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 March 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 x No o

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 x No o

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 x

As of May 9, 2022, there were 22,245,660 outstanding shares of Class A common stock, $0.0001 par value per share, and 10,118,142 outstanding shares of Class B common stock, $0.0001 par value per share.

TABLE OF CONTENTS

PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2022 (unaudited)	September 30, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 6,340	$ 3,641
Accounts receivable, net	42,585	38,500
Settlement assets	7,272	4,768
Prepaid expenses and other current assets	15,250	11,214
Total current assets	71,447	58,123
Property and equipment, net	5,625	5,902
Restricted cash	13,701	9,522
Capitalized software, net	50,913	41,371
Goodwill	349,454	292,243
Intangible assets, net	203,143	171,706
Deferred tax asset	48,764	49,992
Operating lease right-of-use assets	19,892	14,479
Other assets	9,717	8,462
Total assets	$ 772,656	$ 651,800
Liabilities and equity		
Liabilities		
Current liabilities		
Accounts payable	$ 9,331	$ 7,865
Accrued expenses and other current liabilities	71,384	50,815
Settlement obligations	7,272	4,768
Deferred revenue	30,088	29,862
Current portion of operating lease liabilities	4,680	3,201
Total current liabilities	122,755	96,511
Long-term debt, less current portion and debt issuance costs, net	287,385	200,605
Long-term tax receivable agreement obligations	39,493	39,122
Operating lease liabilities, less current portion	16,024	11,960
Other long-term liabilities	19,504	14,011
Total liabilities	485,161	362,209
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 March 31, 2022 and September 30, 2021	—	—
Class A common stock, par value $0.0001 per share, 150,000,000 shares authorized; 22,133,682 and 22,026,098 shares issued and outstanding as of March 31, 2022 and September 30, 2021, respectively	2	2
Class B common stock, par value $0.0001 per share, 40,000,000 shares authorized; 10,174,142 and 10,229,142 shares issued and outstanding as of March 31, 2022 and September 30, 2021, respectively	1	1
Additional paid-in capital	220,201	211,237
Accumulated deficit	(16,381)	(6,480)
Total stockholders' equity	203,823	204,760
Non-controlling interest	83,672	84,831
Total equity	287,495	289,591
Total liabilities and equity	$ 772,656	$ 651,800

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 March 31,		Six months ended March 31,	
	2022	2021[(1)]	2022	2021[(1)]
Revenue	$ 78,120	$ 49,197	$ 152,059	$ 93,818
Operating expenses				
Other costs of services	16,631	11,314	33,141	24,980
Selling, general and administrative	48,716	30,511	95,103	55,473
Depreciation and amortization	7,447	5,851	14,317	10,943
Change in fair value of contingent consideration	11,503	322	16,430	2,226
Total operating expenses	84,297	47,998	158,991	93,622
(Loss) income from operations	(6,177)	1,199	(6,932)	196
Interest expense, net	3,377	2,358	6,531	4,387
Other income	—	(2,353)	—	(2,353)
Total other expenses	3,377	5	6,531	2,034
(Loss) income before income taxes	(9,554)	1,194	(13,463)	(1,838)
Provision for (benefit from) income taxes	884	(136)	656	(146)
Net (loss) income	(10,438)	1,330	(14,119)	(1,692)
Net (loss) income attributable to non-controlling interest	(3,065)	27	(4,218)	(997)
Net (loss) income attributable to i3 Verticals, Inc.	$ (7,373)	$ 1,303	$ (9,901)	$ (695)
Net (loss) income per share attributable to Class A common stockholders:				
Basic	$ (0.33)	$ 0.06	$ (0.45)	$ (0.03)
Diluted	$ (0.33)	$ 0.04	$ (0.45)	$ (0.05)
Weighted average shares of Class A common stock outstanding:				
Basic	22,076,297	20,940,725	22,059,365	20,024,936
Diluted	22,076,297	33,404,983	22,059,365	31,237,675

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement and the impacts of adoption on the condensed consolidated statements of operations.

