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, 2022
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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☒		

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

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

As of February 8, 2023, there were 23,122,665 outstanding shares of Class A common stock, $0.0001 par value per share, and 10,108,218 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, 2022 (unaudited)	September 30, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 3,609	$ 3,490
Accounts receivable, net	52,653	53,334
Settlement assets	11,786	7,540
Prepaid expenses and other current assets	23,133	19,445
Total current assets	91,181	83,809
Property and equipment, net	11,828	5,670
Restricted cash	8,944	12,735
Capitalized software, net	64,831	52,341
Goodwill	398,798	353,639
Intangible assets, net	227,217	195,919
Deferred tax asset	43,788	43,458
Operating lease right-of-use assets	17,272	17,678
Other assets	5,590	5,063
Total assets	$ 869,449	$ 770,312
Liabilities and equity		
Liabilities		
Current liabilities		
Accounts payable	$ 8,414	$ 9,342
Accrued expenses and other current liabilities	50,967	57,833
Settlement obligations	11,786	7,540
Deferred revenue	37,381	31,975
Current portion of operating lease liabilities	4,724	4,568
Total current liabilities	113,272	111,258
Long-term debt, less current portion and debt issuance costs, net	377,206	287,020
Long-term tax receivable agreement obligations	40,811	40,812
Operating lease liabilities, less current portion	13,413	13,994
Other long-term liabilities	21,289	9,540
Total liabilities	565,991	462,624
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, 2022 and September 30, 2022	—	—
Class A common stock, par value $0.0001 per share, 150,000,000 shares authorized; 23,011,193 and 22,986,448 shares issued and outstanding as of December 31, 2022 and September 30, 2022, respectively	2	2
Class B common stock, par value $0.0001 per share, 40,000,000 shares authorized; 10,118,142 and 10,118,142 shares issued and outstanding as of December 31, 2022 and September 30, 2022, respectively	1	1
Additional paid-in capital	228,016	241,958
Accumulated deficit	(12,373)	(23,582)
Total stockholders' equity	215,646	218,379
Non-controlling interest	87,812	89,309
Total equity	303,458	307,688
Total liabilities and equity	$ 869,449	$ 770,312

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, 2022	Three months ended December 31, 2021
Revenue	$ 86,029	$ 73,939
Operating expenses		
Other costs of services	19,069	16,510
Selling, general and administrative	51,003	46,387
Depreciation and amortization	8,676	6,870
Change in fair value of contingent consideration	1,443	4,927
Total operating expenses	80,191	74,694
Income (loss) from operations	5,838	(755)
Interest expense, net	5,490	3,154
Other income	(203)	—
Total other expenses	5,287	3,154
Income (loss) before income taxes	551	(3,909)
Provision for (benefit from) income taxes	382	(228)
Net income (loss)	169	(3,681)
Net income (loss) attributable to non-controlling interest	409	(1,153)
Net loss attributable to i3 Verticals, Inc.	$ (240)	$ (2,528)
Net loss per share attributable to Class A common stockholders:		
Basic	$ (0.01)	$ (0.11)
Diluted	$ (0.01)	$ (0.11)
Weighted average shares of Class A common stock outstanding:		
Basic	22,998,608	22,042,801
Diluted	22,998,608	22,042,801

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, 2022	22,986,448	$ 2	10,118,142	$ 1	$ 241,958	$ (23,582)	$ 89,309	$ 307,688
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	—	—	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	$ 303,458

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

(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, 2021	22,026,098	$ 2	10,229,142	$ 1	$ 211,237	$ (6,480)	$ 84,831	$ 289,591
Equity-based compensation	—	—	—	—	6,624	—	—	6,624
Net loss	—	—	—	—	—	(2,528)	(1,153)	(3,681)
Redemption of common units in i3 Verticals, LLC	15,000	—	(15,000)	—	123	—	(123)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	345	—	—	345
Exercise of equity-based awards	23,219	—	—	—	174	—	—	174
Allocation of equity to non-controlling interests	—	—	—	—	(1,899)	—	1,899	—
Balance at December 31, 2021	22,064,317	$ 2	10,214,142	$ 1	$ 216,604	$ (9,008)	$ 85,454	$ 293,053

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, 2022	Three months ended December 31, 2021
Cash flows from operating activities:		
Net income (loss)	$ 169	$ (3,681)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,676	6,870
Equity-based compensation	6,846	6,624
Amortization of debt discount and issuance costs	361	1,416
Provision for (benefit from) income taxes	355	(228)
Non-cash lease expense	1,063	1,205
Increase in non-cash contingent consideration expense from original estimate	1,443	4,927
Other non-cash adjustments to net income	502	283
Changes in operating assets:		
Accounts receivable	8,868	(628)
Prepaid expenses and other current assets	(3,312)	(4,541)
Other assets	(313)	(877)
Changes in operating liabilities:		
Accounts payable	(947)	419
Accrued expenses and other current liabilities	(7,753)	6,818
Settlement obligations	4,246	2,581
Deferred revenue	2,249	5,439
Operating lease liabilities	(1,064)	(1,180)
Other long-term liabilities	2	1
Contingent consideration paid in excess of original estimates	(3,212)	(3,538)
Net cash provided by operating activities	18,179	21,910
Cash flows from investing activities:		
Expenditures for property and equipment	(1,438)	(384)
Expenditures for capitalized software	(2,721)	(1,958)
Purchases of merchant portfolios and residual buyouts	(275)	—
Acquisitions of businesses, net of cash and restricted cash acquired	(89,497)	(60,000)
Payments for other investing activities	(802)	(11)
Proceeds from investments	203	—
Net cash used in investing activities	(94,530)	(62,353)

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, 2022	2021
Cash flows from financing activities:		
Proceeds from revolving credit facility	157,004	105,009
Payments on revolving credit facility	(79,025)	(49,900)
Payments of debt issuance costs	(87)	—
Cash paid for contingent consideration	(1,000)	(6,217)
Proceeds from stock option exercises	54	174
Payments for employee's tax withholdings from net settled stock option exercises	(21)	157
Net cash provided by financing activities	76,925	49,223
Net increase in cash, cash equivalents and restricted cash	574	8,780
Cash, cash equivalents and restricted cash at beginning of period	23,765	17,931
Cash, cash equivalents and restricted cash at end of period	$ 24,339	$ 26,711
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,279	$ 1,367
Cash paid for income taxes	$ 172	$ 556

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, 2022	2021
Beginning balance		
Cash and cash equivalents	$ 3,490	$ 3,641
Settlement assets	7,540	4,768
Restricted cash	12,735	9,522
Total cash, cash equivalents, and restricted cash	$ 23,765	$ 17,931

	December 31, 2022	2021
Ending balance		
Cash and cash equivalents	$ 3,609	$ 3,371
Settlement assets	11,786	8,034
Restricted cash	8,944	15,306
Total cash, cash equivalents, and restricted cash	$ 24,339	$ 26,711

See Notes to the Interim Condensed Consolidated Financial Statements

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, 2022 and for the three months ended December 31, 2022 and 2021. The results of operations for the three months ended December 31, 2022 and 2021 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, 2022 and 2021, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2022 filed with the SEC on November 18, 2022.

