

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

FORM 10-Q

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

For the quarterly period ended December 31, 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: 001-38532

i3 Verticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware

82-4052852

(State or other jurisdiction of incorporation or organization)

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

40 Burton Hills Blvd., Suite 415

Nashville, TN

37215

(Address of principal executive offices)

(Zip Code)

(615) 465-4487

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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Class A Common Stock, \$0.0001 Par Value

IIIV

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 checked="" 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 February 8, 2024, there were 23,279,170 outstanding shares of Class A common stock, \$0.0001 par value per share, and 10,093,394 outstanding shares of Class B common stock, \$0.0001 par value per share.

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PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2023	September 30, 2023
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 4,159	\$ 3,112
Accounts receivable, net	68,226	65,110
Settlement assets	3,518	4,873
Prepaid expenses and other current assets	14,218	12,449
Total current assets	90,121	85,544
Property and equipment, net	11,142	12,308
Restricted cash	3,407	4,415
Capitalized software, net	62,153	62,577
Goodwill	410,772	409,563
Intangible assets, net	225,296	226,952
Deferred tax asset	52,332	52,514
Operating lease right-of-use assets	12,717	13,922
Other assets	8,996	13,698
Total assets	<u>\$ 876,936</u>	<u>\$ 881,493</u>
Liabilities and equity		
Liabilities		
Current liabilities		
Accounts payable	\$ 9,711	\$ 11,064
Current portion of long term debt	90,777	—
Accrued expenses and other current liabilities	33,081	37,740
Settlement obligations	3,518	4,873
Deferred revenue	39,163	35,275
Current portion of operating lease liabilities	4,292	4,509
Total current liabilities	180,542	93,461
Long-term debt, less current portion and debt issuance costs, net	287,751	385,081
Long-term tax receivable agreement obligations	40,079	40,079
Operating lease liabilities, less current portion	9,417	10,433
Other long-term liabilities	21,991	24,143
Total liabilities	539,780	553,197
Commitments and contingencies (see Note 12)		
Stockholders' equity		
Preferred stock, par value \$0.0001 per share, 10,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2023 and September 30, 2023	—	—
Class A common stock, par value \$0.0001 per share, 150,000,000 shares authorized; 23,279,170 and 23,253,272 shares issued and outstanding as of December 31, 2023 and September 30, 2023, respectively	2	2
Class B common stock, par value \$0.0001 per share, 40,000,000 shares authorized; 10,093,394 and 10,093,394 shares issued and outstanding as of December 31, 2023 and September 30, 2023, respectively	1	1
Additional paid-in capital	254,562	249,688
Accumulated deficit	(11,846)	(12,944)
Total stockholders' equity	242,719	236,747
Non-controlling interest	94,437	91,549
Total equity	337,156	328,296
Total liabilities and equity	<u>\$ 876,936</u>	<u>\$ 881,493</u>

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share amounts)

	Three months ended December 31,	
	2023	2022
Revenue	\$ 91,990	\$ 86,029
Operating expenses		
Other costs of services	20,424	19,069
Selling, general and administrative	53,532	51,003
Depreciation and amortization	9,739	8,676
Change in fair value of contingent consideration	(237)	1,443
Total operating expenses	83,458	80,191
Income from operations	8,532	5,838
Interest expense, net	6,707	5,490
Other expense (income)	107	(203)
Total other expenses	6,814	5,287
Income before income taxes	1,718	551
Provision for income taxes	182	382
Net income	1,536	169
Net income attributable to non-controlling interest	438	409
Net income (loss) attributable to i3 Verticals, Inc.	<u>\$ 1,098</u>	<u>\$ (240)</u>
Net income (loss) per share attributable to Class A common stockholders:		
Basic	\$ 0.05	\$ (0.01)
Diluted	\$ 0.04	\$ (0.01)
Weighted average shares of Class A common stock outstanding:		
Basic	23,267,290	22,998,608
Diluted	33,828,461	22,998,608

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(In thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2023	23,253,272	\$ 2	10,093,394	\$ 1	\$ 249,688	\$ (12,944)	\$ 91,549	\$ 328,296
Equity-based compensation	—	—	—	—	6,508	—	—	6,508
Net income	—	—	—	—	—	1,098	438	1,536
Exercise of equity-based awards	25,898	—	—	—	(10)	—	—	(10)
Sale of exchangeable note hedges	—	—	—	—	1,483	—	—	1,483
Repurchases of warrants	—	—	—	—	(657)	—	—	(657)
Allocation of equity to non-controlling interests	—	—	—	—	(2,450)	—	2,450	—
Balance at December 31, 2023	23,279,170	2	10,093,394	1	254,562	(11,846)	94,437	337,156

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2022	22,986,448	\$ 2	10,118,142	\$ 1	\$ 241,958	\$ (23,582)	\$ 89,309	\$ 307,607
Adoption of ASU 2020-06	—	—	—	—	(23,382)	11,449	—	(11,933)
Equity-based compensation	—	—	—	—	6,846	—	—	6,846
Net (loss) income	—	—	—	—	—	(240)	409	169
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	685	—	—	685
Exercise of equity-based awards	24,745	—	—	—	3	—	—	—
Allocation of equity to non-controlling interests	—	—	—	—	1,906	—	(1,906)	—
Balance at December 31, 2022	23,011,193	\$ 2	10,118,142	\$ 1	\$ 228,016	\$ (12,373)	\$ 87,812	\$ 303,441

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Three months ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 1,536	\$ 169
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,739	8,676
Equity-based compensation	6,508	6,846
Amortization of debt discount and issuance costs	414	361
Provision for income taxes	182	355
Non-cash lease expense	1,184	1,063
Changes in non-cash contingent consideration expense from original estimate	(237)	1,443
Other non-cash adjustments to net income	513	502
Changes in operating assets:		
Accounts receivable	(5,321)	8,868
Prepaid expenses and other current assets	(1,773)	(3,312)
Other assets	6,642	(313)
Changes in operating liabilities:		
Accounts payable	(1,725)	(947)
Accrued expenses and other current liabilities	(534)	(3,962)
Acquisition escrow obligations	(1,009)	(3,791)
Settlement obligations	(1,355)	4,246
Deferred revenue	4,093	2,249
Operating lease liabilities	(1,212)	(1,064)
Other long-term liabilities	(2,677)	2
Contingent consideration paid in excess of original estimates	(1,918)	(3,212)
Net cash provided by operating activities	<u>13,050</u>	<u>18,179</u>
Cash flows from investing activities:		
Expenditures for property and equipment	(699)	(1,438)
Proceeds from sale of property and equipment	618	—
Expenditures for capitalized software	(3,100)	(2,721)
Purchases of merchant portfolios and residual buyouts	(2,883)	(275)
Acquisitions of businesses, net of cash and restricted cash acquired	(1,100)	(89,497)
Payments for other investing activities	(11)	(802)
Proceeds from other investing activities	4	203
Net cash used in investing activities	<u>(7,171)</u>	<u>(94,530)</u>

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

(In thousands)

	Three months ended December 31,	
	2023	2022
Cash flows from financing activities:		
Proceeds from revolving credit facility	64,694	157,004
Payments on revolving credit facility	(71,661)	(79,025)
Proceeds from sale of exchangeable senior note hedges	250	—
Payments for repurchases of warrants	(119)	—
Payments of debt issuance costs	—	(87)
Cash paid for contingent consideration	—	(1,000)
Payments for required distributions to members for tax obligations	(155)	—
Proceeds from stock option exercises	—	54
Payments for employee's tax withholdings from net settled stock option exercises and RSU releases	(204)	(21)
Net cash (used in) provided by financing activities	(7,195)	76,925
Net (decrease) increase in cash, cash equivalents and restricted cash	(1,316)	574
Cash, cash equivalents and restricted cash at beginning of period	12,400	23,765
Cash, cash equivalents and restricted cash at end of period	\$ 11,084	\$ 24,339
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 6,189	\$ 4,279
Cash paid for income taxes	\$ 388	\$ 172

The following tables provide reconciliations of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets to that shown in the condensed consolidated statements of cash flows:

	September 30,	
	2023	2022
Beginning balance		
Cash and cash equivalents	\$ 3,112	\$ 3,490
Settlement assets	4,873	7,540
Restricted cash	4,415	12,735
Total cash, cash equivalents, and restricted cash	\$ 12,400	\$ 23,765

	December 31,	
	2023	2022
Ending balance		
Cash and cash equivalents	\$ 4,159	\$ 3,609
Settlement assets	3,518	11,786
Restricted cash	3,407	8,944
Total cash, cash equivalents, and restricted cash	\$ 11,084	\$ 24,339

See Notes to the Interim Condensed Consolidated Financial Statements

i3 VERTICALS, Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in thousands, except unit, share and per share amounts)

1. ORGANIZATION AND OPERATIONS

i3 Verticals, Inc. (the "Company") was formed as a Delaware corporation on January 17, 2018. The Company was formed for the purpose of completing an initial public offering ("IPO") of its Class A common stock and other related transactions in order to carry on the business of i3 Verticals, LLC and its subsidiaries. i3 Verticals, LLC was founded in 2012 and delivers seamlessly integrated software and payment solutions to customers in strategic vertical markets. The Company's headquarters are located in Nashville, Tennessee, with operations throughout the United States. Unless the context otherwise requires, references to "we," "us," "our," "i3 Verticals" and the "Company" refer to i3 Verticals, Inc. and its subsidiaries, including i3 Verticals, LLC.

In connection with the IPO, the Company completed certain reorganization transactions, which, among other things, resulted in i3 Verticals, Inc. being the sole managing member of i3 Verticals, LLC (the "Reorganization Transactions"). Following the completion of the IPO and Reorganization Transactions, the Company is a holding company and the principal asset that it owns are the common units of i3 Verticals, LLC. i3 Verticals, Inc. operates and controls all of i3 Verticals, LLC's operations and, through i3 Verticals, LLC and its subsidiaries, conducts i3 Verticals, LLC's business. i3 Verticals, Inc. has a majority economic interest in i3 Verticals, LLC. As the sole managing member of i3 Verticals, LLC, i3 Verticals, Inc. consolidates the financial results of i3 Verticals, LLC and reports a non-controlling interest representing the Common Units of i3 Verticals, LLC held by owners other than i3 Verticals, Inc. (the "Continuing Equity Owners").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the reporting and disclosure rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for fair presentation of the unaudited condensed consolidated financial statements of the Company and its subsidiaries as of December 31, 2023 and for the three months ended December 31, 2023 and 2022. The results of operations for the three months ended December 31, 2023 and 2022 are not necessarily indicative of the operating results for the full year.

As permitted by the rules and regulations of the SEC, certain information and disclosures otherwise included in the notes to the consolidated financial statements have been condensed or omitted from the summary of significant accounting policies. The Company believes the disclosures are adequate to make the information presented not misleading. It is recommended that these interim condensed consolidated financial statements be read in conjunction with the Company's consolidated financial statements and related footnotes for the years ended September 30, 2023 and 2022, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2023 filed with the SEC on November 22, 2023.

Principles of Consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiary companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in thousands, except unit, share and per share amounts)

Restricted Cash

Restricted cash represents funds held in escrow related to acquisitions or held-on-deposit with processing banks pursuant to agreements to cover potential merchant losses. It is presented as long-term assets on the accompanying condensed consolidated balance sheets since the related agreements extend beyond the next twelve months. Following the adoption of Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows: Restricted Cash* (Topic 230), the Company includes restricted cash along with the cash and cash equivalents balance for presentation in the consolidated statements of cash flows.

Settlement Assets and Obligations

Settlement assets and obligations result when funds are temporarily held or owed by the Company on behalf of merchants, consumers, schools, and other institutions. Timing differences, interchange expenses, merchant reserves and exceptional items cause differences between the amount received from the card networks and the amount funded to counterparties. These balances arising in the settlement process are reflected as settlement assets and obligations on the accompanying consolidated balance sheets. With the exception of merchant reserves, settlement assets or settlement obligations are generally collected and paid within one to four days. Settlement assets and settlement obligations were both \$ 3,518 as of December 31, 2023 and \$ 4,873 as of September 30, 2023, respectively.

Inventories

Inventories consist of point-of-sale equipment to be sold to customers and are stated at the lower of cost, determined on a weighted average or specific basis, or net realizable value. Inventories were \$4,251 and \$4,138 at December 31, 2023 and September 30, 2023, respectively, and are included within prepaid expenses and other current assets on the accompanying condensed consolidated balance sheets.

Acquisitions

Business acquisitions have been recorded using the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations* ("ASC 805"), and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value as of the date of acquisition. Where relevant, the fair value of contingent consideration included in an acquisition is calculated using a Monte Carlo simulation. The fair value of merchant relationships and non-compete assets acquired is identified using the Income Approach. The fair values of trade names and internally-developed software acquired are identified using the Relief from Royalty Method. After the purchase price has been allocated, goodwill is recorded to the extent the total consideration paid for the acquisition, including the acquisition date fair value of contingent consideration, if any, exceeds the sum of the fair values of the separately identifiable acquired assets and assumed liabilities. Acquisition costs for business combinations are expensed when incurred and recorded in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

Acquisitions not meeting the accounting criteria to be accounted for as a business combination are accounted for as an asset acquisition. An asset acquisition is recorded at its purchase price, inclusive of acquisition costs, which is allocated among the acquired assets and assumed liabilities based upon their relative fair values at the date of acquisition.

Leases

The Company adopted ASU 2016-02, *Leases*, on October 1, 2020, using the optional modified retrospective method under which the prior period financial statements were not restated for the new guidance. The Company elected the accounting policy practical expedients for all classes of underlying assets to (i) combine associated lease and non-lease components in a lease arrangement as a combined lease component and (ii) exclude recording short-term leases as right-of-use assets on the condensed consolidated balance sheets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in thousands, except unit, share and per share amounts)

At contract inception the Company determines whether an arrangement is, or contains a lease, and for each identified lease, evaluates the classification as operating or financing. Leased assets and obligations are recognized at the lease commencement date based on the present value of fixed lease payments to be made over the term of the lease. Renewal and termination options are factored into determination of the lease term only if the option is reasonably certain to be exercised. The Company's leases do not provide a readily determinable implicit interest rate and the Company uses its incremental borrowing rate to measure the lease liability and corresponding right-of-use asset. The incremental borrowing rate is a fully collateralized rate that considers the Company's credit rating, market conditions and the term of the lease. The Company accounts for all components in a lease arrangement as a single combined lease component.

Operating lease cost is recognized on a straight-line basis over the lease term. Total lease costs include variable lease costs, which are primarily comprised of the consumer price index adjustments and other changes based on rates, such as costs of insurance and property taxes. Variable payments are expensed in the period incurred and not included in the measurement of lease assets and obligations.