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, 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
Equity-based compensation	—	—	—	—	6,257	—	—	6,257
Net loss	—	—	—	—	—	(7,373)	(3,065)	(10,438)
Redemption of common units in i3 Verticals, LLC	40,000	—	(40,000)	—	335	—	(335)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	(1,288)	—	—	(1,288)
Exercise of equity-based awards	29,365	—	—	—	(89)	—	—	(89)
Allocation of equity to non-controlling interests	—	—	—	—	(1,618)	—	1,618	—
Balance at March 31, 2022	22,133,682	$ 2	10,174,142	$ 1	$ 220,201	$ (16,381)	$ 83,672	$ 287,495

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[1]
	Shares	Amount	Shares	Amount				
Balance at September 30, 2020	18,864,143	$ 2	11,900,621	$ 1	$ 157,598	$ (2,023)	$ 84,590	$ 240,168
Equity-based compensation	—	—	—	—	3,441	—	—	3,441
Net loss	—	—	—	—	—	(1,998)	(1,024)	(3,022)
Redemption of common units in i3 Verticals, LLC	1,019,609	—	(1,019,609)	—	7,185	—	(7,185)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	1,162	—	—	1,162
Exercise of equity-based awards	121,019	—	—	—	688	—	—	688
Allocation of equity to non-controlling interests	—	—	—	—	(1,008)	—	1,008	—
Balance at December 31, 2020	20,004,771	2	10,881,012	1	169,066	$ (4,021)	77,389	242,437
Equity-based compensation	—	—	—	—	4,142	—	—	4,142
Net income	—	—	—	—	—	1,303	27	1,330
Redemption of common units in i3 Verticals, LLC	651,870	—	(651,870)	—	4,529	—	(4,529)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	617	—	—	617
Exercise of equity-based awards	59,745	—	—	—	(199)	—	—	(199)
Allocation of equity to non-controlling interests	—	—	—	—	(9,769)	—	9,769	—
Issuance of Class A common stock under the 2020 Inducement Plan	1,202,914	—	—	—	35,245	—	—	35,245
Balance at March 31, 2021	21,919,300	$ 2	10,229,142	$ 1	$ 203,631	$ (2,718)	$ 82,656	$ 283,572

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement and the impacts of adoption on the condensed consolidated statement of changes in equity.

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Six months ended March 31,	
	2022	2021[1][2]
Cash flows from operating activities:		
Net loss	$ (14,119)	$ (1,692)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	14,317	10,943
Equity-based compensation	12,881	7,583
Provision for doubtful accounts	315	129
Amortization of debt discount and issuance costs	2,853	2,684
Amortization of capitalized customer acquisition costs	178	248
Loss on disposal of assets	—	—
Unrealized gain on investment	—	(2,353)
Provision for (benefit from) income taxes	656	(146)
Non-cash lease expense	2,446	1,518
Increase in non-cash contingent consideration expense from original estimate	16,430	2,226
Changes in operating assets:		
Accounts receivable	(2,844)	1,392
Prepaid expenses and other current assets	(4,118)	(2,027)
Other assets	(1,087)	(2,475)
Changes in operating liabilities:		
Accounts payable	1,489	39
Accrued expenses and other current liabilities	6,014	9,260
Settlement obligations	1,819	6,056
Deferred revenue	316	2,894
Operating lease liabilities	(2,349)	(1,534)
Other long-term liabilities	(1)	(699)
Contingent consideration paid in excess of original estimates	(3,983)	(4,115)
Net cash provided by operating activities	31,213	29,931
Cash flows from investing activities:		
Expenditures for property and equipment	(967)	(885)
Expenditures for capitalized software	(4,305)	(2,861)
Acquisitions of businesses, net of cash and restricted cash acquired	(94,315)	(112,095)
Acquisition of other intangibles	(11)	(93)
Net cash used in investing activities	(99,598)	(115,934)

See Notes to the Interim Condensed Consolidated Financial Statements

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

(In thousands)

