the regulations thereunder.

**"Incentive-Based Compensation"** means, with respect to a Restatement, any compensation that is granted, earned, or vested based wholly or in part upon the attainment of one or more Financial Reporting Measures and received by a person: (a) after beginning service as an Officer; (b) who served as an Officer at any time during the performance period for that compensation; (c) while the issuer has a class of its securities listed on a national securities exchange or association; and (d) during the applicable Three-Year Period.

**"Officer"** means each person who serves as an executive officer of the Company, as defined in Rule 10D-1(d) under the Exchange Act.

**"Restatement"** means an accounting restatement to correct the Company's material noncompliance with any financial reporting requirement under securities laws, including restatements that correct an error in previously issued financial statements (a) that is material to the previously issued financial statements or (b) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

**"Three-Year Period"** means, with respect to a Restatement, the three completed fiscal years immediately preceding the date that the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare such Restatement, or, if earlier, the date on which a court, regulator or other legally authorized body directs the Company to prepare such Restatement. The "Three-Year Period" also includes any transition period (that results from a change in the Company's fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence. However, a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months shall be deemed a completed fiscal year.

## FORM OF ACKNOWLEDGEMENT AGREEMENT

### PERTAINING TO THE AVIDXCHANGE HOLDINGS, INC. POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

In consideration of, and as a condition to, the receipt of future cash and equity incentive compensation from AvidXchange Holdings, Inc. (the "**Company**"), the undersigned ("**Officer**") and



the Company are entering into this Acknowledgement Agreement.

1. Officer agrees that compensation payable to Officer may be subject to reduction, cancellation, forfeiture and/or recoupment to the extent necessary to comply with (a) the Policy for Recovery of Erroneously Awarded Compensation adopted by the Company (as amended from time to time, the “**Policy**”), and (b) any Other Recovery Arrangements (as defined in the Policy). Officer acknowledges that Officer has had an opportunity to review the Policy and any Other Recovery Arrangements applicable to Officer.

2. Officer acknowledges and agrees to the terms of the Policy and any Other Recovery Arrangements, including that any compensation received by Officer shall be subject to and conditioned upon the provisions of the Policy and any Other Recovery Arrangements applicable to Officer.

3. Officer further acknowledges and agrees that Officer is not entitled to indemnification in connection with any enforcement of the Policy or any Other Recovery Arrangements applicable to Officer and expressly waives any rights to such indemnification under the Company's organizational documents or otherwise.

4. Officer agrees to take all actions requested by the Company in order to enable or facilitate the enforcement of the Policy and any Other Recovery Arrangements applicable to Officer (including, without limitation, any reduction, cancellation, forfeiture or recoupment of any compensation that Officer has received or to which Officer may become entitled).

5. To the extent any recovery right under the Policy and any Other Recovery Arrangements applicable to Officer conflicts with any other contractual rights Officer may have with the Company or any affiliate, Officer understands that the terms of the Policy and the Other Recovery Arrangements shall supersede any such contractual rights. Officer agrees that no recovery of compensation under the Policy and the Other Recovery Arrangements will be an event that triggers or contributes to any right of Officer to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company or any affiliate.

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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**ACKNOWLEDGED AND AGREED BY THE COMPANY:**  
**AVIDXCHANGE HOLDINGS, INC.**

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name:

Title:

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