Revenue Recognition and Deferred Revenue

Revenue is recognized as each performance obligation is satisfied, in accordance with ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). The Company accrues for rights of refund, processing errors or penalties, or other related allowances based on historical experience. The Company utilized the portfolio approach practical expedient within ASC 606-10-10-4 *Revenue from Contracts with Customers—Objectives* and the significant financing component practical expedient within ASC 606-10-32-18 *Revenue from Contracts with Customers—The Existence of a Significant Financing Component in the Contract* in performing the analysis.

The Company's revenue for the three months ended December 31, 2023 and 2022 is derived from the following sources:

- Software and related services — Includes sales of software as a service, transaction-based fees, ongoing software maintenance and support, software licenses and other professional services related to our software offerings
- Payments — Includes volume-based payment processing fees ("discount fees"), gateway fees and other related fixed transaction or service fees
- Other — Includes sales of equipment, non-software related professional services and other revenues

Revenues from sales of the Company's software are recognized when the related performance obligations are satisfied. Sales of software licenses are categorized into one of two categories of intellectual property in accordance with ASC 606, functional or symbolic. The key distinction is whether the license represents a right to use (functional) or a right to access (symbolic) intellectual property. The Company generates sales of one-time software licenses, which is functional intellectual property. Revenue from functional intellectual property is recognized at a point in time, when delivered to the customer. The Company also offers access to its software under software-as-a-service ("SaaS") arrangements, which represent services arrangements. Revenue from SaaS arrangements is recognized over time, over the term of the agreement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in thousands, except unit, share and per share amounts)

Discount fees represent a percentage of the dollar amount of each credit or debit transaction processed or a specified per transaction amount, depending on the card type. The Company frequently enters into agreements with customers under which the customer engages the Company to provide both payment authorization services and transaction settlement services for all of the cardholder transactions of the customer, regardless of which issuing bank and card network to which the transaction relates. The Company's core performance obligations are to stand ready to provide continuous access to the Company's payment authorization services and transaction settlement services in order to be able to process as many transactions as its customers require on a daily basis over the contract term. These services are stand ready obligations, as the timing and quantity of transactions to be processed is not determinable. Under a stand-ready obligation, the Company's performance obligation is defined by each time increment rather than by the underlying activities satisfied over time based on days elapsed. Because the service of standing ready is substantially the same each day and has the same pattern of transfer to the customer, the Company has determined that its stand-ready performance obligation comprises a series of distinct days of service. Discount fees are recognized each day based on the volume or transaction count at the time the merchants' transactions are processed.

The Company follows the requirements of ASC 606-10-55 *Revenue from Contracts with Customers—Principal versus Agent Considerations*, which states that the determination of whether a company should recognize revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgment that depends on the facts and circumstances of the arrangement. The determination of gross versus net recognition of revenue requires judgment that depends on whether the Company controls the good or service before it is transferred to the merchant or whether the Company is acting as an agent of a third party. The assessment is provided separately for each performance obligation identified. Under its agreements, the Company incurs interchange and network pass-through charges from the third-party card issuers and card networks, respectively, related to the provision of payment authorization services. The Company has determined that it is acting as an agent with respect to these payment authorization services, based on the following factors: (1) the Company has no discretion over which card issuing bank will be used to process a transaction and is unable to direct the activity of the merchant to another card issuing bank, and (2) interchange and card network rates are pre-established by the card issuers or card networks, and the Company has no latitude in determining these fees. Therefore, revenue allocated to the payment authorization performance obligation is presented net of interchange and card network fees paid to the card issuing banks and card networks, respectively, for the three months ended December 31, 2023 and 2022.

With regards to the Company's discount fees, generally, where the Company has control over merchant pricing, merchant portability, credit risk and ultimate responsibility for the merchant relationship, revenues are reported at the time of sale equal to the full amount of the discount charged to the merchant, less interchange and network fees. Revenues generated from merchant portfolios where the Company does not have control over merchant pricing, liability for merchant losses or credit risk or rights of portability are reported net of interchange and network fees as well as third-party processing costs directly attributable to processing and bank sponsorship costs.

Revenues are also derived from a variety of transaction fees, which are charged for accessing our payment and software solutions, and fees for other miscellaneous services. Revenues derived from such fees are recognized at the time the transactions occur and when there are no further performance obligations. Revenue from the sale of equipment, is recognized upon transfer of ownership to the customer, after which there are no further performance obligations.

Arrangements may contain multiple performance obligations, such as payment authorization services, transaction settlement services, hardware, software products, maintenance, and professional installation and training services. Revenues are allocated to each performance obligation based on the standalone selling price of each good or service. The selling price for a deliverable is based on standalone selling price, if available, the adjusted market assessment approach, estimated cost plus margin approach, or residual approach. The Company establishes estimated selling price, based on the judgment of the Company's management, considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (in thousands, except unit, share and per share amounts)

the product life cycle. In arrangements with multiple performance obligations, the Company determines allocation of the transaction price at inception of the arrangement and uses the standalone selling prices for the majority of the Company's revenue recognition.

Revenues from sales of the Company's combined hardware and software element are recognized when each performance obligation has been satisfied which has been determined to be upon the delivery of the product. Revenues derived from service fees are recognized at the time the services are performed and there are no further performance obligations. The Company's professional services, including training, installation, and repair services are recognized as revenue as these services are performed.

The tables below present a disaggregation of the Company's revenue from contracts with customers by product by segment. Refer to Note 14 for discussion of the Company's segments. The Company's products are defined as follows:

- Software and related services — Includes SaaS, transaction-based fees, ongoing software maintenance and support, software licenses and other professional services related to our software offerings
- Payments — Includes discount fees, gateway fees and other related fixed transaction or service fees
- Other — Includes sales of equipment, non-software related professional services and other revenues

	For the Three Months Ended December 31, 2023			
	Software and Services	Merchant Services	Other	Total
Software and related services revenue	\$ 40,332	\$ 3,302	\$ (12)	\$ 43,622
Payments revenue	13,982	30,022	(9)	43,995
Other revenue	2,275	2,098	—	4,373
Total revenue	\$ 56,589	\$ 35,422	\$ (21)	\$ 91,990

	For the Three Months Ended December 31, 2022			
	Software and Services	Merchant Services	Other	Total
Software and related services revenue	\$ 38,145	\$ 2,979	\$ (10)	\$ 41,114
Payments revenue	12,753	27,609	(8)	40,354
Other revenue	2,315	2,246	—	4,561
Total revenue	\$ 53,213	\$ 32,834	\$ (18)	\$ 86,029

The tables below present a disaggregation of the Company's revenue from contracts with customers by timing of transfer of goods or services by segment. The Company's revenue included in each category are defined as follows:

- Revenue earned over time — Includes discount fees, gateway fees, sales of SaaS, ongoing support or other stand-ready obligations and professional services
- Revenue earned at a point in time — Includes point in time service fees that are not stand-ready obligations, software licenses sold as functional intellectual property and other equipment

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	For the Three Months Ended December 31, 2023			
	Software and Services	Merchant Services	Other	Total
Revenue earned over time	\$ 54,354	\$ 30,081	\$ (12)	\$ 84,423
Revenue earned at a point in time	2,235	5,341	(9)	7,567
Total revenue	\$ 56,589	\$ 35,422	\$ (21)	\$ 91,990

	For the Three Months Ended December 31, 2022			
	Software and Services	Merchant Services	Other	Total
Revenue earned over time	\$ 50,441	\$ 27,597	\$ (10)	\$ 78,028
Revenue earned at a point in time	2,772	5,237	(8)	8,001
Total revenue	\$ 53,213	\$ 32,834	\$ (18)	\$ 86,029

Contract Assets

The Company bills for certain software and related services sales and fixed fee professional services upon pre-determined milestones in the contracts. Therefore, the Company may have contract assets other than trade accounts receivable for performance obligations that are partially completed, which would typically represent consulting services provided before a milestone is completed in a contract. Additionally, contract assets also include software licenses sold as a right to use license but paid for under a subscription model. Under this structure, the license revenue is recognized upfront while a portion of the revenue is unbilled. Unbilled amounts associated with these services are presented as accounts receivable as the Company has an unconditional right to payment for services performed.

As of December 31, 2023 and September 30, 2023, the Company's contract assets from contracts with customers was \$ 10,139 and \$15,131, respectively.

Contract Liabilities

Deferred revenue represents amounts billed to customers by the Company for services contracts. Payment is typically collected at the start of the contract term. The initial prepaid contract agreement balance is deferred. The balance is then recognized as the services are provided over the contract term. Deferred revenue that is expected to be recognized as revenue within one year is recorded as short-term deferred revenue and the remaining portion is recorded as other long-term liabilities in the condensed consolidated balance sheets. The terms for most of the Company's contracts with a deferred revenue component are one year. Substantially all of the Company's deferred revenue is anticipated to be recognized within the next year.

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The following tables present the changes in deferred revenue as of and for the three months ended December 31, 2023 and 2022, respectively:

Balance at September 30, 2023	\$	35,444
Deferral of revenue		19,793
Recognition of unearned revenue		(15,664)
Balance at December 31, 2023	\$	39,573
Balance at September 30, 2022	\$	32,089
Deferral of revenue		19,334
Recognition of unearned revenue		(13,925)
Balance at December 31, 2022	\$	37,498

Costs to Obtain and Fulfill a Contract

The Company capitalizes incremental costs to obtain new contracts and contract renewals and amortizes these costs on a straight-line basis as an expense over the benefit period, which is generally the contract term, unless a commensurate payment is not expected at renewal. As of December 31, 2023 and September 30, 2023, the Company had \$5,106 and \$4,966, respectively, of capitalized contract costs, which relates to commissions paid to employees and agents as well as other incentives given to customers to obtain new sales, included within "Other assets" on the condensed consolidated balance sheets. The Company recorded expense related to these costs of \$229 for the three months ended December 31, 2023, and \$ 183 for the three months ended December 31, 2022.

The Company expenses sales commissions as incurred for the Company's sales commission plans that are paid on recurring monthly revenues, portfolios of existing customers, or have a substantive stay requirement prior to payment.

Other Cost of Services

Other costs of services include third-party processing costs directly attributable to processing and bank sponsorship costs, which may not be based on a percentage of volume. These costs also include related costs such as residual payments to sales groups, which are based on a percentage of the net revenues generated from merchant referrals. In certain merchant processing bank relationships the Company is liable for chargebacks against a merchant equal to the volume of the transaction. Losses resulting from chargebacks against a merchant are included in other cost of services on the accompanying condensed consolidated statement of operations. The Company evaluates its risk for such transactions and estimates its potential loss from chargebacks based primarily on historical experience and other relevant factors. The reserve for merchant losses is included within accrued expenses and other current liabilities on the accompanying condensed consolidated balance sheets. The cost of equipment and software sold is also included in other cost of services. Other costs of services are recognized at the time the associated revenue is earned.

The Company accounts for all governmental taxes associated with revenue transactions on a net basis.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, the value of purchase consideration paid and identifiable assets acquired and assumed in acquisitions, goodwill and intangible asset impairment review, determination of performance obligations for revenue

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recognition, loss reserves, assumptions used in the calculation of equity-based compensation and in the calculation of income taxes, and certain tax assets and liabilities as well as the related valuation allowances. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740)—Improvements to Income Tax Disclosures (“ASU 2023-09”). ASU 2023-09 will provide improvements to the income tax disclosures primarily related to the income taxes paid and rate reconciliation, and how legislation changes may affect future capital allocation and cash flow forecasts. The amendment will improve the consistency in which companies provide tax information, and will further increase the transparency of related tax risks and operational opportunities. The amendments in ASU 2023-09 are effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Company will not be required to adopt ASU 2023-09 until October 1, 2025. The Company is currently evaluating the impact of the adoption of ASU 2023-09 on the Company's financial statement disclosures.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280)—Improvements to Reportable Segment Disclosures (“ASU 2023-07”). ASU 2023-07 improves interim disclosure requirements for segment reporting, including clarifications regarding the measure of profit and loss used to assess segment performance and the allocation of resources. Further, it enhances the disclosures for reporting segment expenses and will require the Company to report significant expenses regularly provided by the chief operating decision maker. The amendment will require companies to disclose a more granular level of information with regards to segment reporting to further enhance the transparency of what specified amounts are included within each segment. The amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company will not be required to adopt ASU 2023-07 until October 1, 2024. The Company is currently evaluating the impact of the adoption of ASU 2023-07 on the Company's financial statement disclosures.

3. ACQUISITIONS

During the three months ended December 31, 2023 and 2022, the Company acquired the following intangible assets and businesses:

Residual Buyouts

From time to time, the Company acquires future commission streams (or "residuals") from sales agents in exchange for an upfront cash payment. This results in an increase in overall gross processing volume to the Company. The residual buyouts are treated as asset acquisitions, resulting in recording a residual buyout intangible asset at cost on the date of acquisition. These assets are amortized using a method of amortization that reflects the pattern in which the economic benefits of the intangible asset are expected to be utilized over their estimated useful lives.

During the three months ended December 31, 2023 and 2022, the Company purchased residuals for \$ 3,359 and \$275 of consideration, respectively. The purchases were funded with a combination of cash on hand and borrowings on the Company's revolving credit facility. The acquired residual buyout intangible asset has an estimated amortization period of eight years.

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Business Combinations during the three months ended December 31, 2023

During the three months ended December 31, 2023 the Company completed the acquisition of a business to expand the Company's software offerings. Total purchase consideration was \$1,270, including \$1,100 in cash consideration, funded by proceeds from the Company's revolving credit facility, and \$170 of contingent consideration.

In connection with this acquisition, the Company allocated approximately \$ 5 to property and equipment, approximately \$ 40 to capitalized software, approximately \$220 to customer relationships and the remainder, approximately \$ 1,005, to goodwill, all of which is deductible for tax purposes. Certain of the purchase price allocations assigned for this acquisition is considered preliminary as of December 31, 2023. The acquired customer relationships intangible assets have an estimated amortization periods of ten years. The acquired capitalized software have amortization periods of seven years.

Acquisition-related costs for this acquisition amounted to approximately \$ 8 and were expensed as incurred.

Business Combinations during the year ended September 30, 2023

Purchase of Celtic Cross Holdings, Inc. and Celtic Systems Pvt. Ltd.

During the three months ended December 31, 2022, the Company completed the acquisition of Celtic Cross Holdings, Inc., in Scottsdale, Arizona and Celtic Systems Pvt. Ltd. in Vadodara, India (collectively "Celtic") to expand the Company's software offerings in the Public Sector vertical. Celtic is within the Software and Services segment. Total purchase consideration consisted of \$85,000 in cash consideration, funded by proceeds from the Company's revolving credit facility.

The goodwill associated with the Celtic acquisition is deductible for tax purposes. The acquired customer relationships intangible assets has an estimated amortization period of eighteen years. The trade name and non-compete agreements associated with the acquisition have amortization periods of five years and three years, respectively. The weighted-average amortization period for all intangibles acquired is eighteen years. The acquired capitalized software has a weighted-average amortization period of ten years.

Acquisition-related costs for this acquisition amounted to approximately \$ 1,782 and were expensed as incurred.

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Summary of Celtic Cross Holdings, Inc. and Celtic Systems Pvt. Ltd.