	Six months ended March 31,	
	2022	2021[(1)(2)]
Cash flows from financing activities:		
Proceeds from revolving credit facility	179,835	175,444
Payments on revolving credit facility	(95,908)	(90,444)
Cash paid for contingent consideration	(6,217)	(1,736)
Proceeds from stock option exercises	217	999
Payments for employee's tax withholdings from net settled stock option exercises	(160)	(363)
Net cash provided by financing activities	77,767	83,900
Net increase in cash, cash equivalents and restricted cash	9,382	(2,103)
Cash, cash equivalents and restricted cash at beginning of period	17,931	20,601
Cash, cash equivalents and restricted cash at end of period	$ 27,313	$ 18,498
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,471	$ 1,768
Cash paid for income taxes	$ 588	$ 64

1. The prior period amounts included in the statement of cash flows have been updated to correct settlement assets as restricted cash, which were previously reported as cash flows used in operating activities. These adjustments reflect an increase in prior year cash flows provided by operating activities of $6,056 and a corresponding increase in cash, cash equivalents, and restricted cash at the end of the period.
2. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement and the impacts of adoption on the condensed consolidated statements of cash flows.

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,	
	2021	2020
Beginning balance		
Cash and cash equivalents	$ 3,641	$ 15,568
Settlement assets	4,768	—
Restricted cash	9,522	5,033
Total cash, cash equivalents, and restricted cash	$ 17,931	$ 20,601

	March 31,	
	2022	2021
Ending balance		
Cash and cash equivalents	$ 6,340	$ 2,352
Settlement assets	7,272	6,056
Restricted cash	13,701	10,090
Total cash, cash equivalents, and restricted cash	$ 27,313	$ 18,498

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 small- and medium-sized businesses ("SMBs") and organizations 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 other owners other (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 March 31, 2022 and for the three and six months ended March 31, 2022 and 2021. The results of operations for the three and six months ended March 31, 2022 and 2021 are not necessarily indicative of the operating results for the full year. 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, 2021 and 2020, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2021.

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-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.

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 expense, 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 $7,272 and $4,768 as of March 31, 2022 and September 30, 2021, respectively.

Inventories

Inventories consist of point-of-sale equipment to be sold to clients and are stated at the lower of cost, determined on a weighted average or specific basis, or net realizable value. Inventories were $3,909 and $2,220 at March 31, 2022 and September 30, 2021, 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. The fair value of deferred revenue is identified using the Adjusted Fulfillment Cost 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 six months ended March 31, 2022 contributed $16,687 and $2,922 of revenue and net income, respectively, to the Company's condensed consolidated statements of operations for the six months then ended.

Leases

The Company adopted ASU 2016-02, Leases, ("ASC 842") 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 six months ended March 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 client. 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 clients under which the client engages the Company to provide both payment authorization services and transaction settlement services for all of the cardholder transactions of the client, 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 clients 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 client, 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 client 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 client, 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, client 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.

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.

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

The tables below present a disaggregation of the Company's revenue from contracts with clients 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 March 31, 2022			
	Merchant Services	Proprietary Software and Payments	Other	Total
Software and related services revenue	$ 3,008	$ 35,972	$ (8)	$ 38,972
Payments revenue	23,926	10,616	(14)	34,528
Other revenue	2,246	2,374	—	4,620
Total revenue	$ 29,180	$ 48,962	$ (22)	$ 78,120

	For the Three Months Ended March 31, 2021[1]			
	Merchant Services	Proprietary Software and Payments	Other	Total
Software and related services revenue	$ 2,812	$ 14,946	$ —	$ 17,758
Payments revenue	21,515	7,489	(668)	28,336
Other revenue	1,779	1,334	(10)	3,103
Total revenue	$ 26,106	$ 23,769	$ (678)	$ 49,197

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement and the impacts of adoption on the condensed consolidated statements of operations.

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

	For the Six Months Ended March 31, 2022			
	Merchant Services	Proprietary Software and Payments	Other	Total
Software and related services revenue	$ 5,970	$ 69,356	$ (16)	$ 75,310
Payments revenue	48,230	19,782	(18)	67,994
Other revenue	4,157	4,598	—	8,755
Total revenue	$ 58,357	$ 93,736	$ (34)	$ 152,059

	For the Six Months Ended March 31, 2021[(1)]			
	Merchant Services	Proprietary Software and Payments	Other	Total
Software and related services revenue	$ 5,741	$ 28,802	$ —	$ 34,543
Payments revenue	42,056	12,986	(1,094)	53,948
Other revenue	3,370	1,974	(17)	5,327
Total revenue	$ 51,167	$ 43,762	$ (1,111)	$ 93,818

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement and the impacts of adoption on the condensed consolidated statements of operations.