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.

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 $11,786 as of December 31, 2022 and $7,540 as of September 30, 2022, 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 $4,960 and $4,121 at December 31, 2022 and September 30, 2022, 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.

The operating results of an acquisition are included in the Company's condensed consolidated statements of operations from the date of such acquisition. Acquisitions completed during the three months ended December 31, 2022 contributed $3,625 and $971 of revenue and net income, respectively, to the Company's condensed consolidated statements of operations for the three months then ended.

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.

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 adopted ASC 606 on October 1, 2019, using the modified retrospective method and applying the standard to all contracts not completed on the date of adoption.

The Company's revenue for the three months ended December 31, 2022 and 2021 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.

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.

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 fixed transaction or service fees, including authorization fees, convenience fees, statement fees, annual fees, gateway fees, which are charged for accessing our payment and software solutions, and fees for other miscellaneous services, such as handling chargebacks. Revenues derived from service fees are recognized at the time the services are performed and there are no further performance obligations. Revenue from fixed transactions, which principally relate to the sale of equipment, is recognized upon transfer of ownership and delivery 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 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.

(in thousands, except unit, share and per share amounts)

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

	For the Three Months Ended December 31, 2021			
	Merchant Services	Software and Services	Other	Total
Software and related services revenue	$ 2,962	$ 33,384	$ (8)	$ 36,338
Payments revenue	24,304	9,166	(4)	33,466
Other revenue	1,911	2,224	—	4,135
Total revenue	$ 29,177	$ 44,774	$ (12)	$ 73,939

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. For the three months ended December 31, 2021, $10,213 was included in revenue earned at a point in time related to professional services or other stand ready contract revenue for fixed service fee arrangements. These types of revenue are included in revenue earned over time for the three months ended December 31, 2022.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.

(in thousands, except unit, share and per share amounts)

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

	For the Three Months Ended December 31, 2021			
	Merchant Services	Software and Services	Other	Total
Revenue earned over time	$ 22,734	$ 31,288	$ (8)	$ 54,014
Revenue earned at a point in time	6,443	13,486	(4)	19,925
Total revenue	$ 29,177	$ 44,774	$ (12)	$ 73,939

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. 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, 2022 and September 30, 2022, the Company’s contract assets from contracts with customers was $11,676 and $9,716, 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.

(in thousands, except unit, share and per share amounts)

The following tables present the changes in deferred revenue as of and for the three months ended December 31, 2022 and 2021, respectively:

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

Balance at September 30, 2021	$	30,024
Deferral of revenue		21,032
Recognition of unearned revenue		(15,735)
Balance at December 31, 2021	$	35,321

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, 2022 and September 30, 2022 the Company had $4,339 and $4,185, 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 $183 for the three months ended December 31, 2022 and $167 for the three months ended December 31, 2021.

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 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 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. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Accounting For Convertible Instruments and Contracts in an Entity's Own Equity (“ASU 2020-06”). ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted net income per share calculation in certain areas. The amendments in ASU 2020-06 are effective for public business entities for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company adopted this ASU on October 1, 2022. The adoption of ASU 2020-06 resulted in an increase in long-term debt, less current portion and debt issuance costs, net of $11,933, a decrease in additional paid-in-capital of $23,382 and a decrease in accumulated deficit of $11,449. The adoption of ASU 2020-06 had no impact on net income.

3. ACQUISITIONS

During the three months ended December 31, 2022 and 2021, 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, 2022, the Company purchased $275 in residuals using 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. The Company did not acquire any residuals during the three months ended December 31, 2021.

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 substantially all of the assets 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. Certain of the purchase price allocations assigned for this acquisition is considered preliminary as of December 31, 2022.

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.

(in thousands, except unit, share and per share amounts)

Acquisition-related costs for this acquisition amounted to approximately $1,567 and were expensed as incurred.

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	$	8,217
Inventories		—
Prepaid expenses and other current assets		110
Property and equipment		5,437
Capitalized software		12,600
Customer relationships		33,800
Non-compete agreements		200
Trade name		600
Goodwill		42,315
Total assets acquired		103,279
Accounts payable		9
Accrued expenses and other current liabilities		3,134
Deferred revenue, current		3,160
Other long-term liabilities		11,976
Net assets acquired	$	85,000

Other Business Combinations during the three months ended December 31, 2022

Effective October 1, 2022, the Company completed the acquisition of another business to expand the Company's software offerings. The total purchase consideration consisted of $4,497 in cash consideration, funded by proceeds from the Company's revolving credit facility. In connection with this acquisition, the Company allocated approximately $104 of the consideration to net working capital, approximately $39 of the consideration to purchase price to property and equipment, approximately $30 of the consideration to capitalized software, approximately $1,480 of the consideration to customer relationships, and the remainder, approximately $2,844, to goodwill, which is deductible for tax purposes. Certain of the purchase price allocations assigned for this acquisition is considered preliminary as of December 31, 2022. The acquired capital software and customer relationships intangible asset have estimated amortization periods of eight years and ten years, respectively.

(in thousands, except unit, share and per share amounts)

Pro Forma Results of Operations for Business Combinations during the three months ended December 31, 2022

The following unaudited supplemental pro forma results of operations have been prepared as though each of the acquired businesses in the three months ended December 31, 2022 had occurred on October 1, 2021. Pro forma adjustments were made to reflect the impact of depreciation and amortization, changes to executive compensation and the increased debt, all in accordance with ASC 805. This supplemental pro forma information does not purport to be indicative of the results of operations that would have been attained had the acquisitions been made on these dates, or of results of operations that may occur in the future.

	Three months ended December 31,	
	2022	2021
Revenue	$ 86,029	$ 79,109
Net income (loss)	$ 169	$ (5,267)

Business Combinations during the year ended September 30, 2022

During the year ended September 30, 2022, the Company completed the acquisitions of three businesses to expand the Company’s software offerings in the Public Sector and Healthcare vertical markets. Certain of the purchase price allocations assigned for these acquisitions are considered preliminary as of December 31, 2022.