The fair values assigned to certain assets and liabilities assumed, as of the acquisition date, were as follows:

Accounts receivable	\$	7,660
Prepaid expenses and other current assets		103
Property and equipment		5,233
Capitalized software		12,600
Customer relationships		33,800
Non-compete agreements		200
Trade name		600
Goodwill		43,899
Total assets acquired		104,095
Accounts payable		9
Accrued expenses and other current liabilities		3,182
Deferred revenue, current		2,741
Other long-term liabilities		13,162
Net assets acquired		\$ 85,001

Other Business Combinations during the year ended September 30, 2023

The Company completed the acquisition of two other businesses to expand the Company's software offerings. The total purchase consideration was \$19,757, including \$16,997 in cash consideration, funded by proceeds from the Company's revolving credit facility, \$ 2,000 of the Company's Class A Common Stock, and \$760 contingent consideration.

In connection with this acquisition, the Company allocated approximately \$ 159 of the consideration to net working capital, approximately \$ 374 to property and equipment, approximately \$670 to capitalized software, approximately \$8,400 to customer relationships, approximately \$100 to trade names, and the remainder, approximately \$12,229, to goodwill, of which \$2,864 is deductible for tax purposes, and approximately \$2,178 to other long-term liabilities. Certain of the purchase price allocations assigned for one of these acquisitions is considered preliminary as of December 31, 2023. The acquired capital software and customer relationships intangible asset have estimated amortization periods of seven to eight years and ten to fifteen years, respectively.

Certain of the purchase price allocations assigned for one of the acquisitions are considered preliminary as of December 31, 2023.

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4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

A summary of the Company's prepaid expenses and other current assets as of December 31, 2023 and September 30, 2023 is as follows:

	December 31, 2023	September 30, 2023
Inventory	\$ 4,251	\$ 4,138
Prepaid licenses	3,280	3,115
Prepaid insurance	1,436	697
Notes receivable — current portion	—	4
Other current assets	5,251	4,495
Prepaid expenses and other current assets	<u>\$ 14,218</u>	<u>\$ 12,449</u>

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

	Software and Services	Merchant Services	Other	Total
Balance at September 30, 2023	\$ 287,613	\$ 121,950	\$ —	\$ 409,563
Goodwill attributable to preliminary purchase price adjustments and acquisitions during the three months ended December 31, 2023	1,209	—	—	1,209
Balance at December 31, 2023	<u>\$ 288,822</u>	<u>\$ 121,950</u>	<u>\$ —</u>	<u>\$ 410,772</u>

Intangible assets consisted of the following as of December 31, 2023:

	Cost	Accumulated Amortization	Carrying Value	Amortization Life and Method
Finite-lived intangible assets:				
Merchant relationships	\$ 310,721	\$ (102,550)	\$ 208,171	9 to 25 years – accelerated or straight-line
Non-compete agreements	518	(333)	185	3 to 6 years – straight-line
Website and brand development costs	224	(196)	28	3 to 4 years – straight-line
Trade names	6,131	(3,603)	2,528	3 to 7 years – straight-line
Residual buyouts	17,579	(3,574)	14,005	8 years – straight-line
Referral and exclusivity agreements	420	(84)	336	5 years – straight-line
Total finite-lived intangible assets	<u>335,593</u>	<u>(110,340)</u>	<u>225,253</u>	
Indefinite-lived intangible assets:				
Trademarks	43	—	43	
Total identifiable intangible assets	<u>\$ 335,636</u>	<u>\$ (110,340)</u>	<u>\$ 225,296</u>	

Amortization expense for intangible assets amounted to \$ 5,234 and \$5,059 during the three months ended December 31, 2023 and 2022 respectively.

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Based on net carrying amounts at December 31, 2023, the Company's estimate of future amortization expense for intangible assets are presented in the table below for fiscal years ending September 30:

2024 (nine months remaining)	\$	15,625
2025		20,657
2026		20,185
2027		19,565
2028		18,981
Thereafter		130,240
	\$	<u>225,253</u>

6. ACCRUED EXPENSES AND OTHER LIABILITIES

A summary of the Company's accrued expenses and other current liabilities as of December 31, 2023 and September 30, 2023 is as follows:

	December 31, 2023	September 30, 2023
Accrued wages, bonuses, commissions and vacation	\$ 6,995	\$ 8,713
Accrued interest	1,417	1,313
Accrued contingent consideration — current portion	5,905	6,825
Escrow liabilities	2,957	3,965
Customer deposits	1,312	1,258
Employee health self-insurance liability	738	1,014
Accrued interchange	1,913	2,191
Other current liabilities	11,844	12,461
Accrued expenses and other current liabilities	<u>\$ 33,081</u>	<u>\$ 37,740</u>

A summary of the Company's long-term liabilities as of December 31, 2023 and September 30, 2023 is as follows:

	December 31, 2023	September 30, 2023
Accrued contingent consideration — long-term portion	\$ 349	\$ 1,414
Deferred tax liability — long-term	19,646	19,646
Other long-term liabilities	1,996	3,083
Total other long-term liabilities	<u>\$ 21,991</u>	<u>\$ 24,143</u>

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7. LONG-TERM DEBT, NET

A summary of long-term debt, net as of December 31, 2023 and September 30, 2023 is as follows:

	Maturity	December 31, 2023	September 30, 2023
Revolving lines of credit to banks under the 2023 Senior Secured Credit Facility	May 8, 2028	\$ 265,539	\$ 272,505
1% Exchangeable Senior Notes due 2025	February 15, 2025	117,000	117,000
Debt issuance costs, net		(4,011)	(4,424)
Total long-term debt, net of issuance costs		378,528	385,081
Less current portion of long-term debt		(90,777)	—
Long-term debt, net of current portion		\$ 287,751	\$ 385,081

2020 Exchangeable Notes Offering

On February 18, 2020, i3 Verticals, LLC issued \$138,000 aggregate principal amount of 1.0% Exchangeable Senior Notes due 2025 (the "Exchangeable Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The Company received approximately \$132,762 in net proceeds from the sale of the Exchangeable Notes, as determined by deducting estimated offering expenses paid to third-parties from the aggregate principal amount.

The Exchangeable Notes bear interest at a fixed rate of 1.00% per year, payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2020. The Exchangeable Notes will mature on February 15, 2025, unless converted or repurchased at an earlier date.

i3 Verticals, LLC issued the Exchangeable Notes pursuant to an Indenture, dated as of February 18, 2020, among i3 Verticals, LLC, the Company and U.S. Bank National Association, as trustee.

For a discussion of the terms of the Exchangeable Notes, refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

Non-cash interest expense, including amortization of debt issuance costs, related to the Exchangeable Notes for the three months ended December 31, 2023 was \$255 and \$227 for the three months ended December 31, 2022. Total unamortized debt issuance costs related to the Exchangeable Notes were \$1,246 and \$1,501 as of December 31, 2023 and September 30, 2023, respectively.

The estimated fair value of the Exchangeable Notes was \$108,635 as of December 31, 2023. The estimated fair value of the Exchangeable Notes was determined through consideration of quoted market prices for similar instruments. The fair value is classified as Level 2, as defined in Note 10.

During fiscal year 2020, we repurchased \$21,000 in aggregate principal amount of Exchangeable Notes in open market purchases. In addition, on December 21, 2023, i3 Verticals, LLC entered into agreements to repurchase an additional portion of its Exchangeable Notes pursuant to privately negotiated transactions with a limited number of holders of the Exchangeable Notes (the "Exchangeable Note Repurchases"). The repurchase payments were determined by the Company's average stock price over the 15 trading-day measurement period ending January 16, 2024, and the closing of the Exchangeable Note Purchases occurred on January 18, 2024. The Company reclassified the \$90,777 Exchangeable Note Repurchases from long-term to current effective December 21, 2023 to reflect the agreements. The Company will record the impact of the difference in the estimated acquisition price and the net carrying amount of the repurchased portion of the Exchangeable Notes, adjusted for unamortized debt issuance costs and costs and third-party fees related to the transaction, in January.

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2024 after giving effect to the settlement. Refer to Note 18 for additional information regarding the settlement of these Exchangeable Notes.

As of December 31, 2023, the aggregate principal amount outstanding of the Exchangeable Notes was \$ 117,000.

Exchangeable Note Hedge Transactions

On February 12, 2020, concurrently with the pricing of the Exchangeable Notes, and on February 13, 2020, concurrently with the exercise by the initial purchasers of their right to purchase additional Exchangeable Notes, i3 Verticals, LLC entered into exchangeable note hedge transactions with respect to Class A common stock (the "Note Hedge Transactions") with certain financial institutions (collectively, the "Counterparties"). The Note Hedge Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Exchangeable Notes, the same number of shares of Class A common stock that initially underlie the Exchangeable Notes in the aggregate and are exercisable upon exchange of the Exchangeable Notes. The Note Hedge Transactions are intended to reduce potential dilution to the Class A common stock upon any exchange of the Exchangeable Notes. The Note Hedge Transactions will expire upon the maturity of the Exchangeable Notes, if not earlier exercised. The Note Hedge Transactions are separate transactions, entered into by i3 Verticals, LLC with the Counterparties, and are not part of the terms of the Exchangeable Notes. Holders of the Exchangeable Notes will not have any rights with respect to the Note Hedge Transactions. i3 Verticals, LLC used approximately \$28,676 of the net proceeds from the offering of the Exchangeable Notes (net of the premiums received for the warrant transactions described below) to pay the cost of the Note Hedge Transactions.

The Note Hedge Transactions do not require separate accounting as a derivative as they meet a scope exception for certain contracts involving an entity's own equity. The premiums paid for the Note Hedge Transactions have been included as a net reduction to additional paid-in capital within stockholders' equity.

In December 2023, i3 Verticals, LLC received \$250 from the Counterparties to terminate the portion of the Note Hedge Transactions corresponding to the Exchangeable Notes that were repurchased in fiscal year 2020. Also in December 2023, i3 Verticals, LLC entered into agreements with the Counterparties to terminate the portion of the Note Hedge Transactions corresponding to the Exchangeable Note Repurchases, which settled in January 2024. For additional information regarding the termination of these Note Hedge Transactions, see Note 18.

Warrant Transactions

On February 12, 2020, concurrently with the pricing of the Exchangeable Notes, and on February 13, 2020, concurrently with the exercise by the initial purchasers of their right to purchase additional Exchangeable Notes, the Company entered into warrant transactions to sell to the Counterparties warrants (the "Warrants") to acquire, subject to customary adjustments, up to initially 3,376,391 shares of Class A common stock in the aggregate at an initial exercise price of \$62.88 per share. The Company offered and sold the Warrants in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act. The Warrants will expire over a period beginning on May 15, 2025.

The Warrants are separate transactions, entered into by the Company with the Counterparties, and are not part of the terms of the Exchangeable Notes. Holders of the Exchangeable Notes will not have any rights with respect to the Warrants. The Company received approximately \$14,669 from the offering and sale of the Warrants. The Warrants do not require separate accounting as a derivative as they meet a scope exception for certain contracts involving an entity's own equity. The premiums paid for the Warrants have been included as a net increase to additional paid-in capital within stockholders' equity.

In December 2023, the Company paid \$119 to the Counterparties to terminate the portion of the Warrants corresponding to the Exchangeable Notes that were repurchased in fiscal year 2020. Also in December 2023, i3 Verticals, LLC entered into agreements with the Counterparties to terminate the portion of the Warrants

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corresponding to the Exchangeable Note Repurchases, which settled in January 2024. For additional information regarding the termination of these Warrants, see Note 18.

2023 Senior Secured Revolving Credit Facility

On May 8, 2023, i3 Verticals, LLC (the "Borrower"), entered into that certain Credit Agreement (the "2023 Senior Secured Credit Facility") with the guarantors and lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent ("JPMorgan"). The 2023 Senior Secured Credit Facility replaces the Prior Senior Secured Credit Facility (as defined below). The 2023 Senior Secured Credit Facility provides for aggregate commitments of \$450 million in the form of a senior secured revolving credit facility (the "Revolver").

The 2023 Senior Secured Credit Facility provides that the Borrower has the right to seek additional commitments to provide additional term loan facilities or additional revolving credit commitments in an aggregate principal amount up to, as of any date of determination, the sum of (i) the greater of \$100 million and 100% of the Borrower's consolidated EBITDA (as defined in the 2023 Senior Secured Credit Facility) for the most recently completed four quarter period, plus (ii) the amount of certain prepayments of certain indebtedness, so long as, among other things, after giving pro forma effect to the incurrence of such additional borrowings and any related transactions, the Borrower's consolidated interest coverage ratio (as defined in the 2023 Senior Secured Credit Facility) would not be less than 3.0 to 1.0 and the Borrower's consolidated total net leverage ratio (as defined in the 2023 Senior Secured Credit Facility) would not exceed 5.0 to 1.0. As of December 31, 2023, the Borrower's consolidated interest coverage ratio was 4.40 and total leverage ratio was 3.60.

The provision of any such additional amounts under the additional term loan facilities or additional revolving credit commitments are subject to certain additional conditions and the receipt of certain additional commitments by existing or additional lenders. The lenders under the 2023 Senior Secured Credit Facility are not under any obligation to provide any such additional term loan facilities or revolving credit commitments.

The proceeds of the Revolver, together with proceeds from any additional amounts under the additional term loan facilities or additional revolving credit commitments, may only be used by the Borrower to (i) finance working capital, capital expenditures and other lawful corporate purposes, (ii) finance permitted acquisitions (as defined in the 2023 Senior Secured Credit Facility) and (iii) to refinance certain existing indebtedness.

Borrowings under the Revolver will be made, at the Borrower's option, at the Adjusted Term SOFR rate or the base rate, plus, in each case, an applicable margin.

The Adjusted Term SOFR rate will be the rate of interest per annum equal to the Term SOFR rate (based upon an interest period of one, three or six months), plus 0.10%, plus an applicable margin of 2.00% to 3.00% (3.00% at December 31, 2023). The Adjusted Term SOFR rate shall not be less than 0% in any event.

The base rate is a fluctuating rate of interest per annum equal to the highest of (a) the greater of the federal funds rate or the overnight bank funding rate, plus $\frac{1}{2}$ of 1%, (b) Wall Street Journal prime rate and (c) the Adjusted Term SOFR rate for an interest period of one month, plus 1%, plus an applicable margin of 1.00% to 2.00% (2.00% at December 31, 2023). The base rate shall not be less than 1% in any event.