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

- Revenue earned over time — Includes discount fees, gateway fees, sales of SaaS and ongoing support contract revenue.
- Revenue earned at a point in time — Includes fixed service fees, software licenses sold as functional intellectual property, professional services and other equipment.

	For the Three Months Ended March 31, 2022			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue earned over time	$ 22,599	$ 34,151	$ (9)	$ 56,741
Revenue earned at a point in time	6,581	14,811	(13)	21,379
Total revenue	$ 29,180	$ 48,962	$ (22)	$ 78,120

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

	For the Three Months Ended March 31, 2021[1]			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue earned over time	$ 19,381	$ 16,917	$ (632)	$ 35,666
Revenue earned at a point in time	6,725	6,852	(46)	13,531
Total revenue	$ 26,106	$ 23,769	$ (678)	$ 49,197

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement and the impacts of adoption on the condensed consolidated statements of operations.

	For the Six Months Ended March 31, 2022			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue earned over time	$ 45,333	$ 65,439	$ (17)	$ 110,755
Revenue earned at a point in time	13,024	28,297	(17)	41,304
Total revenue	$ 58,357	$ 93,736	$ (34)	$ 152,059

	For the Six Months Ended March 31, 2021[1]			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue earned over time	$ 37,483	$ 31,854	$ (1,020)	$ 68,317
Revenue earned at a point in time	13,684	11,908	(91)	25,501
Total revenue	$ 51,167	$ 43,762	$ (1,111)	$ 93,818

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement and the impacts of adoption on the condensed consolidated statements of operations.

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 March 31, 2022 and September 30, 2021, the Company’s contract assets from contracts with customers was $6,080 and $1,505, respectively.

Contract Liabilities

Deferred revenue represents amounts billed to clients 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 six months ended March 31, 2022 and 2021, respectively:

Balance at September 30, 2021	$	30,024
Deferral of revenue		21,032
Recognition of unearned revenue		(15,735)
Balance at December 31, 2022		35,321
Deferral of revenue		11,047
Recognition of unearned revenue		(16,034)
Balance at March 31, 2022	$	30,334

Balance at September 30, 2020	$	11,054
Deferral of revenue		22,142
Recognition of unearned revenue		(7,541)
Balance at December 31, 2020		25,655
Deferral of revenue		6,483
Recognition of unearned revenue		(8,509)
Balance at March 31, 2021	$	23,629

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 March 31, 2022 and September 30, 2021 the Company had $4,149 and $3,851, 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 $178 and $345 for the three and six months ended March 31, 2022, respectively and $129 and $248 for the three and six months ended March 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 clients, 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 June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The amendments in ASU No. 2016-13 require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The Company's financial assets impacted by this ASU include primarily accounts receivable, settlement processing assets, and certain other receivables. The Company adopted this ASU on October 1, 2021. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805)—Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The amendments in ASU No. 2021-08 address diversity and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination. The amendments in ASU No. 2021-08 require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. Upon adoption, an acquirer should account for the related revenue contracts of the acquiree as if it has originated the contracts.

For public business entities, the amendments in ASU No. 2021-08 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments in ASU No. 2021-08 should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted. An entity that early adopts should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application. The Company has early adopted ASU No. 2021-08 effective October 1, 2020.