Total purchase consideration was $107,681, including $101,400 in cash consideration, funded by proceeds from the Company's revolving credit facility, and $6,281 of contingent consideration.

The goodwill associated with two of the three acquisitions is deductible for tax purposes. The acquired customer relationships intangible assets have estimated amortization periods of between ten and nineteen years. The trade names have estimated weighted-average amortization periods of four years. The weighted-average amortization period for all intangibles acquired is fifteen years. The acquired capitalized software have amortization periods of seven years.

Acquisition-related costs for these businesses amounted to approximately $773 and were expensed as incurred.

Certain provisions in the purchase agreements provide for additional consideration of up to $23,000, in the aggregate, to be paid based upon the achievement of specified financial performance targets, as defined in the purchase agreements, through no later than September 2024. The Company determined the acquisition date fair values of the liabilities for the contingent consideration based on probability forecasts and discounted cash flow analyses. In each subsequent reporting period, the Company will reassess its current estimates of performance relative to the targets and adjust the contingent liabilities to their fair values through earnings See additional disclosures in Note 10.

(in thousands, except unit, share and per share amounts)

Summary of Business Combinations during the year ended September 30, 2022

The fair values assigned to certain assets and liabilities assumed, as of the acquisition dates, during the year ended September 30, 2022 were as follows:

Accounts receivable	$ 651
Settlement assets	685
Inventories	—
Prepaid expenses and other current assets	83
Property and equipment	190
Capitalized software	9,790
Acquired merchant relationships	41,090
Non-compete agreements	—
Trade name	1,550
Goodwill	61,347
Operating lease right-of-use assets	263
Other assets	22
Total assets acquired	115,671
Accrued expenses and other current liabilities	287
Settlement obligations	685
Deferred revenue, current	30
Current portion of operating lease liabilities	82
Operating lease liabilities, less current portion	181
Other long-term liabilities	6,725
Net assets acquired	$ 107,681

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

A summary of the Company's prepaid expenses and other current assets as of December 31, 2022 and September 30, 2022 is as follows:

	December 31, 2022	September 30, 2022
Inventory	$ 4,960	$ 4,121
Prepaid licenses	7,287	5,743
Prepaid insurance	1,487	736
Notes receivable — current portion	5,117	4,930
Other current assets	4,282	3,915
Prepaid expenses and other current assets	$ 23,133	$ 19,445

(in thousands, except unit, share and per share amounts)

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

	Merchant Services	Software and Services	Other	Total
Balance at September 30, 2022	$ 119,086	$ 234,553	$ —	$ 353,639
Goodwill attributable to preliminary purchase price adjustments and acquisitions during the three months ended December 31, 2022	2,844	42,315	—	45,159
Balance at December 31, 2022	$ 121,930	$ 276,868	$ —	$ 398,798

Intangible assets consisted of the following as of December 31, 2022:

	Cost	Accumulated Amortization	Carrying Value	Amortization Life and Method
Finite-lived intangible assets:				
Merchant relationships	$ 303,581	$ (85,003)	$ 218,578	9 to 25 years – accelerated or straight-line
Non-compete agreements	1,390	(816)	574	3 to 6 years – straight-line
Website and brand development costs	267	(177)	90	3 to 4 years – straight-line
Trade names	8,371	(4,578)	3,793	3 to 7 years – straight-line
Residual buyouts	6,445	(2,334)	4,111	8 years – straight-line
Referral and exclusivity agreements	800	(773)	27	5 years – straight-line
Total finite-lived intangible assets	320,854	(93,681)	227,173	
Indefinite-lived intangible assets:				
Trademarks	44	—	44	
Total identifiable intangible assets	$ 320,898	$ (93,681)	$ 227,217	

Amortization expense for intangible assets amounted to $5,059 and $4,178 during the three months ended December 31, 2022, and 2021 respectively.

Based on net carrying amounts at December 31, 2022, the Company's estimate of future amortization expense for intangible assets are presented in the table below for fiscal years ending September 30:

2023 (nine months remaining)	$ 14,884
2024	18,969
2025	18,677
2026	18,205
2027	17,585
Thereafter	138,853
	$ 227,173

(in thousands, except unit, share and per share amounts)

6. ACCRUED EXPENSES AND OTHER LIABILITIES

A summary of the Company's accrued expenses and other current liabilities as of December 31, 2022 and September 30, 2022 is as follows is as follows:

	December 31, 2022	September 30, 2022
Accrued wages, bonuses, commissions and vacation	$ 7,143	$ 8,117
Accrued interest	1,492	642
Accrued contingent consideration — current portion	18,847	21,385
Escrow liabilities	8,494	12,285
Tax receivable agreement liability — current portion	21	20
Customer deposits	1,583	1,575
Employee health self-insurance liability	581	732
Accrued interchange	1,877	2,096
Other current liabilities	10,929	10,981
Accrued expenses and other current liabilities	$ 50,967	$ 57,833

A summary of the Company's long-term liabilities as of December 31, 2022 and September 30, 2022 is as follows:

	December 31, 2022	September 30, 2022
Accrued contingent consideration — long-term portion	$ 1,217	$ 1,448
Deferred tax liability — long-term	19,872	7,896
Other long-term liabilities	200	196
Total other long-term liabilities	$ 21,289	$ 9,540

7. LONG-TERM DEBT, NET

A summary of long-term debt, net as of December 31, 2022 and September 30, 2022 is as follows:

	Maturity	December 31, 2022	September 30, 2022
Revolving lines of credit to banks under the Senior Secured Credit Facility	May 9, 2024	$ 263,174	$ 185,017
1% Exchangeable Senior Notes due 2025	February 15, 2025	117,000	104,557
Debt issuance costs, net		(2,968)	(2,554)
Total long-term debt, net of issuance costs		$ 377,206	$ 287,020

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.

On October 1, 2022, the Company adopted ASU 2020-06 using the modified retrospective method, which resulted in the Exchangeable Notes being presented as a single liability instrument with no separate accounting for embedded conversion features. Refer to Note 2 for further discussion.

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.

As of December 31, 2022, the aggregate principal amount outstanding of the Exchangeable Notes was $117,000.

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, 2022.

Non-cash interest expense, including amortization of debt issuance costs, related to the Exchangeable Notes for the three months ended December 31, 2022 was $227, and $159 for the three months ended December 31, 2021. Total unamortized debt issuance costs related to the Exchangeable Notes were $2,223 as of December 31, 2022.

The estimated fair value of the Exchangeable Notes was $103,990 as of December 31, 2022. 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.

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.

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.

Senior Secured Credit Facility

On May 9, 2019, the Company replaced its then existing credit facility with a new credit agreement (the "Senior Secured Credit Facility"). Effective October 3, 2022, the 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).