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The applicable margin is based upon the Borrower's consolidated total net leverage ratio (as defined in the 2023 Senior Secured Credit Facility), as reflected in the schedule below:

Consolidated Total Net Leverage Ratio	Commitment Fee	Letter of Credit Fee	Term Benchmark Loans	Base Rate Loans
> 3.0 to 1.0	0.30 %	3.00 %	3.00 %	2.00 %
> 2.5 to 1.0 but < 3.00 to 1.0	0.25 %	2.50 %	2.50 %	1.50 %
> 2.0 to 1.0 but < 2.50 to 1.0	0.20 %	2.25 %	2.25 %	1.25 %
< 2.0 to 1.0	0.15 %	2.00 %	2.00 %	1.00 %

In addition to paying interest on outstanding principal under the Revolver, the Borrower will be required to pay a commitment fee equal to the product of between 0.15% and 0.30% (the applicable percentage depending on the Borrower's consolidated total net leverage ratio as reflected in the schedule above, 0.30% at December 31, 2023) times the actual daily amount by which \$ 450 million exceeds the total amount outstanding under the Revolver and available to be drawn under all outstanding letters of credit.

The Borrower will be permitted to voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans under the 2023 Senior Secured Credit Facility, whether such amounts are issued under the Revolver or under the additional term loan facilities or additional revolving credit facilities, at any time without premium or penalty.

In addition, if the total amount borrowed under the Revolver exceeds \$ 450 million at any time, the 2023 Senior Secured Credit Facility requires the Borrower to prepay such excess outstanding amounts.

All obligations under the 2023 Senior Secured Credit Facility are unconditionally guaranteed by the Company, and each of the Company's existing and future direct and indirect material, wholly owned domestic subsidiaries, subject to certain exceptions. The obligations are secured by first-priority security interests in substantially all tangible and intangible assets of the Borrower, the Company and each subsidiary guarantor, in each case whether owned on the date of the initial borrowings or thereafter acquired.

The 2023 Senior Secured Credit Facility places certain restrictions on the ability of the Borrower, the Company and their subsidiaries to, among other things, incur debt and liens; merge, consolidate or liquidate; dispose of assets; enter into hedging arrangements; make certain restricted payments; undertake transactions with affiliates; enter into sale-leaseback transactions; make certain investments; prepay or modify the terms of certain indebtedness; and modify the terms of certain organizational agreements.

The 2023 Senior Secured Credit Facility contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, certain events of bankruptcy and insolvency, material judgments, certain events with respect to employee benefit plans, invalidity of loan documents and certain changes in control.

Prior Senior Secured Credit Facility

On May 9, 2019, the Company replaced its then existing credit facility with a new credit agreement (the "Prior Senior Secured Credit Facility") (as noted above, the Prior Senior Secured Credit Facility was replaced by the 2023 Senior Secured Credit Facility in May 2023). Effective October 3, 2022, the Prior Senior Secured Credit Facility, as amended, consisted of a \$375,000 revolving credit facility, together with an option to increase the revolving credit facility and/or obtain incremental term loans in an additional principal amount of up to \$50,000 in the aggregate (subject to the receipt of additional commitments for any such incremental loan amounts).

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The Prior Senior Secured Credit Facility accrued interest at Term SOFR (based upon an interest period of one, three or six months), plus an adjustment of 0.10%, plus an applicable margin of 2.25% to 3.25%, or the base rate (defined as the highest of (x) the Bank of America prime rate, (y) the federal funds rate plus 0.50% and (z) Term SOFR, plus an adjustment of 0.10%, plus 1.00%), plus an applicable margin of 0.25% to 1.25%, in each case depending upon the consolidated total leverage ratio, as defined in the agreement. Interest was payable at the end of the selected interest period, but no less frequently than quarterly. Additionally, the Prior Senior Secured Credit Facility required the Company to pay unused commitment fees of 0.15% to 0.30% on any undrawn amounts under the revolving credit facility and letter of credit fees of up to 3.25% on the maximum amount available to be drawn under each letter of credit issued under the agreement.

Debt issuance costs

The Company did not incur any debt issuance costs during the three months ended December 31, 2023, and incurred \$ 265 in debt issuance costs during the three months ended December 31, 2022. The Company's debt issuance costs are being amortized over the related term of the debt using the straight-line method, which is not materially different than the effective interest rate method, and are presented net against long-term debt in the condensed consolidated balance sheets. The amortization of deferred debt issuance costs is included in interest expense and amounted to approximately \$414 during the three months ended December 31, 2023, and \$361 during the three months ended December 31, 2022.

8. INCOME TAXES

i3 Verticals, Inc. is taxed as a corporation and pays corporate federal, state and local taxes on income allocated to it from i3 Verticals, LLC based on i3 Verticals, Inc.'s economic interest in i3 Verticals, LLC. i3 Verticals, LLC's members, including the Company, are liable for federal, state and local income taxes based on their share of i3 Verticals, LLC's pass-through taxable income. i3 Verticals, LLC is not a taxable entity for federal income tax purposes but is subject to and reports entity level tax in both Tennessee and Texas. In addition, certain subsidiaries of i3 Verticals, LLC are corporations that are subject to state and federal income taxes.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. When the estimate of the annual effective tax rate is unreliable, the Company records its income tax expense or benefit based up on a period to date effective tax rate. Each quarter, the Company updates its estimate of the annual effective tax rate, and if the Company's estimated tax rate changes, it makes a cumulative adjustment in that period. The Company's provision for income taxes was a provision of \$182 for the three months ended December 31, 2023, and a provision of \$ 382 during the three months ended December 31, 2022.

Tax Receivable Agreement

On June 25, 2018, the Company entered into a Tax Receivable Agreement with i3 Verticals, LLC and each of the Continuing Equity Owners (the "Tax Receivable Agreement") that provides for the payment by the Company to the Continuing Equity Owners of 85% of the amount of certain tax benefits, if any, that it actually realizes, or in some circumstances, is deemed to realize in its tax reporting, as a result of (i) future redemptions funded by the Company or exchanges, or deemed exchanges in certain circumstances, of Common Units of i3 Verticals, LLC for Class A common stock of i3 Verticals, Inc. or cash, and (ii) certain additional tax benefits attributable to payments made under the Tax Receivable Agreement. These tax benefit payments are not conditioned upon one or more of the Continuing Equity Owners maintaining a continued ownership interest in i3 Verticals, LLC. If a Continuing Equity Owner transfers Common Units but does not assign to the transferee of such units its rights under the Tax Receivable Agreement, such Continuing Equity Owner generally will continue to be entitled to receive payments under the Tax Receivable Agreement arising in respect of a subsequent exchange of such Common Units. In general, the Continuing Equity Owners' rights under the Tax Receivable Agreement may not be assigned, sold, pledged or otherwise alienated to any person, other than certain permitted transferees, without (a) the Company's prior written consent, which should not be unreasonably withheld, conditioned or delayed, and (b) such persons

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becoming a party to the Tax Receivable Agreement and agreeing to succeed to the applicable Continuing Equity Owner's interest therein. The Company expects to benefit from the remaining 15% of the tax benefits, if any, that the Company may realize.

During the three months ended December 31, 2023, the Company acquired no Common Units in i3 Verticals, LLC in connection with the redemption of Common Units from the Continuing Equity Owners.

The deferred tax asset and corresponding Tax Receivable Agreement liability balances were \$ 37,723 and \$40,079, respectively, as of December 31, 2023.

Payments to the Continuing Equity Owners related to exchanges through December 31, 2023 will range from \$ 0 to \$3,235 per year and are expected to be paid over the next 23 years. The amounts recorded as of December 31, 2023, approximate the current estimate of expected tax savings and are subject to change after the filing of the Company's U.S. federal and state income tax returns. Future payments under the Tax Receivable Agreement with respect to subsequent exchanges would be in addition to these amounts.

9. LEASES

The Company's leases consist primarily of real estate leases throughout the markets in which the Company operates. At contract inception, the Company determines whether an arrangement is or contains a lease, and for each identified lease, evaluates the classification as operating or financing. The Company had no finance leases as of December 31, 2023. Leased assets and obligations are recognized at the lease commencement date based on the present value of fixed lease payments to be made over the term of the lease. Renewal and termination options are factored into determination of the lease term only if the option is reasonably certain to be exercised. The weighted-average remaining lease term at December 31, 2023 and 2022 was two and four years, respectively. The Company had no significant short-term leases during the three months ended December 31, 2023 and 2022.

The Company's leases do not provide a readily determinable implicit interest rate and the Company uses its incremental borrowing rate to measure the lease liability and corresponding right-of-use asset. The incremental borrowing rates were determined based on a portfolio approach considering the Company's current secured borrowing rate adjusted for market conditions and the length of the lease term. The weighted-average discount rate used in the measurement of our lease liabilities was 7.5% and 6.1% as of December 31, 2023 and 2022, respectively.

Operating lease cost is recognized on a straight-line basis over the lease term. Operating lease costs were \$ 1,333 for the three months ended December 31, 2023 and \$1,504 for the three months ended December 31, 2022, which are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

Total operating lease costs for the three months ended December 31, 2023 include variable lease costs of approximately \$ 10 and \$11 and for the three months ended December 31, 2022, which are primarily comprised of costs of maintenance and utilities and changes in rates, and are determined based on the actual costs incurred during the period. Variable payments are expensed in the period incurred and not included in the measurement of lease assets and liabilities.

Short-term rent expense for the three months ended December 31, 2023 were \$ 45 and were \$35 for the three months ended December 31, 2022, and are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

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As of December 31, 2023, maturities of lease liabilities are as follows:

Fiscal Years ending September 30:

2024 (nine months remaining)	\$	3,833
2025		4,707
2026		3,730
2027		1,666
2028		755
Thereafter		1,262
Total future minimum lease payments (undiscounted)⁽¹⁾		15,953
Less: present value discount		(2,244)
Present value of lease liability	\$	13,709

1. Total future minimum lease payments excludes payments of \$62 for leases designated as short-term leases, which are excluded from the Company's right-of-use assets. These payments will be made within the next twelve months.

10. FAIR VALUE MEASUREMENTS

The Company applies the provisions of ASC 820, *Fair Value Measurement*, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or the price paid to transfer a liability as of the measurement date. A three-tier, fair-value reporting hierarchy exists for disclosure of fair value measurements based on the observability of the inputs to the valuation of financial assets and liabilities. The three levels are:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in active exchange markets.

The carrying value of the Company's financial instruments, including cash and cash equivalents, restricted cash, settlement assets and obligations, accounts receivable, other assets, accounts payable, and accrued expenses, approximated their fair values as of December 31, 2023 and 2022, because of the relatively short maturity dates on these instruments. The carrying amount of debt approximates fair value as of December 31, 2023 and 2022, because interest rates on these instruments approximate market interest rates.

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The Company has no Level 1 or Level 2 financial instruments measured at fair value on a recurring basis. The following tables present the changes in the Company's Level 3 financial instruments that are measured at fair value on a recurring basis.

	Accrued Contingent Consideration
Balance at September 30, 2023	\$ 8,239
Contingent consideration accrued at time of business combination	170
Change in fair value of contingent consideration included in Operating expenses	(237)
Contingent consideration paid	(1,918)
Balance at December 31, 2023	<u><u>\$ 6,254</u></u>

	Accrued Contingent Consideration
Balance at September 30, 2022	\$ 22,833
Contingent consideration accrued at time of business combination	—
Change in fair value of contingent consideration included in Operating expenses	1,443
Contingent consideration paid	(4,212)
Balance at December 31, 2022	<u><u>\$ 20,064</u></u>

The fair value of contingent consideration obligations includes inputs not observable in the market and thus represents a Level 3 measurement. The amount to be paid under these obligations is contingent upon the achievement of certain growth metrics related to the financial performance of the entities subsequent to acquisition. The fair value of material contingent consideration included in an acquisition is calculated using a Monte Carlo simulation. The contingent consideration is revalued each period until it is settled. Management reviews the historical and projected performance of each acquisition with contingent consideration and uses an income probability method to revalue the contingent consideration. The revaluation requires management to make certain assumptions and represent management's best estimate at the valuation date. The probabilities are determined based on a management review of the expected likelihood of triggering events that would cause a change in the contingent consideration paid. The Company develops the projected future financial results based on an analysis of historical results, market conditions, and the expected impact of anticipated changes in the Company's overall business and/or product strategies.

Approximately \$5,905 and \$6,825 of contingent consideration was recorded in accrued expenses and other current liabilities as of December 31, 2023 and September 30, 2023, respectively. Approximately \$349 and \$1,414 of contingent consideration was recorded in other long-term liabilities as of December 31, 2023 and September 30, 2023, respectively.

Disclosure of Fair Values

The Company's financial instruments that are not remeasured at fair value include the Exchangeable Notes (see Note 7). The Company estimates the fair value of the Exchangeable Notes through consideration of quoted market prices of similar instruments, classified as Level 2 as described above. The estimated fair value of the Exchangeable Notes was \$108,635 as of December 31, 2023.

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11. EQUITY-BASED COMPENSATION

A summary of equity-based compensation expense recognized during the three months ended December 31, 2023 and 2022 is as follows:

	Three Months Ended December 31,	
	2023	2022
Stock options	\$ 4,969	\$ 6,288
Restricted stock units	1,539	558
Equity-based compensation expense	\$ 6,508	\$ 6,846

Amounts are included in general and administrative expense on the condensed consolidated statements of operations. Current and deferred income tax benefits of \$1,078 and \$1,189 were recognized during the three months ended December 31, 2023 and 2022, respectively.

In May 2018, the Company adopted the 2018 Equity Incentive Plan (the "2018 Plan") under which the Company may grant up to 3,500,000 stock options and other equity-based awards to employees, directors and officers. The number of shares of Class A common stock available for issuance under the 2018 Plan includes an annual increase on the first day of each calendar year equal to 4.0% of the outstanding shares of all classes of the Company's common stock as of the last day of the immediately preceding calendar year, unless the Company's board of directors determines prior to the last trading day of December of the immediately preceding calendar year that the increase shall be less than 4.0%. As of December 31, 2023, equity awards with respect to 2,433,717 shares of the Company's Class A common stock were available for grant under the 2018 Plan.

In September 2020, the Company adopted the 2020 Acquisition Equity Incentive Plan (the "2020 Inducement Plan") under which the Company may grant up to 1,500,000 stock options and other equity-based awards to individuals that were not previously employees of the Company or its subsidiaries in connection with acquisitions, as a material inducement to the individual's entry into employment with the Company or its subsidiaries within the meaning of Rule 5635(c)(4) of the Nasdaq Listing Rules. In May 2021, the Company amended the 2020 Inducement Plan to increase the number of shares of the Company's Class A common stock available for issuance from 1,500,000 to 3,000,000 shares. As of December 31, 2023, equity awards with respect to 1,230,668 shares of the Company's Class A common stock were available for grant under the 2020 Inducement Plan.

Share-based compensation expense includes the estimated effects of forfeitures, which will be adjusted over the requisite service period to the extent actual forfeitures differ or are expected to differ from such estimates.