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

The adoption of ASU 2021-08 resulted in adjustments to the fair values assigned to goodwill and deferred revenue assumed as of the acquisition dates of acquisitions occurring during the year ended September 30, 2021, and an increase in revenue for the year ended September 30, 2021 due to recognition of revenue earned during the period for deferred revenue contracts acquired in business combinations. The following tables present the material impacts of adopting ASU 2021-08 on the Company's condensed consolidated balance sheets as of March 31, 2021:

	As of March 31, 2021		
	Excluding impacts of adoption of ASU 2021-08	Adjustment	Presentation with adoption of ASU 2021-08
Assets			
Goodwill	$ 263,365	$ 3,777	$ 267,142
Deferred tax asset	$ 51,277	$ (543)	$ 50,734
Liabilities and equity			
Liabilities			
Current liabilities			
Deferred revenue	$ 22,426	$ 1,135	$ 23,561
Long-term tax receivable agreement obligations	$ 39,626	$ (8)	$ 39,618
Stockholders' equity			
Additional paid-in-capital	$ 203,803	$ (172)	$ 203,631
Accumulated deficit	$ (4,155)	$ 1,437	$ (2,718)
Non-controlling interest	$ 81,814	$ 842	$ 82,656

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

The following tables present the material impacts of adoption of ASU 2021-08 on the Company's condensed consolidated statements of operations for the three and six months ended March 31, 2021:

	Three months ended March 31, 2021		
	Excluding impacts of adoption of ASU 2021-08	Adjustment	Presentation with adoption of ASU 2021-08
Revenue	$ 47,863	$ 1,334	$ 49,197
Benefit from income taxes	$ (87)	$ (49)	$ (136)
Net (loss) income	$ (53)	$ 1,383	$ 1,330
Net (loss) income attributable to non-controlling interest	$ (493)	$ 520	$ 27
Net income attributable to i3 Verticals, Inc.	$ 440	$ 863	$ 1,303
Net income per share attributable to Class A common stockholders:			
Basic	$ 0.02	$ 0.04	$ 0.06
Diluted	$ 0.00	$ 0.04	$ 0.04

	Six months ended March 31, 2021		
	Excluding impacts of adoption of ASU 2021-08	Adjustment	Presentation with adoption of ASU 2021-08
Revenue	$ 91,176	$ 2,642	$ 93,818
Benefit from income taxes	$ (306)	$ 160	$ (146)
Net loss	$ (4,174)	$ 2,482	$ (1,692)
Net loss attributable to non-controlling interest	$ (2,042)	$ 1,045	$ (997)
Net loss attributable to i3 Verticals, Inc.	$ (2,132)	$ 1,437	$ (695)
Net loss per share attributable to Class A common stockholders:			
Basic	$ (0.11)	$ 0.08	$ (0.03)
Diluted	$ (0.12)	$ 0.07	$ (0.05)

The following tables present the material impacts of adoption of ASU 2021-08 on the Company's condensed consolidated statement of changes in equity for the three months ended March 31, 2021:

	Three months ended March 31, 2021		
	Excluding impacts of adoption of ASU 2021-08	Adjustment	Presentation with adoption of ASU 2021-08
Net (loss) income	$ (53)	1,383	1,330
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	$ 897	(280)	617
Balance at March 31, 2021	$ 281,465	$ 2,107	$ 283,572

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

The following tables present the material impacts of adoption of ASU 2021-08 on the Company's condensed consolidated statements of cash flows for the six months ended March 31, 2021:

	Six months ended March 31, 2021					
	Excluding impacts of adoption of ASU 2021-08		Adjustment		Presentation with adoption of ASU 2021-08	
Cash flows from operating activities:						
Net loss	$	(4,174)	$	2,482	$	(1,692)
Adjustments to reconcile net loss to net cash provided by operating activities:						
Benefit from deferred income taxes	$	(306)	$	160	$	(146)
Changes in operating liabilities:						
Deferred revenue	$	5,535	$	(2,641)	$	2,894
Other long-term liabilities	$	(698)	$	(1)	$	(699)

Recently Issued Accounting Pronouncements Not Yet Adopted

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. As the Company is an emerging growth company and has elected to use the extended transition period afforded to such companies, the Company will not be required to adopt ASU 2020-06 until October 1, 2022. The Company is currently evaluating the impact of the adoption of this principle on the Company’s condensed consolidated financial statements.

In May 2021, the FASB issued ASU No. 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options. The amendments in ASU No. 2021-04 provides guidance to clarify and reduce diversity in an issuer’s accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. The amendments in this ASU No. 2021-04 are effective for all entities for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted, including interim periods within those fiscal years. As a result, the Company will not be required to adopt ASU 2021-04 until October 1, 2022. The Company is currently evaluating the impact of the adoption of this principle on the Company’s condensed consolidated financial statements.