The Senior Secured Credit Facility accrues 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% (3.25% as of December 31, 2022), 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% (1.25% as of December 31, 2022), 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 Senior Secured Credit Facility requires the Company to pay unused commitment fees of 0.15% to 0.30% (0.30% as of December 31, 2022) 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. The Senior Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 to 1.00 (ii) a maximum total leverage ratio of 5.00 to 1.00, provided, that for each of the four fiscal quarters immediately following a qualified acquisition (each a “Leverage Increase Period”), the required ratio set forth above may be increased by up to 0.25, subject to certain limitations and (iii) a maximum consolidated senior secured leverage ratio of 3.25 to 1.00, provided, that for each Leverage Increase Period, the consolidated senior leverage ratio may be increased by up to 0.25, subject to certain limitations. The maturity date of the Senior Secured Credit Facility is May 9, 2024. As of December 31, 2022, the Company was in compliance with these covenants, and there was $111,826 available for borrowing under the revolving credit facility, subject to the financial covenants.

The Senior Secured Credit Facility is secured by substantially all assets of the Company. The lenders under the Senior Secured Credit Facility hold senior rights to collateral and principal repayment over all other creditors.

The provisions of the Senior Secured Credit Facility place certain restrictions and limitations upon the Company. These include, among others, restrictions on liens, investments, indebtedness, fundamental changes and dispositions; maintenance of certain financial ratios; and certain non-financial covenants pertaining to the activities of the Company during the period covered. The Company was in compliance with such covenants as of December 31, 2022. In addition, the Senior Secured Credit Facility restricts the Company's ability to make dividends or other distributions to the holders of the Company's equity. The Company is permitted to (i) make cash distributions to the holders of the Company's equity in order to pay taxes incurred by owners of equity in i3 Verticals, LLC, by reason of such ownership, (ii) move intercompany cash between subsidiaries that are joined to the Senior Secured Credit Facility, (iii) repurchase equity from employees, directors, officers or consultants in an aggregate amount not to exceed $3,000 per year, (iv) make certain payments in connection with the Tax Receivable Agreement (discussed in Note 8 below), and (v) make other dividends or distributions in an aggregate amount not to exceed 5% of the net cash proceeds received from any additional common equity issuance. The Company is also permitted to make non-cash dividends in the form of additional equity issuances. Each subsidiary may make ratable distributions to persons that own equity interests in such subsidiary. All other forms of dividends or distributions are prohibited under the Senior Secured Credit Facility.

Debt issuance costs

The Company incurred $265 in debt issuance costs during the three months ended December 31, 2022 and did not incur any debt issuance costs during the three months ended December 31, 2021. 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 $361 during the three months ended December 31, 2022 and $254 during the three months ended December 31, 2021.

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 $382 for the three months ended December 31, 2022, and a benefit of $228 during the three months ended December 31, 2021.

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 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, 2022, the Company did not acquire any Common Units in i3 Verticals, LLC in connection with the redemption of Common Units from the Continuing Equity Owners. As a result, the Company did not recognize any activity related to exchanges during the three months ended December 31, 2022 in its net deferred tax assets and corresponding Tax Receivable Agreement liabilities.

The deferred tax asset and corresponding Tax Receivable Agreement liability balances were $40,346 and $40,832, respectively, as of December 31, 2022.

Payments to the Continuing Equity Owners related to exchanges through December 31, 2022 will range from $0 to $3,315 per year and are expected to be paid over the next 24 years. The amounts recorded as of December 31, 2022, 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, 2022. 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, 2022 and 2021 was four and five years, respectively. The Company had no significant short-term leases during the three months ended December 31, 2022 and 2021.

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 6.1% and 6.7% as of December 31, 2022 and 2021, respectively.

Operating lease cost is recognized on a straight-line basis over the lease term. Operating lease costs for the three months ended December 31, 2022 and 2021 were $1,504 and $1,491, respectively, 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, 2022 and 2021 include variable lease costs of approximately $11 and $38, respectively, 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, 2022 and 2021 were $35 and $47, respectively, and are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

(in thousands, except unit, share and per share amounts)

As of December 31, 2022, maturities of lease liabilities are as follows:

Years ending September 30:		
2023 (nine months remaining)	$	4,195
2024		4,870
2025		4,256
2026		3,423
2027		1,597
Thereafter		2,017
Total future minimum lease payments (undiscounted)[1]		20,358
Less: present value discount		(2,221)
Present value of lease liability	$	18,137

1. Total future minimum lease payments excludes payments of $14 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, 2022 and 2021, because of the relatively short maturity dates on these instruments. The carrying amount of debt approximates fair value as of December 31, 2022 and 2021, because interest rates on these instruments approximate market interest rates.

(in thousands, except unit, share and per share amounts)

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, 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	$ 20,064

	Accrued Contingent Consideration
Balance at September 30, 2021	$ 36,229
Contingent consideration accrued at time of business combination	5,481
Change in fair value of contingent consideration included in Operating expenses	4,927
Contingent consideration paid	(9,755)
Balance at December 31, 2021	$ 36,882

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 $18,847 and $21,385 of contingent consideration was recorded in accrued expenses and other current liabilities as of December 31, 2022 and September 30, 2022, respectively. Approximately $1,217 and $1,448 of contingent consideration was recorded in other long-term liabilities as of December 31, 2022 and September 30, 2022, 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 $103,990 as of December 31, 2022.

(in thousands, except unit, share and per share amounts)

11. EQUITY-BASED COMPENSATION

A summary of equity-based compensation expense recognized during the three months ended December 31, 2022 and 2021 is as follows:

	Three months ended December 31, 2022	Three months ended December 31, 2021
Stock options	$ 6,288	$ 6,624
Restricted stock units	558	—
Equity-based compensation expense	$ 6,846	$ 6,624

Amounts are included in general and administrative expense on the condensed consolidated statements of operations. Income tax benefits of $47 and $27 were recognized during the three months ended December 31, 2022 and 2021, 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, 2022, equity awards with respect to 434,500 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, 2022, equity awards with respect to 1,035,338 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, 2022 and during the year ended September 30, 2022 was determined on the grant date using the Black-Scholes valuation model based on the following weighted-average assumptions:

	December 31, 2022	September 30, 2022
Expected volatility[1]	54.9 %	55.7 %
Expected dividend yield[2]	— %	— %
Expected term[3]	6 years	6 years
Risk-free interest rate[4]	4.0 %	1.6 %

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.