Stock Options

The Company has issued stock option awards under the 2018 Plan and the 2020 Inducement Plan. The fair value of the stock option awards during the three months ended December 31, 2023 and during the year ended September 30, 2023 was determined on the grant date using the Black-Scholes valuation model based on the following weighted-average assumptions:

	December 31, 2023		September 30, 2023	
Expected volatility ⁽¹⁾	52.7	%	54.9	%
Expected dividend yield ⁽²⁾	—	%	—	%
Expected term ⁽³⁾	6 years		6 years	
Risk-free interest rate ⁽⁴⁾	4.4	%	3.9	%

1. Expected volatility is based on the Company's own share price.
2. The Company has assumed a dividend yield of zero as management has no plans to declare dividends in the foreseeable future.
3. Expected term represents the estimated period of time until an award is exercised and was determined using the simplified method as details of employee exercise behavior are limited due to limited historical data.
4. The risk-free rate is an interpolation of yields on U.S. Treasury securities with maturities equivalent to the expected term.

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A summary of stock option activity for the three months ended December 31, 2023 is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at September 30, 2023	8,576,670	\$ 25.16
Granted	10,000	19.76
Exercised	(10,000)	13
Forfeited	(113,595)	28.19
Outstanding at December 31, 2023	<u>8,463,075</u>	\$ 25.13
Exercisable at December 31, 2023	6,030,296	\$ 24.65

The weighted-average grant date fair value of stock options granted during the three months ended December 31, 2023 was \$ 11.04.

As of December 31, 2023, total unrecognized compensation expense related to unvested stock options, including an estimate for pre-vesting forfeitures, was \$18,211, which is expected to be recognized over a weighted-average period of 2.14 years. The Company's policy is to account for forfeitures of stock-based compensation awards as they occur.

The total fair value of stock options that vested during the three months ended December 31, 2023 was \$ 6,395.

Restricted Stock Units

The Company has issued Class A common stock in the form of restricted stock units ("RSUs") under the 2018 Plan.

A summary of activity related to restricted stock units for the three months ended December 31, 2023 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at September 30, 2023	874,024	\$ 24.95
Granted	19,350	19.76
Vested	(31,246)	22.33
Forfeited	(9,792)	25.54
Outstanding at December 31, 2023	<u>852,336</u>	\$ 24.93

As of December 31, 2023, total unrecognized compensation expense related to unvested RSUs, including an estimate for pre-vesting forfeitures, was \$12,240, which is expected to be recognized over a weighted average period of 2.97 years.

\$698 of RSUs vested during the three months ended December 31, 2023.

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company utilizes office space and equipment under operating leases. Rent expense under these leases amounted to \$ 1,378 and \$1,539 during the three months ended December 31, 2023 and 2022, respectively. Refer to Note 9 for further discussion and a table of the future minimum payments under these leases.

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Minimum Processing Commitments

The Company has non-exclusive agreements with several processors to provide the Company services related to transaction processing and transmittal, transaction authorization and data capture, and access to various reporting tools. Certain of these agreements require the Company to submit a minimum monthly number of transactions for processing. If the Company submits a number of transactions that is lower than the minimum, it is required to pay to the processor the fees the processor would have received if the Company had submitted the required minimum number of transactions. As of December 31, 2023, such minimum fee commitments were as follows:

Fiscal Years ending September 30:

2024 (nine months remaining)	\$	3,425
2025		727
2026		240
2027		60
2028		—
Thereafter		—
Total	\$	4,452

Litigation

With respect to all legal, regulatory and governmental proceedings, and in accordance with ASC 450-20, *Contingencies—Loss Contingencies*, the Company considers the likelihood of a negative outcome. If the Company determines the likelihood of a negative outcome with respect to any such matter is probable and the amount of the loss can be reasonably estimated, the Company records an accrual for the estimated amount of loss for the expected outcome of the matter. If the likelihood of a negative outcome with respect to material matters is reasonably possible and the Company is able to determine an estimate of the amount of possible loss or a range of loss, whether in excess of a related accrued liability or where there is no accrued liability, the Company discloses the estimate of the amount of possible loss or range of loss. However, the Company in some instances may be unable to estimate an amount of possible loss or range of loss based on the significant uncertainties involved in, or the preliminary nature of, any such material matter, and in these instances the Company will disclose the nature of the contingency and describe why the Company is unable to determine an estimate of possible loss or range of loss.

The Company is involved in ordinary course legal proceedings, which include all claims, lawsuits, investigations and proceedings, including unasserted claims, which are probable of being asserted, arising in the ordinary course of business. The Company has considered all such ordinary course legal proceedings in formulating its disclosures and assessments. After taking into consideration the evaluation of such legal matters by the Company's legal counsel, the Company's management believes at this time such matters will not have a material impact on the Company's consolidated balance sheet, results of operations or cash flows.

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S&S Litigation

On June 2, 2021, the State of Louisiana, Division of Administration (the "State") and a putative class of Louisiana sheriffs and law enforcement districts (collectively "Plaintiffs") filed a Petition (as amended on October 4, 2021, the "Petition"), in the 19th Judicial District Court for the Parish of East Baton Rouge against i3-Software & Services, LLC ("S&S"), a subsidiary of the Company located in Shreveport, Louisiana, the Company, i3 Verticals, LLC, the current leader of the S&S business, the former leader of the S&S business, and 1120 South Pointe Properties, LLC ("South Pointe"), the former owner of the assets of the S&S business (collectively "Defendants"). See *State of Louisiana, by and through its Division of Administration, East Baton Rouge Parish Law Enforcement District, by and through the duly elected East Baton Rouge Parish Sheriff, Sid J. Gautreaux, III, et. al., individually and as class representatives vs. i3-Software & Services, LLC; 1120 South Pointe Properties, LLC, formerly known as Software and Services of Louisiana, L.L.C.; i3 Verticals, Inc.; i3 Verticals, LLC; Gregory R. Teeters; and Scott Carrington.*

The Petition was amended on October 4, 2021 to amend and expand the putative class and subsequently removed to the United States District Court for the Middle District of Louisiana. The Petition seeks monetary damages for the cost of network remediation of \$15,000 purportedly spent by the State and \$7,000 purportedly spent by the Plaintiffs, return of purchase prices, potential additional expenses related to remediation and any obligation to notify parties of an alleged data breach as and if required by applicable law, and reasonable attorneys' fees. The claimed damages relate to a third-party remote access software product used in connection with services provided by S&S to certain Louisiana law enforcement districts and alleged inadequacies in the Company's cybersecurity practices. Plaintiffs moved to remand the action to state court on November 5, 2021, and the motion was referred to a magistrate to make a report and recommendation to the district court judge. On July 5, 2022, the magistrate recommended that the matter be remanded to state court. On July 19, 2022, the Company and all other defendants filed objections to the recommendation. On August 3, 2022, the Plaintiffs filed a response to those objections. On August 16, 2022, the district court granted the Plaintiffs' motion to remand, and all Defendants appealed. Oral argument on this motion in front of the United States Fifth Circuit Court of Appeals took place on April 4, 2023, and on September 1, 2023, the Fifth Circuit panel affirmed the District Court order to remand the case back to state court. On September 29, 2023, all Defendants-Appellants filed a Petition for Rehearing En Banc, which the Plaintiffs-Appellees opposed on October 12, 2023. The parties await a decision on that motion.

The assets of the S&S business were acquired from South Pointe by the Company in 2018 for \$ 17,000, including upfront cash consideration and contingent consideration, and provides software and payments services within the Company's Public Sector vertical to local government agencies almost exclusively in Louisiana.

The Company is unable to predict the outcome of this litigation. While we do not believe that this matter will have a material adverse effect on our business or financial condition, we cannot give assurance that this matter will not have a material effect on our results of operations or cash flows for the period in which it is resolved.

Other

The Company's subsidiary CP-PS, LLC has certain indemnification obligations in favor of FDS Holdings, Inc. related to the acquisition of certain assets of Merchant Processing Solutions, LLC in February 2014. The Company has incurred expenses related to these indemnification obligations in prior periods and may have additional expenses in the future. However, after taking into consideration the evaluation of such matters by the Company's legal counsel, the Company's management believes at this time that the anticipated outcome of any existing or potential indemnification liabilities related to this matter will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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13. RELATED PARTY TRANSACTIONS

In connection with the Company's IPO, the Company and i3 Verticals, LLC entered into a Tax Receivable Agreement with the Continuing Equity Owners that provides for the payment by the Company to the Continuing Equity Owners of 85% of the amount of certain tax benefits, if any, that it actually realizes, or in some circumstances, is deemed to realize in its tax reporting, as a result of (i) future redemptions funded by the Company or exchanges, or deemed exchanges in certain circumstances, of Common Units of i3 Verticals, LLC for Class A common stock of i3 Verticals, Inc. or cash, and (ii) certain additional tax benefits attributable to payments made under the Tax Receivable Agreement. See Note 8 for further information. As of December 31, 2023, the total amount due under the Tax Receivable Agreement was \$40,079.

14. SEGMENTS

The Company determines its operating segments based on ASC 280, *Segment Reporting*, in alignment with how the chief operating decision-making group monitors and manages the performance of the business as well as the level at which financial information is reviewed. The Company's operating segments are strategic business units that offer different products and services.

The Company's core business is delivering seamlessly integrated software and payment solutions customers in strategic vertical markets. This is accomplished through the Merchant Services and Software and Services segments.

The Software and Services segment delivers vertical market software solutions to customers across all of the Company's strategic vertical markets. These solutions often include embedded payments or other recurring services.

The Merchant Services segment provides comprehensive payment solutions to businesses and organizations. The Merchant Services segment includes third-party integrated payment solutions as well as traditional merchant processing services across the Company's strategic vertical markets.

The Other category includes corporate overhead expenses when presenting reportable segment information.

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The Company primarily uses processing margin to measure operating performance. Processing margin is equal to revenue less other cost of services plus residuals expense, which are a component of other cost of services. The following is a summary of reportable segment operating performance for the three months ended December 31, 2023 and 2022.

	As of and for the Three Months Ended December 31, 2023			
	Software and Services	Merchant Services	Other	Total
Revenue	\$ 56,589	\$ 35,422	\$ (21)	\$ 91,990
Other costs of services	(4,309)	(16,134)	19	(20,424)
Residuals	618	10,400	(9)	11,009
Processing margin	\$ 52,898	\$ 29,688	\$ (11)	\$ 82,575
Residuals				(11,009)
Selling, general and administrative				(53,532)
Depreciation and amortization				(9,739)
Change in fair value of contingent consideration				237
Income from operations				\$ 8,532
Total assets	\$ 604,751	\$ 211,843	\$ 60,342	\$ 876,936
Goodwill	\$ 288,822	\$ 121,950	\$ —	\$ 410,772

	As of and for the Three Months Ended December 31, 2022			
	Software and Services	Merchant Services	Other	Total
Revenue	\$ 53,213	\$ 32,834	\$ (18)	\$ 86,029
Other costs of services	(3,523)	(15,567)	21	(19,069)
Residuals	523	9,809	(11)	10,321
Processing Margin	\$ 50,213	\$ 27,076	\$ (8)	\$ 77,281
Residuals				(10,321)
Selling, general and administrative				(51,003)
Depreciation and amortization				(8,676)
Change in fair value of contingent consideration				(1,443)
Income from operations				\$ 5,838
Total assets	\$ 607,010	\$ 206,782	\$ 55,657	\$ 869,449
Goodwill	\$ 276,868	\$ 121,930	\$ —	\$ 398,798

The Company has not disclosed expenditures on long-lived assets as such expenditures are not reviewed by or provided to the chief operating decision maker.

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15. NON-CONTROLLING INTEREST

i3 Verticals, Inc. is the sole managing member of i3 Verticals, LLC, and as a result, consolidates the financial results of i3 Verticals, LLC and reports a non-controlling interest representing the Common Units of i3 Verticals, LLC held by the Continuing Equity Owners. Changes in i3 Verticals, Inc.'s ownership interest in i3 Verticals, LLC while i3 Verticals, Inc. retains its controlling interest in i3 Verticals, LLC will be accounted for as equity transactions. As such, future redemptions or direct exchanges of Common Units of i3 Verticals, LLC by the Continuing Equity Owners will result in a change in ownership and reduce or increase the amount recorded as non-controlling interest and increase or decrease additional paid-in capital when i3 Verticals, LLC has positive or negative net assets, respectively.

As of December 31, 2023 and 2022, respectively, i3 Verticals, Inc. owned 23,279,170 and 23,011,193 of i3 Verticals, LLC's Common Units, representing a 69.8% and 69.5% economic ownership interest in i3 Verticals, LLC.

The following table summarizes the impact on equity due to changes in the Company's ownership interest in i3 Verticals, LLC:

	Three Months Ended December 31,	
	2023	2022
Net income attributable to non-controlling interest	\$ 438	\$ 409
Transfers to (from) non-controlling interests:		
Allocation of equity to (from) non-controlling interests	2,450	(1,906)
Net transfers to (from) non-controlling interests	2,450	(1,906)
Change from net income (loss) attributable to non-controlling interests and transfers to non-controlling interests	\$ 2,888	\$ (1,497)

16. EARNINGS PER SHARE

Basic earnings per share of Class A common stock is computed by dividing net income available to i3 Verticals, Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net income available to i3 Verticals, Inc. by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities.

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The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock for the three months ended December 31, 2023 and 2022:

	Three Months Ended December 31,	
	2023	2022
Basic net income (loss) per share:		
<i>Numerator</i>		
Net income	\$ 1,536	\$ 169
Less: Net income attributable to non-controlling interest	438	409
Net income (loss) attributable to Class A common stockholders	<u>\$ 1,098</u>	<u>\$ (240)</u>
<i>Denominator</i>		
Weighted average shares of Class A common stock outstanding	23,267,290	22,998,608
Basic net income (loss) per share ⁽¹⁾	<u>\$ 0.05</u>	<u>\$ (0.01)</u>
Diluted net income per share:		
<i>Numerator</i>		
Net income attributable to Class A common stockholders	\$ 1,098	
Reallocation of net income assuming conversion of common units	331	
Net income attributable to Class A common stockholders - diluted	<u>1,429</u>	
<i>Denominator</i>		
Weighted average shares of Class A common stock outstanding	23,267,290	
Weighted average effect of dilutive securities ⁽²⁾	10,561,171	
Weighted average shares of Class A common stock outstanding - diluted	<u>33,828,461</u>	
Diluted net income per share	<u>\$ 0.04</u>	

- For the three months ended December 31, 2022, all potentially dilutive securities were anti-dilutive, so diluted net loss per share was equivalent to basic net loss per share. The following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted net loss per share of Class A common stock:
 - 10,118,142 weighted average shares of Class B common stock for the three months ended December 31, 2022, along with the reallocation of net income assuming conversion of these shares, were excluded because the effect would have been anti-dilutive.
 - 5,652,711 stock options for the three months ended December 31, 2022, were excluded because the exercise price of these stock options exceeded the average market price of our Class A common stock during the period ("out-of-the-money") and the effect of including them would have been anti-dilutive, and
 - 696,427 shares for the three months ended December 31, 2022, resulting from estimated stock option exercises and restricted stock units vesting as calculated by the treasury stock method were excluded because the effect of including them would have been anti-dilutive.
- For the three months ended December 31, 2023, the following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted net loss per share of Class A common stock:
 - 7,496,394 stock options for the three months ended December 31, 2023, were excluded because the exercise price of these stock options exceeded the average market price of our Class A common stock during the period ("out-of-the-money") and the effect of including them would have been anti-dilutive.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (in thousands, except unit, share and per share amounts)

In September 2022 the Company made the irrevocable election to settle the principal portion of its Exchangeable Notes only in cash, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's Class A common stock for a given period exceeds the exchange price of \$40.87 per share for the Exchangeable Notes.