3. ACQUISITIONS

During the six months ended March 31, 2022 and 2021, the Company acquired the following intangible assets and businesses:

Business Combinations during the six months ended March 31, 2022

During the six months ended March 31, 2022, the Company completed the acquisition of two 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 March 31, 2022.

Total purchase consideration was $100,481, including $95,000 in cash consideration, funded by proceeds from the Company's revolving credit facility, and $5,481 of contingent consideration.

The goodwill associated with one of the two acquisitions is deductible for tax purposes. The acquired merchant relationships intangible assets have estimated amortization periods of between nine and nineteen years. The non-compete agreement and trade names have estimated amortization periods of five years. The weighted-average amortization period for all intangibles acquired is fourteen years. The acquired capitalized software has a weighted-average amortization period of seven years.

Acquisition-related costs for these businesses amounted to approximately $474 and were expensed as incurred.

Certain provisions in the purchase agreements provide for additional consideration of up to $18,000, 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 December 2023. 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 six months ended March 31, 2022

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

	Total
Accounts receivable	$ 625
Settlement assets	685
Prepaid expenses and other current assets	44
Property and equipment	181
Capitalized software	9,500
Acquired merchant relationships	38,700
Trade name	1,500
Goodwill	57,162
Operating lease right-of-use assets	263
Other assets	22
Total assets acquired	108,682
Accrued expenses and other current liabilities	285
Settlement obligations	685
Current portion of operating lease liabilities	82
Operating lease liabilities, less current portion	181
Other long-term liabilities	6,968
Net assets acquired	$ 100,481

Pro Forma Results of Operations for Business Combinations during the six months ended March 31, 2022

The following unaudited supplemental pro forma results of operations have been prepared as though each of the acquired businesses in the six months ended March 31, 2022 had occurred on October 1, 2020. 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.

	Six months ended March 31,	
	2022	2021
Revenue	$ 154,536	$ 112,638
Net loss	$ (17,781)	$ (4,107)

Business Combinations during the year ended September 30, 2021

During the year ended September 30, 2021, the Company completed the acquisitions of eight unrelated businesses, including Business Information Systems, Inc., ImageSoft Inc., and six other collectively material businesses.

Purchase of Business Information Systems

On February 1, 2021, the Company completed the acquisition of substantially all of the assets of Business Information Systems, GP, a Tennessee general partnership and Business Information Systems, Inc., a Tennessee corporation (collectively “BIS”) to expand its software offerings, primarily in the Public Sector vertical. BIS is within the Proprietary Software & Payments segment. Total purchase consideration was $95,495, including $52,500 in cash on hand and proceeds from the Company's revolving credit facility, 1,202,914 shares of the Company's Class A Common Stock (valued at $35,245), and $7,750 in contingent consideration.

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

Acquisition-related costs for BIS amounted to approximately $374 and were expensed as incurred.

Certain provisions in the purchase agreement provide for additional consideration of up to $16,000 in the aggregate, to be paid based upon achievement of specified financial performance targets, as defined in the purchase agreement, in the 24 months from February 1, 2021 through January 31, 2023. The Company determined the acquisition date fair value of the liability for the contingent consideration based on a probability forecast and discounted cash flow analysis. In each subsequent reporting period, the Company will reassess the current estimates of performance relative to the targets and adjust the contingent liability to its fair value through earnings. See additional disclosures in Note 10.

Purchase of ImageSoft, Inc.

On November 17, 2020, the Company completed the acquisition of substantially all of the assets of ImageSoft, Inc. (“ImageSoft”) to expand its software offerings, primarily in the Public Sector vertical. ImageSoft, is within the Proprietary Software & Payments segment. Total purchase consideration was $46,300, including $40,000 in cash consideration, funded by proceeds from the Company's revolving credit facility, and $6,300 in contingent consideration.

The goodwill associated with the acquisition is deductible for tax purposes. The acquired merchant relationships intangible asset has an estimated amortization period of twenty years. The non-compete agreement and trade name have estimated amortization periods of three and five years, respectively. The weighted-average estimated amortization period of all intangibles acquired is nineteen years. The acquired capitalized software has an estimated amortization period of seven years.