(in thousands, except unit, share and per share amounts)

A summary of stock option activity for the three months ended December 31, 2022 is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at September 30, 2022	8,222,322	$ 25.07
Granted	416,000	21.02
Exercised	(91,930)	17.61
Forfeited	(116,894)	29.41
Outstanding at December 31, 2022	8,429,498	$ 24.90
Exercisable at December 31, 2022	4,905,460	$ 23.17

The weighted-average grant date fair value of stock options granted during the three months ended December 31, 2022 was $12.12.

As of December 31, 2022, total unrecognized compensation expense related to unvested stock options, including an estimate for pre-vesting forfeitures, was $31,271, which is expected to be recognized over a weighted-average period of 1.78 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, 2022 was $7,022.

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, 2022 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at September 30, 2022	486,652	$ 24.93
Granted	145,084	21.39
Vested	—	—
Forfeited	(30,416)	24.14
Outstanding at December 31, 2022	601,320	$ 24.21

As of December 31, 2022, total unrecognized compensation expense related to unvested RSUs, including an estimate for pre-vesting forfeitures, was $7,373, which is expected to be recognized over a weighted average period of 3.55 years.

No RSUs vested during the three months ended December 31, 2022.

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company utilizes office space and equipment under operating leases. Rent expense under these leases amounted to $1,539 during the three months ended December 31, 2022 and $1,494 during the three months ended December 31, 2021. Refer to Note 9 for further discussion and a table of the future minimum payments under these leases.

(in thousands, except unit, share and per share amounts)

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, 2022, such minimum fee commitments were as follows:

Years ending September 30:		
2023 (nine months remaining)	$	3,098
2024		1,230
2025		180
2026		—
2027		—
Thereafter		—
Total	$	4,508

Third Party Sales Organization Buyout Agreement

The Company has conditionally committed to a future buyout of a third party's business at the earlier of (a) the 60th day following the date upon which the founder of the third party sales organization dies or becomes disabled or (b) the 60th day following July 1, 2023. The buyout amount is dependent on certain financial metrics but is capped at $29,000, which would be net of repayment of secured loans. The buyout also contains certain provisions to provide additional consideration of up to $9,000, in the aggregate, to be paid based on the achievement of specified financial performance targets, following the buyout. As the eventual financial metrics are not known, the amount of the buyout transaction as well as the additional consideration are not able to be estimated at this time.

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, the 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.

S&S Litigation

On June 2, 2021, the State of Louisiana, Division of Administration (the “State”) and a putative class of Louisiana 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 add a putative class of Louisiana sheriffs (the “Sheriffs”) 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 Sheriffs, 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 Parish 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. The case is fully briefed with the United States Fifth Circuit Court of Appeals, with oral argument to take place in April 2023.

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 S&S 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 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.

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, 2022, the total amount due under the Tax Receivable Agreement was $40,832.

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 payment and software solutions customers in strategic vertical markets. This is accomplished through the Merchant Services and Software and Services segments.

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

(in thousands, except unit, share and per share amounts)

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, 2022 and 2021.

	As of and for the Three Months Ended December 31, 2022			
	Merchant Services	Software and Services	Other	Total
Revenue	$ 32,834	$ 53,213	$ (18)	$ 86,029
Other costs of services	(15,567)	(3,523)	21	(19,069)
Residuals	9,809	523	(11)	10,321
Processing margin	$ 27,076	$ 50,213	$ (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	$ 206,782	$ 607,010	$ 55,657	$ 869,449
Goodwill	$ 121,930	$ 276,868	$ —	$ 398,798

	As of and for the Three Months Ended December 31, 2021			
	Merchant Services	Software and Services	Other	Total
Revenue	$ 29,177	$ 44,774	$ (12)	$ 73,939
Other costs of services	(13,442)	(3,080)	12	(16,510)
Residuals	8,181	343	(4)	8,520
Processing margin	$ 23,916	$ 42,037	$ (4)	$ 65,949
Residuals				(8,520)
Selling, general and administrative				(46,387)
Depreciation and amortization				(6,870)
Change in fair value of contingent consideration				(4,927)
Loss from operations				$ (755)
Total assets	$ 206,780	$ 507,399	$ 62,257	$ 776,436
Goodwill	$ 119,086	$ 230,511	$ —	$ 349,597

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.

(in thousands, except unit, share and per share amounts)

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, 2022 and 2021, respectively, i3 Verticals, Inc. owned 23,011,193 and 22,064,317 of i3 Verticals, LLC's Common Units, representing a 69.5% and 68.4% 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,	
	2022	2021
Net income (loss) attributable to non-controlling interest	$ 409	$ (1,153)
Transfers (from) to non-controlling interests:		
Redemption of common units in i3 Verticals, LLC	—	(123)
Allocation of equity (from) to non-controlling interests	(1,906)	1,899
Net transfers (from) to non-controlling interests	(1,906)	1,776
Change from net (loss) income attributable to non-controlling interests and transfers (from) to non-controlling interests	$ (1,497)	$ 623

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.

(in thousands, except unit, share and per share amounts)

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, 2022 and 2021:

	Three months ended December 31,	
	2022	2021
Basic and diluted[(1)] net income (loss) per share:		
Numerator		
Net income (loss)	$ 169	$ (3,681)
Less: Net income (loss) attributable to non-controlling interests	409	(1,153)
Net loss attributable to Class A common stockholders	$ (240)	$ (2,528)
Denominator		
Weighted average shares of Class A common stock outstanding	22,998,608	22,042,801
Basic and diluted net loss per share	$ (0.01)	$ (0.11)

1. For the three months ended December 31, 2022 and 2021 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:
   a. 10,118,142 and 10,222,946 weighted average shares of Class B common stock for the three months ended December 31, 2022 and 2021, respectively, along with the reallocation of net income assuming conversion of these shares, were excluded because the effect would have been anti-dilutive.
   b. 5,652,711 and 5,444,557 stock options for the three months ended December 31, 2022 and 2021, respectively, 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
   c. 696,427 and 606,942 shares for the three months ended December 31, 2022 and 2021, respectively, resulting from estimated stock option exercises and restricted stock units vesting as calculated by the treasury stock method were excluded because of the effect of including them would have been anti-dilutive.

On September 22, 2022, the Company provided the trustee notice of the Company’s irrevocable election to settle the principal portion of its Exchangeable Notes only in cash and the conversion spread in cash or shares. Accordingly, upon conversion, the Company will pay the principal in cash, and it will pay or deliver, as the case may be, the conversion premium in cash, shares of Class A Common Stock or a combination of cash and shares of Class A Common Stock, at its election. The Company applies the if-converted method and only includes the number of incremental shares that would be issued upon conversion for calculating any potential dilutive effect of the conversion spread on diluted net income per share. 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.