The Warrants sold in connection with the issuance of the Exchangeable Notes are considered to be dilutive when the average price of the Company's Class A common stock during the period exceeds the Warrants' stock price of \$62.88 per share. The effect of the additional shares that may be issued upon exercise of the Warrants will be included in the weighted average shares of Class A common stock outstanding—diluted using the treasury stock method. The Note Hedge Transactions purchased in connection with the issuance of the Exchangeable Notes are considered to be anti-dilutive and therefore do not impact our calculation of diluted net income per share. Refer to Note 7 for further discussion regarding the Exchangeable Notes.

Shares of the Company's Class B common stock do not participate in the earnings or losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been presented.

17. SIGNIFICANT NON-CASH TRANSACTIONS

The Company engaged in the following significant non-cash investing and financing activities during the three months ended December 31, 2023 and 2022:

	Three months ended December 31,	
	2023	2022
Acquisition date fair value of contingent consideration in connection with business combinations	\$ 170	\$ —
Debt issuance costs financed with proceeds from the 2023 Senior Secured Credit Facility	\$ —	\$ 178
Consideration accrued for December 2023 residual buyout	\$ 476	\$ —
Right-of-use assets obtained in exchange for operating lease obligations	\$ 18	\$ 838

18. SUBSEQUENT EVENTS

Exchangeable Note Repurchases

On January 18, 2024, the Company paid \$87,391 to repurchase \$90,777 in aggregate principal amount of its Exchangeable Notes and to repay approximately \$386 in accrued interest on the repurchased portion of the Exchangeable Notes pursuant to agreements entered into with certain holders of the Exchangeable Notes as described in Note 7. The Company wrote off \$926 of debt issuance costs in connection with the repurchase transactions. These repurchases resulted in a decrease in the Company's total leverage ratio, and following the completion of the repurchases of these Exchangeable Notes, approximately \$26,223 in aggregate principal amount of the Exchangeable Notes remained outstanding, with terms unchanged. The Company recorded a gain on retirement of debt of \$2,397 due to the estimated acquisition price exceeding the net carrying amount of the repurchased portion of the Exchangeable Notes, adjusted for unamortized debt issuance costs and costs and third-party fees related to the transaction.

i3 VERTICALS, Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in thousands, except unit, share and per share amounts)

Note Hedge and Warrant Unwind Transactions

Also on January 18, 2024, in connection with the Exchangeable Note Repurchases, the Company and i3 Verticals, LLC terminated the corresponding portions of the Note Hedge Transactions ("Note Hedge Unwinds") and Warrants ("Warrant Unwinds"). i3 Verticals, LLC received \$987 for the sale of the Note Hedge Unwinds and the Company paid \$433 for the repurchase of the Warrant Unwinds.

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 together with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2023 ("Form 10-K"), filed with the SEC on November 22, 2023. The terms "i3 Verticals," "we," "us" and "our" and similar references refer (1) before the completion of our IPO or the reorganization transactions entered into in connection therewith (the "Reorganization Transactions"), which are described in the notes to the condensed consolidated financial statements, to i3 Verticals, LLC and, where appropriate, its subsidiaries, and (2) after the Reorganization Transactions to i3 Verticals, Inc. and, where appropriate, its subsidiaries.

Note Regarding Forward-looking Statements

This Quarterly Report on Form 10-Q includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, "forward-looking statements" within the meaning of the federal securities laws. All statements other than statements of historical facts contained in this report may be forward-looking statements. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "pro forma," "continues," "anticipates," "expects," "seeks," "projects," "intends," "plans," "may," "will," "would" or "should" or, in each case, their negative or other variations or comparable terminology.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These factors include, but are not limited to, the following:

- *our indebtedness and our ability to maintain compliance with the financial covenants in our 2023 Senior Secured Credit Facility (as defined below);*
- *our ability to meet our liquidity needs;*
- *our ability to raise additional funds on terms acceptable to us, if at all, whether through debt, equity or a combination thereof;*
- *our ability to protect our systems and data from continually evolving cybersecurity risks or other technological risks, including the impact of any cybersecurity incidents or security breaches;*
- *liability and reputation damage from unauthorized disclosure, destruction or modification of data or disruption of our services;*
- *technical, operational and regulatory risks related to our information technology systems and third-party providers' systems;*
- *our ability to successfully manage our intellectual property;*
- *the triggering of impairment testing of our fair-valued assets, including goodwill and intangible assets, in the event of a decline in the price of our Class A common stock or otherwise;*
- *our ability to generate revenues sufficient to maintain profitability and positive cash flow;*
- *competition in our industry and our ability to compete effectively;*
- *consolidation in the banking and financial services industry;*
- *risk of shortages, price increases, changes, delays or discontinuations of hardware due to supply chain disruptions with respect to our limited number of suppliers;*
- *impact of inflation and fluctuations in interest rates (including current elevated interest rate levels) and the potential effect of such fluctuations on revenues, expenses and resulting margins;*
- *our dependence on non-exclusive distribution partners to market our products and services;*
- *our ability to keep pace with rapid developments and changes in our industry and provide new products and services;*
- *reliance on third parties for significant services;*
- *exposure to economic conditions and political risks affecting consumer and commercial spending, including the use of credit cards;*

- our ability to increase our existing vertical markets, expand into new vertical markets and execute our growth strategy;
- our ability to successfully identify acquisition targets, complete those acquisitions and effectively integrate those acquisitions into our services;
- potential degradation of the quality of our products, services and support;
- our ability to retain customers;
- our ability to attract, recruit, retain and develop key personnel and qualified employees;
- risk of significant chargeback liability if our customers refuse or cannot reimburse chargebacks resolved in favor of their customers;
- risks related to laws, regulations and industry standards, including our ability to comply with complex laws and regulations applicable to the healthcare industry or to adjust our operations in response to changing laws and regulations;
- the impact of government investigations, claims, and litigation;
- the effects of health reform initiatives;
- risks related to our international operations;
- operating and financial restrictions imposed by our 2023 Senior Secured Credit Facility;
- risks related to the accounting method for i3 Verticals, LLC's 1.0% Exchangeable Notes due February 15, 2025 (the "Exchangeable Notes");
- our ability to raise the funds necessary to settle exchanges of the Exchangeable Notes or to repurchase the Exchangeable Notes upon a fundamental change;
- risks related to the conditional exchange feature of the Exchangeable Notes;
- risks related to the potential sale of certain assets related to our Merchant Services business;
- the "Risk Factors" included in our Form 10-K and included in Part II, Item 1A of this Quarterly Report on Form 10-Q, if any.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and industry developments may differ materially from statements made in or suggested by the forward-looking statements contained in this Quarterly Report on Form 10-Q. The matters summarized in "Risk Factors" in our Form 10-K, and in subsequent filings could cause our actual results to differ significantly from those contained in our forward-looking statements. In addition, even if our results of operations, financial condition and liquidity, and industry developments are consistent with the forward-looking statements contained in this filing, those results or developments may not be indicative of results or developments in subsequent periods.

In light of these risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. Any forward-looking statement that we make in this filing speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statement or to publicly announce the results of any revision to any of those statements to reflect future events or developments, except as required by applicable law. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data.

Executive Overview

The Company delivers seamless integrated software and services to customers in strategic vertical markets. Building on its broad suite of software and services solutions, the Company creates and acquires software products to serve the specific needs of its customers. The Company's primary strategic verticals are Public Sector (including Education) and Healthcare.

On February 8, 2024, we announced that our Board of Directors had initiated a process to explore a potential sale of certain assets related to our Merchant Services business. There is no assurance that the process to explore a sale of the Merchant Services business will result in any transaction, or if the transaction is completed, the timing or terms of any such transaction. Our Board of Directors may determine to suspend or terminate the exploration of a potential sale of our Merchant Services business at any time due to various factors. Any potential transaction is also dependent upon a number of factors that may be beyond our control, including, among other factors, market conditions, industry trends, regulatory limitations and the interest of third parties in our business. We do not intend to make any further disclosure concerning these matters unless and until any definitive transaction agreement is reached or we otherwise deem further disclosure is appropriate.

Economic Trends

Inflationary pressures, elevated interest rate levels, monetary policy, and the current geopolitical situation (including the military conflicts in Ukraine and in the Middle East), are causing broad economic uncertainty and could potentially cause new, or exacerbate existing, economic challenges that may impact us. These conditions could worsen as a result of adverse economic developments impacting the U.S. and/or global economies, including as a result of monetary policy designed to curb inflation. As the future magnitude, duration and effects of these conditions are difficult to predict at this time, we are unable to predict the extent of the potential effect on our financial results.

Liquidity

At December 31, 2023, we had \$4.2 million of cash and cash equivalents and \$184.5 million of available capacity under our 2023 Senior Secured Credit Facility subject to our financial covenants. As of December 31, 2023, we were in compliance with these covenants with a consolidated interest coverage ratio and total leverage ratio 4.40x, and 3.60x, respectively. For additional information about our Exchangeable Notes and 2023 Senior Secured Credit Facility, see the section entitled "Liquidity and Capital Resources" below.

Acquisitions

Acquisitions during the three months ended December 31, 2023

During the three months ended December 31, 2023, we completed the acquisition of one business to expand our software offerings. Total purchase consideration was \$1.3 million, including \$1.1 million in cash funded by the proceeds from our revolving credit facility and \$0.2 million in contingent consideration.

Acquisitions during the three months ended December 31, 2022

During the three months ended December 31, 2023, we completed the acquisition of two businesses to expand our software offerings in the Public Sector vertical. Total purchase consideration was \$89.5 million in cash consideration, funded by the proceeds from our revolving credit facility.

Our Revenue and Expenses

Revenues

We generate revenue from software and related services revenue, including the sale of subscriptions, recurring services, ongoing support, licenses, and installation and implementation services specific to software. We also generate revenue from volume-based payment processing fees ("discount fees") and POS-related solutions that we provide to our customers directly and through our distribution partners. Volume-based fees represent a percentage of the dollar amount of each credit or debit transaction processed. Revenues are also derived from a variety of fixed transaction or service fees, including authorization fees, convenience fees, statement fees, annual fees and fees for other miscellaneous services, such as handling chargebacks.

Interchange and network fees. Interchange and network fees consist primarily of pass-through fees that make up a portion of discount fee revenue. These include assessment fees payable to card associations, which are a percentage of the processing volume we generate from Visa and Mastercard. These fees are presented net of revenue.

Expenses

Other costs of services. Other costs of services include costs directly attributable to processing and bank sponsorship costs. These also include related costs such as residual payments to our distribution partners, which are based on a percentage of the net revenues (revenue less interchange and network fees) generated from customer referrals. Losses resulting from excessive chargebacks against a customer are included in other cost of services. The cost of equipment sold is also included in cost of services. Other costs of services are recognized at the time the customer's transactions are processed.

Selling, general and administrative. Selling, general and administrative expenses include salaries and other employment costs, professional services, rent and utilities and other operating costs.

Depreciation and amortization. Depreciation expense consists of depreciation on our investments in property, equipment and computer hardware and software. Depreciation expense is recognized on a straight-line basis over the estimated useful life of the asset. Amortization expense for acquired intangible assets and internally developed software is recognized using a proportional cash flow method. Amortization expense for internally developed software is recognized over the estimated useful life of the asset. The useful lives of contract-based intangible assets are equal to the terms of the agreement.

Interest expense, net. Our interest expense consists of interest on our outstanding indebtedness under our 2023 Senior Secured Credit Facility, our Prior Senior Secured Credit Facility and Exchangeable Notes, and amortization of debt discount and issuance costs.

How We Assess Our Business

Software and Services

Our Software and Services segment delivers vertical market software solutions to customers across all of our strategic vertical markets. These solutions often include embedded payments or other recurring services.

Merchant Services

Our Merchant Services segment provides comprehensive payment solutions to businesses and organizations. Our Merchant Services segment includes third-party integrated payment solutions as well as traditional merchant processing services across our strategic vertical markets.

Other

Our Other category includes corporate overhead expenses, when presenting reportable segment information.

For additional information on our segments, see Note 14 to our condensed consolidated financial statements.

Key Performance Indicators

We evaluate our performance through key performance indicators, including:

- annualized recurring revenue ("ARR");
- software and related services as a percentage of total revenue;
- the dollar volume of payments our customers process through us ("payment volume"); and
- processing margin.

ARR is the annualized revenue derived from software-as-a-service ("SaaS") arrangements, transaction-based software-revenue, software maintenance, recurring software-based services, payments revenue and other recurring revenue sources within the quarter. This excludes contracts that are not recurring or are one-time in nature. We focus on ARR because it helps us to assess the health and trajectory of our business. ARR does not have a standardized definition and is therefore unlikely to be comparable to similarly titled measures presented by other companies. It should be reviewed independently of revenue and it is not a forecast. Additionally, ARR does not take into account seasonality. The active contracts at the end of a reporting period used in calculating ARR may or may not be extended or renewed by our customers. ARR for the three months ended December 31, 2023 and 2022 was \$316.9 million and \$290.2 million, respectively, representing a period-to-period growth rate of 9.2%.

Software and related services revenue includes the sale of subscriptions, recurring services, ongoing support, licenses, and installation and implementation services specific to software. We focus on software and related services revenue as a percentage of total revenue because it is a strategic goal to expand the software services we provide our customers. Software and related services typically result in long-term partnerships with strong recurring revenues. Software and related services revenue as a percentage of total revenue for the three months ended December 31, 2023 and 2022 was 47.4% and 47.8%.

Our payment volume for the three months ended December 31, 2023 and 2022 was \$6.2 billion and \$5.9 billion, respectively, representing a period-to-period growth rate of 5.4%. We focus on payment volume because it is a reflection of the scale and economic activity of our customer base and because a significant part of our revenue is derived as a percentage of our customers' dollar volume receipts. Payment volume reflects the addition of new customers and same store payment volume growth of existing customers, partially offset by customer attrition during the period.

Processing margin is equal to revenue less other cost of services plus residuals expense, which is a component of other cost of services. We focus on processing margin because it represents the profitability of the operating segments, exclusive of sales efforts and overhead. Processing margin is a measure reported to our management for purposes of assessing the operating performance of our business segments, and is presented in our financial statement footnotes in accordance with ASC 280. For additional information regarding processing margin, including the amount of our processing margin for our business segments for the three months ended December 31, 2023 and 2022, see Note 15 to our condensed consolidated financial statements.