(in thousands, except unit, share and per share amounts)

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, 2022 and 2021:

	Three months ended December 31,	
	2022	2021
Acquisition date fair value of contingent consideration in connection with business combinations	$ —	$ 5,481
Debt issuance costs financed with proceeds from the Senior Secured Credit Facility	$ 178	$ —
Right-of-use assets obtained in exchange for operating lease obligations	$ 838	$ 6,820
Purchase consideration accrued for December 31, 2021 acquisition	$ —	$ 35,000

18. SUBSEQUENT EVENTS

Recent Acquisitions

Subsequent to December 31, 2022, the Company completed an acquisition of a business that will expand the Company's software offerings in the Public Sector vertical within the Software and Services segment. Total purchase consideration for the business was $14,500, including $12,500 in cash funded by proceeds from the Company's revolving credit facility, $2,000 of the Company's Class A Common Stock, and an amount of contingent consideration, which is still being valued.

Certain provisions in the purchase agreement provide for additional consideration of up to $6,000, in the aggregate, to be paid based upon the achievement of specified financial performance targets, as defined in the purchase agreement, through no later than December 2024. The Company is in process of determining the acquisition date fair values of the liabilities for the contingent consideration based on discounted cash flow analyses. In each subsequent reporting period, the Company will reassess its current estimates of performance relative to the targets and adjust the contingent liabilities to their fair values through earnings.

The effect of the acquisition will be included in the condensed consolidated statements of operations beginning January 1, 2023.

The Company is still evaluating the allocations of the preliminary purchase consideration and pro forma results of operations.

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, 2022 ("Form 10-K"), filed with the SEC on November 18, 2022. 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:

- *developments related to the COVID-19 pandemic, including, without limitation, the length and severity of its impact;*
- *our indebtedness and our ability to maintain compliance with the financial covenants in our 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;*
- *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 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;*
- *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;*
- *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 protect our systems and data from continually evolving cybersecurity risks or other technological risks, including the impact of any cybersecurity incidents or security breaches;*
- *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 successfully manage our intellectual property;*
- *our ability to attract, recruit, retain and develop key personnel and qualified employees;*
- *risks related to laws, regulations and industry standards;*
- *risk of significant chargeback liability if our customers refuse or cannot reimburse chargebacks resolved in favor of their customers;*
- *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;*
- *operating and financial restrictions imposed by our 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;*
- *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

We deliver seamless integrated software and services to customers in strategic vertical markets. Building on its broad suite of software and services solutions, we create and acquire software products to serve the specific needs of our customers. Our primary strategic verticals are Public Sector (including Education) and Healthcare.

COVID-19 Update and Economic Trends

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. The spread of COVID-19 and its variant strains brought about many precautions at the state and local government levels to mitigate the spread of the virus, including the closure of local government facilities and parks, schools, restaurants, many businesses and other locations of public assembly. Throughout fiscal years 2020, 2021 and 2022, governments have imposed and reimposed restrictions in response to increased transmission rates of COVID-19 and eased such restrictions once the transmission rates declined across multiple cycles.

While uncertainty around the pandemic has diminished, uncertainty remains regarding broader economic impacts as a result of inflationary pressures, rising rates, monetary policy, and the current geopolitical situation, which could potentially cause new, or exacerbate existing, economic challenges that we may face. These conditions could worsen, or others could arise, if the U.S. and global economies were to enter recessionary periods, triggered or exacerbated by 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, 2022, we had $3.6 million of cash and cash equivalents and $111.8 million of available capacity under our Senior Secured Credit Facility subject to our financial covenants. As of December 31, 2022, we were in compliance with these covenants with a consolidated interest coverage ratio, total leverage ratio and consolidated senior leverage ratio of 5.18x, 4.03x and 2.77x, respectively. For additional information about our Senior Secured Credit Facility and Exchangeable Notes, see the section entitled “Liquidity and Capital Resources” below.

Acquisitions

Recent acquisitions

Effective January 1, 2023, we completed the acquisition of one business to expand our software offerings in the Public Sector vertical. The total purchase consideration was $14.5 million, including $12.5 million in cash funded by the proceeds from our revolving credit facility, $2.0 million of our Class A Common Stock, and an amount in contingent consideration which is still being valued.

Acquisitions during the three months ended December 31, 2022

During the three months ended December 31, 2022, we completed the acquisition of two businesses to expand our software offerings. Total purchase consideration consisted of $89.5 million in cash funded by the proceeds from our revolving credit facility.

Acquisitions during the three months ended December 31, 2021

During the three months ended December 31, 2021, we completed the acquisition of two business to expand our software offerings in the Healthcare vertical. Total purchase consideration was $100.5 million, including $95.0 million in cash funded by the proceeds from the Company's revolving credit facility, and $5.5 million in contingent consideration.

Our Revenue and Expenses

Revenues

We generate revenue from software licensing subscriptions, ongoing software support, 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. Interchange and 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 Senior Secured Credit Facility and Exchangeable Notes, and amortization of debt discount and issuance costs.

How We Assess Our Business

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.

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.

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; and
- the dollar volume of payments our customers process through us ("payment volume");

ARR is the annualized revenue derived from software-as-a-service ("SaaS") arrangements, software monetized with transaction-based fees, 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. 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, 2022 and 2021 was $290.2 million and $240.4 million, respectively, representing a period-to-period growth rate of 20.7%.

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, 2022 and 2021 was 47.79% and 49.15%.

Our payment volume for the three months ended December 31, 2022 and 2021 was $5.9 billion and $5.3 billion, respectively, representing a period-to-period growth rate of 11.4%. 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.

Results of Operations

Three Months Ended December 31, 2022 Compared to Three Months Ended December 31, 2021

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

	Three months ended December 31,		Change	
(in thousands)	2022	2021	Amount	%
Revenue	$ 86,029	$ 73,939	$ 12,090	16.4 %
Operating expenses				
Other costs of services	19,069	16,510	2,559	15.5 %
Selling, general and administrative	51,003	46,387	4,616	10.0 %
Depreciation and amortization	8,676	6,870	1,806	26.3 %
Change in fair value of contingent consideration	1,443	4,927	(3,484)	(70.7)%
Total operating expenses	80,191	74,694	5,497	7.4 %
Income (loss) from operations	5,838	(755)	6,593	n/m
Other expenses				
Interest expense, net	5,490	3,154	2,336	74.1 %
Other income	(203)	—	(203)	n/m
Total other expenses	5,287	3,154	2,133	67.6 %
Income (loss) before income taxes	551	(3,909)	4,460	n/m
Provision for (benefit from) income taxes	382	(228)	610	n/m
Net income (loss)	169	(3,681)	3,850	n/m
Net income (loss) attributable to non-controlling interest	409	(1,153)	1,562	n/m
Net loss attributable to i3 Verticals, Inc.	$ (240)	$ (2,528)	$ 2,288	(90.5)%

n/m = not meaningful

Revenue

Revenue increased $12.1 million, or 16.4%, to $86.0 million for the three months ended December 31, 2022 from $73.9 million for the three months ended December 31, 2021. This increase was principally driven by incremental revenue from acquisitions of $6.1 million, net of intercompany eliminations, all of which were within the Software and Services segment. In addition to our growth through acquisitions, revenue from existing businesses grew, resulting from growth in software and related services revenues, primarily in our Public Sector vertical, and an increase in payment volume from new and existing customers across the Company.