Results of Operations

Three Months Ended December 31, 2023 Compared to Three Months Ended December 31, 2022

The following table presents our historical results of operations for the periods indicated:

(in thousands)	Three months ended December 31,		Change	
	2023	2022	Amount	%
Revenue	\$ 91,990	\$ 86,029	\$ 5,961	6.9 %
Operating expenses				
Other costs of services	20,424	19,069	1,355	7.1 %
Selling, general and administrative	53,532	51,003	2,529	5.0 %
Depreciation and amortization	9,739	8,676	1,063	12.3 %
Change in fair value of contingent consideration	(237)	1,443	(1,680)	n/m
Total operating expenses	83,458	80,191	3,267	4.1 %
Income from operations	8,532	5,838	2,694	46.1 %
Other expenses				
Interest expense, net	6,707	5,490	1,217	22.2 %
Other expense (income)	107	(203)	310	n/m
Total other expenses	6,814	5,287	1,527	28.9 %
Income before income taxes	1,718	551	1,167	211.8 %
Provision for income taxes	182	382	(200)	(52.4) %
Net income	1,536	169	1,367	808.9 %
Net income attributable to non-controlling interest	438	409	29	7.1 %
Net income (loss) attributable to i3 Verticals, Inc.	\$ 1,098	\$ (240)	\$ 1,338	n/m

n/m = not meaningful

Revenue

Revenue increased \$6.0 million, or 6.9%, to \$92.0 million for the three months ended December 31, 2023 from \$86.0 million for the three months ended December 31, 2022. This increase was partially driven by incremental revenue from an acquisition of \$1.5 million, net of intercompany eliminations, which was within the Software and Services segment. In addition to our growth through an acquisition, payment volume from new and existing customers increased primarily in our Merchant Services segment and revenue from existing businesses grew, resulting from growth in software and related services revenues, primarily in our Healthcare vertical.

Revenue within Software and Services increased \$3.4 million, or 6.3%, to \$56.6 million for the three months ended December 31, 2023 from \$53.2 million for the three months ended December 31, 2022. The increase was principally driven by growth in software and related services revenues in our Public Sector vertical.

Revenue within Merchant Services increased \$2.6 million, or 7.9%, to \$35.4 million for the three months ended December 31, 2023 from \$32.8 million for the three months ended December 31, 2022. Payment volume from new and existing customers increased \$0.2 billion, or 3.6%, to \$5.5 billion for the three months ended December 31, 2023 from \$5.3 billion for the three months ended December 31, 2022.

Other Costs of Services

Other costs of services increased \$1.4 million, or 7.1%, to \$20.4 million for the three months ended December 31, 2023 from \$19.1 million for the three months ended December 31, 2022. This increase was primarily driven by an increase in other cost of services within the Software and Services segment driven by the increase in payment volume.

Other costs of services within Software and Services increased \$0.8 million, or 22.3%, to \$4.3 million for the three months ended December 31, 2023 from \$3.5 million for the three months ended December 31, 2022, driven primarily by the growth in payment volume and an acquisition.

Other costs of services within Merchant Services increased \$0.6 million, or 3.6%, to \$16.1 million for the three months ended December 31, 2023 from \$15.6 million for the three months ended December 31, 2022, driven primarily by the growth in payment volume.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$2.5 million, or 5.0%, to \$53.5 million for the three months ended December 31, 2023 from \$51.0 million for the three months ended December 31, 2022. This increase was primarily driven by a \$1.3 million increase in employment expenses and a \$1.2 million increase in technology services.

Depreciation and Amortization

Depreciation and amortization increased \$1.1 million, or 12.3%, to \$9.7 million for the three months ended December 31, 2023 from \$8.7 million for the three months ended December 31, 2022. Amortization expense increased \$0.9 million to \$8.8 million for the three months ended December 31, 2023 from \$7.9 million for the three months ended December 31, 2022 primarily due to acquisitions completed during the 2023 fiscal year. Depreciation expense increased \$0.2 million to \$0.9 million for the three months ended December 31, 2023 from \$0.8 million for the three months ended December 31, 2022.

Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration to be paid in connection with acquisitions was a benefit of \$0.2 million for the three months ended December 31, 2023 related to adjustments to the expected present value of consideration to be paid for earnouts. The change in fair value of contingent consideration for the three months ended December 31, 2022 was a charge of \$1.4 million.

Interest Expense, net

Interest expense, net, increased \$1.2 million, or 22.2%, to \$6.7 million for the three months ended December 31, 2023 from \$5.5 million for the three months ended December 31, 2022. The increase reflects a higher average interest rate and a higher average outstanding debt balance for the three months ended December 31, 2023, as compared to the three months ended December 31, 2022.

Other expense (income)

Other expense increased \$0.3 million to \$0.1 million expense for the three months ended December 31, 2023 from other income of \$0.2 million for the three months ended December 31, 2022. Other expense during the three months ended December 31, 2023, reflects the loss on the sale of a building purchased through acquisition. Other income during the three months ended December 31, 2022, reflects contingent consideration received for an investment that was sold.

Provision for Income Taxes

The provision for income taxes decreased to a provision for \$0.2 million for the three months ended December 31, 2023 from a provision for \$0.4 million for three months ended December 31, 2022. Our effective tax rate was 10.6% for the three months ended December 31, 2023. Our effective tax rate differs from the federal statutory rate of 21% primarily due to the tax structure of the Company. The income of majority owned i3 Verticals, LLC is not taxed and the separate loss of the Company has minimal tax effect due to the allocations from i3 Verticals, LLC. i3 Verticals, Inc. is subject to federal, state and local income taxes with respect to its allocable share of any taxable income of i3 Verticals, LLC and is taxed at the prevailing corporate tax rates.

Seasonality

We have experienced in the past, and may continue to experience, seasonal fluctuations in our revenues as a result of consumer and business spending patterns. Revenues during the first quarter of the calendar year, which is our second fiscal quarter, tend to decrease in comparison to the remaining three quarters of the calendar year on a same store basis. This decrease is due to the relatively higher number and amount of electronic payment transactions related to seasonal retail events, such as holiday and vacation spending in their second, third and fourth quarters of the calendar year. The number of business days in a month or quarter also may affect seasonal fluctuations. Revenue in our Education vertical fluctuates with the school calendar. Revenue for our Education customers is strongest in August, September, October, January and February, at the start of each semester, and generally weakens throughout the semester, with little revenue in the summer months of June and July. Operating expenses show less seasonal fluctuation, with the result that net income is subject to the same seasonal factors as our revenues. The growth in our business may have partially overshadowed seasonal trends to date, and seasonal impacts on our business may be more pronounced in the future.

Liquidity and Capital Resources

We have historically financed our operations and working capital through net cash from operating activities. As of December 31, 2023, we had \$4.2 million of cash and cash equivalents and available borrowing capacity of \$184.5 million under our 2023 Senior Secured Credit Facility, subject to the financial covenants. We usually minimize cash balances by making payments on our revolving line of credit to minimize borrowings and interest expense. As of December 31, 2023, we had borrowings outstanding of \$265.5 million under the 2023 Senior Secured Credit Facility. For additional information about our 2023 Senior Secured Credit Facility, see the section entitled "— 2023 Senior Secured Credit Facility" below.

Our primary cash needs are to fund working capital requirements, invest in our technology infrastructure, fund acquisitions and related contingent consideration, make scheduled principal and interest payments on our outstanding indebtedness and pay tax distributions to members. We consistently have positive cash flow provided by operations and expect that our cash flow from operations, current cash and cash equivalents and available borrowing capacity under the 2023 Senior Secured Credit Facility will be sufficient to fund our operations and planned capital expenditures and to service our debt obligations for at least the next twelve months and foreseeable future. Our growth strategy includes acquisitions. We expect to fund acquisitions through a combination of net cash from operating activities, borrowings under our 2023 Senior Secured Credit Facility and through the issuance of equity and debt securities. As a holding company, we depend on distributions or loans from i3 Verticals, LLC to access funds earned by our operations. The covenants contained in the 2023 Senior Secured Credit Facility may restrict i3 Verticals, LLC's ability to provide funds to i3 Verticals, Inc.

Our liquidity profile reflects our completed offering in February 2020 of an aggregate principal amount of \$138.0 million in 1.0% Exchangeable Senior Notes due 2025, with substantially all the proceeds being used to pay down outstanding borrowings under our Prior Senior Secured Credit Facility. As of the date hereof, after giving effect to the repurchase of a portion of the 1.0% Exchangeable Senior Notes on January 18, 2024 as described herein, the aggregate principal amount outstanding of the Exchangeable Notes was \$26.2 million. We may elect from time to time to purchase our outstanding debt in open market purchases, privately negotiated transactions or otherwise. Any such debt repurchases will depend upon prevailing market conditions, our liquidity requirements, contractual restrictions, applicable securities law and other factors.

Our 2023 Senior Secured Credit Facility, as amended, requires us to maintain a consolidated interest coverage ratio not less than 3.0 to 1.0 and total leverage ratio not exceeding 5.0 to 1.0. As of December 31, 2023, we were in compliance with these covenants with a consolidated interest coverage ratio and total leverage ratio of 4.40x and 3.60x, respectively. Although we believe our liquidity position remains strong, there can be no assurance that we will be able to raise additional funds, in the form of debt or equity, or to amend our 2023 Senior Secured Credit Facility on terms acceptable to us, if at all, even if we determined such actions were necessary in the future.

Cash Flows

The following table presents a summary of cash flows from operating, investing and financing activities for the following comparative periods.

Three Months Ended December 31, 2023 and 2022

	Three months ended December 31,	
	2023	2022
	(in thousands)	
Net cash provided by operating activities	\$ 13,050	\$ 18,179
Net cash used in investing activities	\$ (7,171)	\$ (94,530)
Net cash (used in) provided by financing activities	\$ (7,195)	\$ 76,925

Cash Flow from Operating Activities

Net cash provided by operating activities decreased \$5.1 million to \$13.1 million for the three months ended December 31, 2023 from \$18.2 million for the three months ended December 31, 2022. Our net income increased from net income of \$0.2 million for the three months ended December 31, 2022 to net income of \$1.5 million for the three months ended December 31, 2023. Some of this increase in net income was driven by reductions in non-cash expenses that do not impact cash flows from operating activities. The primary drivers of the decrease in cash provided by operating activities, despite the increase in net income, were a decrease in net operating assets and liabilities of \$5.6 million, which are impacted by the timing of collections and payments, for the three months ended December 31, 2023 compared to the three months ended December 31, 2022, and a decrease in non-cash contingent consideration of \$1.7 million. These changes were partially offset by an increase in depreciation and amortization of \$1.1 million for the three months ended December 31, 2023 compared to the three months ended December 31, 2022.

Cash Flow from Investing Activities

Net cash used in investing activities decreased \$87.4 million to \$7.2 million for the three months ended December 31, 2023 from \$94.5 million for the three months ended December 31, 2022. The largest driver of the decrease in cash used in investing activities was a decrease of \$88.4 million in cash used in acquisitions, net of cash acquired, during the three months ended December 31, 2023 from the three months ended December 31, 2022. This change was partially offset by an increase of \$2.6 million in purchases of merchant portfolios and residual buyouts during the three months ended December 31, 2023 compared to the three months ended December 31, 2022.

Cash Flow from Financing Activities

Net cash flow from financing activities changed \$84.1 million to \$7.2 million net cash used in financing activities for the three months ended December 31, 2023 from \$76.9 million net cash provided by financing activities for the three months ended December 31, 2022. The change in net cash flow from financing activities was primarily the result of a decrease in proceeds from the revolving credit facility of \$92.3 million partially offset by a decrease in payments on the revolving credit facility of \$7.4 million and a decrease in cash paid for contingent consideration of \$1.0 million for the three months ended December 31, 2023 from the three months ended December 31, 2022.

2023 Senior Secured Revolving Credit Facility

On May 8, 2023, i3 Verticals, LLC (the "Borrower"), entered into that certain Credit Agreement (the "2023 Senior Secured Credit Facility") with the guarantors and lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent ("JPMorgan"). The 2023 Senior Secured Credit Facility replaces the Prior Senior Secured Credit Facility (as defined below). The 2023 Senior Secured Credit Facility provides for aggregate commitments of \$450 million in the form of a senior secured revolving credit facility (the "Revolver").

The 2023 Senior Secured Credit Facility provides that the Borrower has the right to seek additional commitments to provide additional term loan facilities or additional revolving credit commitments in an aggregate principal amount up to, as of any date of determination, the sum of (i) the greater of \$100 million and 100% of the Borrower's consolidated EBITDA (as defined in the 2023 Senior Secured Credit Facility) for the most recently

completed four quarter period, plus (ii) the amount of certain prepayments of certain indebtedness, so long as, among other things, after giving pro forma effect to the incurrence of such additional borrowings and any related transactions, the Borrower's consolidated interest coverage ratio (as defined in the 2023 Senior Secured Credit Facility) would not be less than 3.0 to 1.0 and the Borrower's consolidated total net leverage ratio (as defined in the 2023 Senior Secured Credit Facility) would not exceed 5.0 to 1.0. As of December 31, 2023, the Borrower's consolidated interest coverage ratio was 4.40x and total leverage ratio was 3.60x.

The provision of any such additional amounts under the additional term loan facilities or additional revolving credit commitments are subject to certain additional conditions and the receipt of certain additional commitments by existing or additional lenders. The lenders under the 2023 Senior Secured Credit Facility are not under any obligation to provide any such additional term loan facilities or revolving credit commitments.

The proceeds of the Revolver, together with proceeds from any additional amounts under the additional term loan facilities or additional revolving credit commitments, may only be used by the Borrower to (i) finance working capital, capital expenditures and other lawful corporate purposes, (ii) finance permitted acquisitions (as defined in the 2023 Senior Secured Credit Facility) and (iii) to refinance certain existing indebtedness.

Borrowings under the Revolver will be made, at the Borrower's option, at the Adjusted Term SOFR rate or the base rate, plus, in each case, an applicable margin.

The Adjusted Term SOFR rate will be the rate of interest per annum equal to the Term SOFR rate (based upon an interest period of one, three or six months), plus 0.10%; plus an applicable margin of 2.00% to 3.00% (3.00% at December 31, 2023). The Adjusted Term SOFR rate shall not be less than 0% in any event.

The base rate is a fluctuating rate of interest per annum equal to the highest of (a) the greater of the federal funds rate or the overnight bank funding rate, plus $\frac{1}{2}$ of 1%, (b) Wall Street Journal prime rate and (c) the Adjusted Term SOFR rate for an interest period of one month, plus 1%; plus an applicable margin of 1.00% to 2.00% (2.00% at December 31, 2023). The base rate shall not be less than 1% in any event.

The applicable margin is based upon the Borrower's consolidated total net leverage ratio (as defined in the 2023 Senior Secured Credit Facility), as reflected in the schedule below:

Consolidated Total Net Leverage Ratio	Commitment Fee	Letter of Credit Fee	Term Benchmark Loans	Base Rate Loans
> 3.0 to 1.0	0.30 %	3.00 %	3.00 %	2.00 %
> 2.5 to 1.0 but < 3.0 to 1.0	0.25 %	2.50 %	2.50 %	1.50 %
> 2.0 to 1.0 but < 2.5 to 1.0	0.20 %	2.25 %	2.25 %	1.25 %
< 2.0 to 1.0	0.15 %	2.00 %	2.00 %	1.00 %

In addition to paying interest on outstanding principal under the Revolver, the Borrower will be required to pay a commitment fee equal to the product of between 0.15% and 0.30% (the applicable percentage depending on the Borrower's consolidated total net leverage ratio as reflected in the schedule above, 0.30% at December 31, 2023) times the actual daily amount by which \$450 million exceeds the total amount outstanding under the Revolver and available to be drawn under all outstanding letters of credit.

The Borrower will be permitted to voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans under the 2023 Senior Secured Credit Facility, whether such amounts are issued under the Revolver or under the additional term loan facilities or additional revolving credit facilities, at any time without premium or penalty.

In addition, if the total amount borrowed under the Revolver exceeds \$450 million at any time, the 2023 Senior Secured Credit Facility requires the Borrower to prepay such excess outstanding amounts.

All obligations under the 2023 Senior Secured Credit Facility are unconditionally guaranteed by the Company, and each of the Company's existing and future direct and indirect material, wholly owned domestic

subsidiaries, subject to certain exceptions. The obligations are secured by first-priority security interests in substantially all tangible and intangible assets of the Borrower, the Company and each subsidiary guarantor, in each case whether owned on the date of the initial borrowings or thereafter acquired.

The 2023 Senior Secured Credit Facility places certain restrictions on the ability of the Borrower, the Company and their subsidiaries to, among other things, incur debt and liens; merge, consolidate or liquidate; dispose of assets; enter into hedging arrangements; make certain restricted payments; undertake transactions with affiliates; enter into sale-leaseback transactions; make certain investments; prepay or modify the terms of certain indebtedness; and modify the terms of certain organizational agreements.

The 2023 Senior Secured Credit Facility contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, certain events of bankruptcy and insolvency, material judgments, certain events with respect to employee benefit plans, invalidity of loan documents and certain changes in control.

Exchangeable Notes

On February 18, 2020, i3 Verticals, LLC issued \$138.0 million aggregate principal amount of its 1.0% Exchangeable Notes due February 15, 2025. The Exchangeable Notes bear interest at a fixed rate of 1.0% per year, payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2020. The Exchangeable Notes are exchangeable into cash, shares of the Company's Class A common stock, or a combination thereof, at i3 Verticals, LLC's election. The Exchangeable Notes mature on February 15, 2025, unless earlier exchanged, redeemed or repurchased. The net proceeds from the sale of the Exchangeable Notes were approximately \$132.8 million, after deducting discounts and commissions to the certain initial purchasers and other estimated fees and expenses. i3 Verticals, LLC used a portion of the net proceeds of the Exchangeable Notes offering to pay down outstanding borrowings under the Prior Senior Secured Credit Facility in connection with the effectiveness of the operative provisions of the amendment to the Prior Senior Secured Credit Facility and to pay the cost of the Note Hedge Transactions. As of December 31, 2023, \$117.0 million of the original aggregate principal amount of \$138.0 million was outstanding.

On December 21, 2023, i3 Verticals, LLC entered into agreements to repurchase a portion of its Exchangeable Notes pursuant to privately negotiated transactions with a limited number of holders of the Exchangeable Notes (the "Exchangeable Note Repurchases"). The Exchangeable Note Repurchases were completed on January 18, 2024, and the purchase price paid by the Company to such holders for the principal amount in connection with the Exchangeable Note Repurchases on such closing date was approximately \$87.0 million. Following the closing of the Exchangeable Note Repurchases, approximately \$26.2 million in aggregate principal amount of the Exchangeable Notes remained outstanding, with terms unchanged. For additional information, see Notes 7 and 18 to our condensed consolidated financial statements.

At-the-Market Program

On August 20, 2021, we, together with i3 Verticals, LLC, entered into an at-the-market offering sales agreement with Raymond James & Associates, Inc., Morgan Stanley & Co. LLC and BTIG, LLC (each a "Sales Agent"), under which we may issue and sell, from time to time and through the Sales Agents, shares of our Class A common stock having an aggregate offering price of up to \$125.0 million (the "ATM Program"). During the quarter ended December 31, 2023, we did not sell any Class A common stock under the ATM Program. As of December 31, 2023, we had a remaining capacity to sell up to \$107.1 million of our Class A common stock under the ATM Program.

Material Cash Requirements

The following table summarizes our material cash requirements as of December 31, 2023 related to leases and borrowings:

Contractual Obligations (in thousands)	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Processing minimums ⁽¹⁾	\$ 4,452	\$ 3,972	\$ 480	\$ —	\$ —
Facility leases	15,953	5,059	7,788	2,029	1,077
2023 Senior Secured Credit Facility and related interest ⁽²⁾	367,680	22,671	45,412	299,597	—
Exchangeable Notes and related interest ⁽³⁾	113,909	87,653	26,256	—	—
Contingent consideration ⁽⁴⁾	6,254	5,905	349	—	—
Total	\$ 508,248	\$ 125,260	\$ 80,285	\$ 301,626	\$ 1,077

1. We have non-exclusive agreements with several processors to provide us services related to transaction processing and transmittal, transaction authorization and data capture, and access to various reporting tools. Certain of these agreements require us to submit a minimum monthly number of transactions for processing. If we submit a number of transactions that is lower than the minimum, we are required to pay to the processor the fees it would have received if we had submitted the required minimum number of transactions.
2. We estimated interest payments through the maturity of our 2023 Senior Secured Credit Facility by applying the interest rate of 8.59% in effect on the outstanding balance as of December 31, 2023, plus the unused fee rate of 0.30% in effect as of December 31, 2023.
3. The chart set forth above includes \$87.4 million of principal and accrued interest related to the Exchangeable Note Repurchases in payments due in less than one year, which represents the amount paid by the Company on January 18, 2024, to repurchase \$90.8 million in aggregate principal amount of its Exchangeable Notes and to repay approximately \$0.4 million in accrued interest on the repurchased portion of the Exchangeable Notes as described above. We calculated interest payments through the maturity of the remaining balance of our Exchangeable Notes by applying the coupon interest rate of 1.0% on the principal balance less balance of Exchangeable Note Repurchases as of December 31, 2023 of \$26.2 million.
4. In connection with certain of our acquisitions, we may be obligated to pay the seller of the acquired entity certain amounts of contingent consideration as set forth in the relevant purchasing documents, whereby additional consideration may be due upon the achievement of certain specified financial performance targets. i3 Verticals, Inc. accounts for the fair values of such contingent payments in accordance with the Level 3 financial instrument fair value hierarchy at the close of each subsequent reporting period. The acquisition-date fair value of contingent consideration is valued using a Monte Carlo simulation. i3 Verticals, Inc. subsequently reassesses such fair value based on probability estimates with respect to the acquired entity's likelihood of achieving the respective financial performance targets.

Potential payments under the Tax Receivable Agreement are not reflected in this table. See “—Tax Receivable Agreement” below.

Tax Receivable Agreement

We are a party to a Tax Receivable Agreement with i3 Verticals, LLC and each of the Continuing Equity Owners, as described in Note 8 of our condensed consolidated financial statements. As a result of the Tax Receivable Agreement, we have been required to establish a liability in our condensed consolidated financial statements. That liability, which will increase upon the redemptions or exchanges of Common Units for our Class A common stock, generally represents 85% of the estimated future tax benefits, if any, relating to the increase in tax basis associated with the Common Units we received as a result of the Reorganization Transactions and other redemptions or exchanges by holders of Common Units. If this election is made, the accelerated payment will be based on the present value of 100% of the estimated future tax benefits and, as a result, the associated liability reported on our condensed consolidated financial statements may be increased. We expect that the payments required under the Tax Receivable Agreement will be substantial. The actual increase in tax basis, as well as the amount and timing of any payments under the Tax Receivable Agreement, will vary depending upon a number of factors, including the timing of redemptions or exchanges by the holders of Common Units, the price of our Class A common stock at the time of the redemption or exchange, whether such redemptions or exchanges are taxable, the amount and timing of the taxable income we generate in the future and the tax rate then applicable as well as the portion of our payments under the Tax Receivable Agreement constituting imputed interest. We intend to fund the payment of the amounts due under the Tax Receivable Agreement out of the cash savings that we actually realize in respect of the attributes to which Tax Receivable Agreement relates.

As of December 31, 2023, the total amount due under the Tax Receivable Agreement was \$40.1 million, and payments to the Continuing Equity Owners related to exchanges through December 31, 2023 will range from \$0 to \$3.2 million per year and are expected to be paid over the next 23 years. The amounts recorded as of December 31, 2023, approximate the current estimate of expected tax savings and are subject to change after the filing of the Company's U.S. federal and state income tax returns. Future payments under the Tax Receivable Agreement with respect to subsequent exchanges would be in addition to these amounts.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, goodwill and intangible assets, contingent consideration, and equity-based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those that we consider the most critical to understanding our financial condition and results of operations.

As of December 31, 2023, there have been no significant changes to our critical accounting estimates disclosed in the Form 10-K filed with the SEC on November 22, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

As of December 31, 2023, the 2023 Senior Secured Credit Facility, as amended, consisted of a \$450 million revolving credit facility, together with an option to increase the revolving credit facility and/or obtain incremental term loans in an additional principal amount of up, as of any date of determination, the greater of \$100 million and 100% of consolidated EBITDA (as defined in the 2023 Senior Secured Credit Facility) for the most recently completed four quarter period (subject to the receipt of additional commitments for any such incremental loan amounts).

As of December 31, 2023, the 2023 Senior Secured Credit Facility accrued interest at Term SOFR (based upon an interest period of one, three or six months), plus 0.10%, plus an applicable margin of 2.00% to 3.00% (3.00% at December 31, 2023), or the base rate (defined as the highest of (a) the greater of the federal funds rate or the overnight bank funding rate, plus ½ of 1%, (b) Wall Street Journal prime rate and (c) the Adjusted Term SOFR rate for an interest period of one month, plus 1%, plus an applicable margin of 1.00% to 2.00%) (2.00% at December 31, 2023), in each case depending upon the consolidated total leverage ratio, as defined in the agreement. Interest is payable at the end of the selected interest period, but no less frequently than quarterly. Additionally, the 2023 Senior Secured Credit Facility requires us to pay unused commitment fees of 0.15% to 0.30% (0.30% as of December 31, 2023) on any undrawn amounts under the revolving credit facility and letter of credit fees of up to 3.00% on the maximum amount available to be drawn under each letter of credit issued under the agreement. The 2023 Senior Secured Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.0 to 1.0 (ii) a maximum total leverage ratio of 5.0 to 1.0.

As of December 31, 2023, we were in compliance with these covenants, and there was \$184.5 million available for borrowing under the revolving credit facility, subject to the financial covenants.

As of December 31, 2023, we had borrowings outstanding of \$265.5 million outstanding under the 2023 Senior Secured Credit Facility. A 1.0% increase or decrease in the interest rate applicable to such borrowing (which was the Term SOFR rate) would have had a \$2.7 million dollar impact on the results of the business.

Foreign Currency Exchange Rate Risk

As a result of our international operations, we are also exposed to foreign currency exchange rate risks. Because our international operations are not yet material to our consolidated results of operations, a 10% change

in foreign currency exchange rates would not have had a material impact on our consolidated results of operations, financial position, or cash flows for the three months ended December 31, 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluations, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective (at the reasonable assurance level) to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act has been recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that the information required to be included in this report was accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2023 that materially affected, or which are reasonably likely to materially affect, our internal control over financial reporting.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

The information required with respect to this item can be found in Note 12 to the accompanying unaudited condensed consolidated financial statements contained in this report and is incorporated by reference into this Part II, Item 1.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed under the heading "Risk Factors" in our Form 10-K for the fiscal year ended September 30, 2023 filed with the SEC on November 22, 2023, except as described below.

We are exploring a potential sale of certain assets related to our Merchant Services business, and there can be no assurance that we will be successful in completing any potential sale, that a potential sale will yield additional value for our stockholders, or that exploration of a potential sale will not adversely impact the Company.

On February 8, 2024, we announced that our Board of Directors had initiated a process to explore a potential sale of certain assets related to our Merchant Services business. There is no assurance that the process to explore the sale of the Merchant Services business will result in any definitive agreement or any transaction, or if the transaction is completed, the timing or terms of any such transaction. Moreover, there can be no assurance that any potential transaction, if identified, evaluated and consummated, will provide additional value to our stockholders and will not adversely impact the market price of our Class A common stock.

Speculation regarding any developments related to the review of a potential sale of our Merchant Services business and perceived uncertainties related to the future of the Company could cause the market price of our Class A common stock to fluctuate significantly or to decline. In addition, there can be no assurance that exploring a potential sale of our Merchant Services business will not cause the diversion of management's attention, interfere with our ability to retain or attract key personnel, adversely impact important business relationships,

adversely impact our financial results, or expose us to potential litigation. In addition, we may incur significant transaction expenses in connection with this process. If we are unable to mitigate these or other potential risks related to the exploration of a potential sale, our business and financial results may be adversely affected.

Further, our Board of Directors may determine to suspend or terminate the exploration of a potential sale of our Merchant Services business at any time due to various factors. Any potential transaction is also dependent upon a number of factors that may be beyond our control, including among other factors, market conditions, industry trends, regulatory limitations and the interest of third parties in our business.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None. Without limiting the generality of the foregoing, during the three months ended December 31, 2023, no director or officer of the Company adopted or terminated any "Rule 10b5-1 trading arrangement," or any "non-Rule 10b-5 trading arrangement," as such terms are defined in Item 408(a) of Regulation S-K.

Item 6. Exhibit Index

Exhibit Number	Exhibit Description
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of i3 Verticals, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2018) (File No. 001-38532).</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of i3 Verticals, Inc., as amended and restated on November 16, 2022 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 16, 2022) (File No. 001-38532).</u>
<u>31.1*</u>	<u>Certification of Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.</u>
<u>31.2*</u>	<u>Certification of Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.</u>
<u>32.1**</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2**</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2023, formatted in Inline XBRL and contained in Exhibit 101.

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

i3 Verticals, Inc.

By: /s/ Clay Whitson
Clay Whitson
Chief Financial Officer

Date: February 9, 2024

Exhibit 31.1

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Gregory S. Daily, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of i3 Verticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 09, 2024

By: /s/ Gregory S. Daily
Gregory S. Daily
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Clay Whitson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of i3 Verticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 09, 2024

By: /s/ Clay Whitson
Clay Whitson
Chief Financial Officer (Principal Financial Officer)

**Certification of Principal Executive Officer
Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of i3 Verticals, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

Date: February 09, 2024

By: /s/ Gregory S. Daily
Gregory S. Daily
Chief Executive Officer (Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of i3 Verticals, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

Date: February 09, 2024

By: /s/ Clay Whitson
Clay Whitson
Chief Financial Officer (Principal Financial Officer)