Revenue within Software and Services increased $8.4 million, or 18.8%, to $53.2 million for the three months ended December 31, 2022 from $44.8 million for the three months ended December 31, 2021. The increase was principally driven by growth in software and related services revenues in our Public Sector vertical.

Revenue within Merchant Services increased $3.7 million, or 12.5%, to $32.8 million for the three months ended December 31, 2022 from $29.2 million for the three months ended December 31, 2021. Payment volume from new and existing customers increased $0.4 billion, or 9.2%, to $5.3 billion for the three months ended December 31, 2022 from $4.8 billion for the three months ended December 31, 2021.

Other Costs of Services

Other costs of services increased $2.6 million, or 15.5%, to $19.1 million for the three months ended December 31, 2022 from $16.5 million for the three months ended December 31, 2021. This increase was primarily driven by an increase in other cost of services within the Merchant Services segment driven by the increase in payment volume.

Other costs of services within Merchant Services increased $2.1 million, or 15.8%, to $15.6 million for the three months ended December 31, 2022 from $13.4 million for the three months ended December 31, 2021, driven primarily by the growth in payment volume.

Other costs of services within Software and Services increased $0.4 million, or 14.4%, to $3.5 million for the three months ended December 31, 2022 from $3.1 million for the three months ended December 31, 2021, driven primarily by acquisitions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $4.6 million, or 10.0%, to $51.0 million for the three months ended December 31, 2022 from $46.4 million for the three months ended December 31, 2021. This increase was primarily driven by a $3.7 million increase in employment expenses, primarily resulting from an increase in headcount that resulted from acquisitions and an increase in stock compensation expense.

Depreciation and Amortization

Depreciation and amortization increased $1.8 million, or 26.3%, to $8.7 million for the three months ended December 31, 2022 from $6.9 million for the three months ended December 31, 2021. Amortization expense increased $1.7 million to $7.9 million for the three months ended December 31, 2022 from $6.2 million for the three months ended December 31, 2021 primarily due to acquisitions completed during the 2022 and 2023 fiscal years. Depreciation expense increased $0.1 million to $0.8 million for the three months ended December 31, 2022 from $0.6 million for the three months ended December 31, 2021.

Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration to be paid in connection with acquisitions was a charge of $1.4 million for the three months ended December 31, 2022 primarily due to the performance of some of our acquisitions exceeding our expectations. The change in fair value of contingent consideration for the three months ended December 31, 2021 was a charge of $4.9 million.

Interest Expense, net

Interest expense, net, increased $2.3 million, or 74.1%, to $5.5 million for the three months ended December 31, 2022 from $3.2 million for the three months ended December 31, 2021. The increase reflects a higher average interest rate and a higher average outstanding debt balance for the three months ended December 31, 2022, as compared to the three months ended December 31, 2021.

Other Income

Other income was $0.2 million related to contingent consideration received for an investment that was sold in a prior year for the three months ended December 31, 2022. There was no other income for the three months ended December 31, 2021.

Provision for (Benefit from) Income Taxes

The provision for income taxes increased to a provision for $0.4 million for the three months ended December 31, 2022 from a benefit of $0.2 million for three months ended December 31, 2021. Our effective tax rate was 69.3% for the three months ended December 31, 2022. 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. Furthermore, we are not able to predict the impact that the COVID-19 pandemic may have on the seasonality of our business.

Liquidity and Capital Resources

We have historically financed our operations and working capital through net cash from operating activities. As of December 31, 2022, we had $3.6 million of cash and cash equivalents and available borrowing capacity of $111.8 million under our 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, 2022, we had borrowings outstanding of $263.2 million under the Senior Secured Credit Facility.

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 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 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 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 Senior Secured Credit Facility. As of December 31, 2022, the aggregate principal amount outstanding of the Exchangeable Notes was $117.0 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.

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, 2022 and 2021

	Three months ended December 31,	
	2022	2021
	(in thousands)	
Net cash provided by operating activities	$ 18,179	$ 21,910
Net cash used in investing activities	$ (94,530)	$ (62,353)
Net cash provided by financing activities	$ 76,925	$ 49,223

Cash Flow from Operating Activities

Net cash provided by operating activities decreased $3.7 million to $18.2 million for the three months ended December 31, 2022 from $21.9 million for the three months ended December 31, 2021. Our net income increased from a net loss of $3.7 million for the three months ended December 31, 2021 to net income of $0.2 million for the three months ended December 31, 2022. Most 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 non-cash contingent consideration of $3.5 million and a decrease in amortization of debt discount and issuance costs of $1.1 million, partially offset by an increase in depreciation and amortization of $1.8 million and an increase in the provision for income taxes of $0.6 million for the three months ended December 31, 2022 compared to the three months ended December 31, 2021. Other changes include decreases in operating assets and liabilities of $5.7 million, which are impacted by the timing of collections and payments, for the three months ended December 31, 2022 compared to the three months ended December 31, 2021.

Cash Flow from Investing Activities

Net cash used in investing activities increased $32.2 million to $94.5 million for the three months ended December 31, 2022 from $62.4 million for the three months ended December 31, 2021. The largest driver of cash used in investing activities for the three months ended December 31, 2022 and 2021 was cash used in acquisitions, net of cash acquired. For the three months ended December 31, 2022, we used $89.5 million of cash for acquisitions, net of cash acquired compared to $60.0 million for the three months ended December 31, 2021. As a result, most of the increase in net cash used in investing activities was primarily the result of an increase of $29.5 million in cash used in acquisitions, net of cash acquired. Additionally, expenditures for property and equipment increased $1.1 million, payments for other investing activities increased $0.8 million and expenditures for capitalized software increased $0.8 million for the three months ended December 31, 2022 compared to the three months ended December 31, 2021.

Cash Flow from Financing Activities

Net cash provided by financing activities increased $27.7 million to $76.9 million for the three months ended December 31, 2022 from $49.2 million for the three months ended December 31, 2021. The increase in net cash provided by financing activities was primarily the result of an increase in proceeds from the revolving credit facility of $52.0 million and a decrease in cash paid for contingent consideration up to our original estimates of $5.2 million, partially offset by an increase in payments on the revolving credit facility of $29.1 million for the three months ended December 31, 2022 from the three months ended December 31, 2021.

Senior Secured Credit Facility

On May 9, 2019, we replaced our senior secured credit facility with a new credit agreement (the “Senior Secured Credit Facility”). Effective October 3, 2022, the Senior Secured Credit Facility, as amended, consisted of a $375.0 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 to $50.0 million in the aggregate (subject to the receipt of additional commitments for any such incremental loan amounts).

The Senior Secured Credit Facility accrues 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% (3.25% as of December 31, 2022), 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% (1.25% as of December 31, 2022), 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 Senior Secured Credit Facility requires us to pay unused commitment fees of 0.15% to 0.30% (0.30% as of December 31, 2022) 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. The Senior Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 to 1.00 (ii) a maximum total leverage ratio of 5.00 to 1.00, provided, that for each of the four fiscal quarters immediately following a qualified acquisition (each a “Leverage Increase Period”), the required ratio set forth above may be increased by up to 0.25, subject to certain limitations and (iii) a maximum consolidated senior secured leverage ratio of 3.25 to 1.00, provided, that for each Leverage Increase Period, the consolidated senior leverage ratio may be increased by up to 0.25, subject to certain limitations. The maturity date of the Senior Secured Credit Facility is May 9, 2024. As of December 31, 2022, we were in compliance with these covenants, and there was $111.8 million available for borrowing under the revolving credit facility, subject to the financial covenants.

The Senior Secured Credit Facility is secured by substantially all of our assets. The lenders under the Senior Secured Credit Facility hold senior rights to collateral and principal repayment over all other creditors.

The provisions of the Senior Secured Credit Facility place certain restrictions and limitations upon us. These include, among others, restrictions on liens, investments, indebtedness, fundamental changes and dispositions, maintenance of certain financial ratios, and certain non-financial covenants pertaining to our activities during the period covered.

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 Senior Secured Credit Facility may restrict i3 Verticals, LLC's ability to provide funds to i3 Verticals, Inc.

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 Senior Secured Credit Facility in connection with the effectiveness of the operative provisions of the amendment to the Senior Secured Credit Facility and to pay the cost of the Note Hedge Transactions.

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 million (the “ATM Program”). During the quarter ended December 31, 2022, we did not sell any Class A common stock under the ATM Program. As of December

31, 2022, we had a remaining capacity to sell up to $107 million of our Class A common stock under the ATM Program.

The proceeds from these issuances were used to repay outstanding indebtedness under the Senior Secured Credit Facility and for other general corporate purposes.

Material Cash Requirements

The following table summarizes our material cash requirements as of December 31, 2022 related to leases and borrowings:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
(in thousands)					
Processing minimums[(1)]	$ 4,508	$ 3,743	$ 765	$ —	$ —
Facility leases	20,358	5,585	8,656	4,303	1,814
Senior Secured Credit Facility and related interest[(2)]	292,915	19,784	273,131	—	—
Exchangeable Notes and related interest[(3)]	119,486	1,170	118,316	—	—
Contingent consideration[(4)]	20,064	18,847	1,217	—	—
Total	$ 457,331	$ 49,129	$ 402,085	$ 4,303	$ 1,814

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 Senior Secured Credit Facility by applying the interest rate of 7.69% in effect on the outstanding balance as of December 31, 2022, plus the unused fee rate of 0.30% in effect as of December 31, 2022.
3. We calculated interest payments through the maturity of our Exchangeable Notes by applying the coupon interest rate of 1.0% on the principal balance as of December 31, 2022 of $117.0 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, 2022, the total amount due under the Tax Receivable Agreement was $40.8 million, and payments to the Continuing Equity Owners related to exchanges through December 31, 2022 will range from $0 to $3.3 million per year and are expected to be paid over the next 24 years. The amounts recorded as of December 31, 2022, 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, 2022, there have been no significant changes to our critical accounting estimates disclosed in the Form 10-K filed with the SEC on November 18, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

As of December 31, 2022, the Senior Secured Credit Facility, as amended, consisted of a $375.0 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 to $50.0 million in the aggregate (subject to the receipt of additional commitments for any such incremental loan amounts).

At December 31, 2022, the Senior Secured Credit Facility accrues 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% (3.25% as of December 31, 2022), 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% (1.25% as of December 31, 2022), 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 Senior Secured Credit Facility requires us to pay unused commitment fees of 0.15% to 0.30% (0.30% as of December 31, 2022) 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. The Senior Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 to 1.00 (ii) a maximum total leverage ratio of 5.00 to 1.00, provided, that for each of the four fiscal quarters immediately following a qualified acquisition (each a "Leverage Increase Period"), the required ratio set forth above may be increased by up to 0.25, subject to certain limitations and (iii) a maximum consolidated senior secured leverage ratio of 3.25 to 1.00, provided, that for each Leverage Increase Period, the consolidated senior leverage ratio may be increased by up to 0.25, subject to certain limitations. As of December 31, 2022, we were in compliance with these covenants, and there was $111.8 million available for borrowing under the revolving credit facility, subject to the financial covenants.

As of December 31, 2022, we had borrowings outstanding of $263.2 million outstanding under the 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 $2.6 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, 2022.

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, 2022 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, 2022 filed with the SEC on November 18, 2022.

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.

Item 6. Exhibit Index

Exhibit Number	Exhibit Description
3.1	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).
3.2	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)
10.1	Third Amendment to the Amended and Restated Credit Agreement, dated as of October 3, 2022, by and among i3 Verticals, LLC, as the borrower, i3 Verticals, Inc. and certain subsidiaries of i3 Verticals, Inc., as guarantors, the lenders party thereto, and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 4, 2022) (File No. 001-38532)
10.2	Form of Performance-based Restricted Stock Unit Award Agreement under 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K filed with the SEC on November 18, 2022) (File No. 001-38532)
10.3	First Amendment to Tax Receivable Agreement, by and among i3 Verticals, Inc., i3 Verticals, LLC and the members of i3 Verticals, LLC party thereto (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed with the SEC on November 18, 2022) (File No. 001-38532)
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1**	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.
32.2**	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.
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, 2022, 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, 2023

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, 2023

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, 2023

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

Exhibit 32.1

**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, 2022, 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, 2023

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

Exhibit 32.2

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, 2022, 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, 2023

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