Acquisition-related costs for ImageSoft amounted to approximately $403 and were expensed as incurred.

Certain provisions in the purchase agreement provide for additional consideration of up to $20,000 in the aggregate, to be paid based upon achievement of specified financial performance targets, as defined in the purchase agreement, in the 24 months from May 1, 2021 through April 30, 2023. The Company determined the acquisition date fair value of the liability for the contingent consideration based on a probability forecast and discounted cash flow analysis. In each subsequent reporting period, the Company will reassess the current estimates of performance relative to the targets and adjust the contingent liability to its fair value through earnings. See additional disclosures in Note 10.

Other Business Combinations

From October 1, 2020 to September 30, 2021, the Company completed the acquisitions of six other businesses to expand the Company’s software offerings in the public sector and Healthcare vertical markets and to add proprietary technology that will augment the Company’s existing platform across several verticals. Five of these businesses are within the Proprietary Software & Payments segment and one is within the Merchant Services segment. Total purchase consideration was $65,527, including $57,000 in cash consideration, funded by proceeds from the Company's revolving credit facility, and $8,527 of contingent consideration.

For each of these businesses acquired, the goodwill associated with the acquisition is deductible for tax purposes. The acquired merchant relationships intangible assets have estimated amortization periods of between ten and twenty-five years. The non-compete agreement and trade names have estimated amortization periods of four years. The weighted-average amortization period for all intangibles acquired is sixteen years. The acquired capitalized software has a weighted-average amortization period of seven years.

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

Acquisition-related costs for these businesses amounted to approximately $1,101 and were expensed as incurred.

Certain provisions in the purchase agreements provide for additional consideration of up to $50,200, 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 June 2023. 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.

Summary of Business Combinations during the year ended September 30, 2021

The fair values assigned to certain assets and liabilities assumed, as of the acquisition dates, during the year ended September 30, 2021 were as follows:

	BIS	ImageSoft, Inc.	Other	Total
Accounts receivable	$ 1,567	$ 4,997	$ 3,141	$ 9,705
Settlement assets	6,889	120	—	7,009
Inventories	458	—	161	619
Prepaid expenses and other current assets	10	2,897	2,043	4,950
Property and equipment	206	433	312	951
Capitalized software	15,200	5,200	4,100	24,500
Acquired merchant relationships	32,300	16,300	24,040	72,640
Non-compete agreements	100	610	390	1,100
Trade name	700	1,100	840	2,640
Goodwill	46,660	22,408	35,955	105,023
Operating lease right-of-use assets	—	332	484	816
Other assets	—	6	32	38
Total assets acquired	104,090	54,403	71,498	229,991
Accrued expenses and other current liabilities	138	910	1	1,049
Settlement obligations	6,889	120	—	7,009
Deferred revenue, current	1,568	6,748	5,498	13,814
Current portion of operating lease liabilities	—	75	221	296
Operating lease liabilities, less current portion	—	250	251	501
Net assets acquired	$ 95,495	$ 46,300	$ 65,527	$ 207,322

The fair values assigned were updated to reflect the retrospective adoption of ASU 2021-08, which resulted in increases to the fair values assigned to deferred revenue and goodwill as of the acquisition dates. Refer to Note 2 for further discussion.

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

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

A summary of the Company's prepaid expenses and other current assets as of March 31, 2022 and September 30, 2021 is as follows:

	March 31, 2022	September 30, 2021
Inventory	$ 3,909	$ 2,220
Prepaid licenses	7,526	4,646
Prepaid insurance	890	1,074
Other current assets	2,925	3,274
Prepaid expenses and other current assets	$ 15,250	$ 11,214

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

	Merchant Services	Proprietary Software and Payments	Other	Total
Balance at September 30, 2021	$ 119,086	$ 173,157	$ —	$ 292,243
Goodwill attributable to preliminary purchase price adjustments and acquisitions during the six months ended March 31, 2022	—	57,211	—	57,211
Balance at March 31, 2022	$ 119,086	$ 230,368	$ —	$ 349,454

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

	Cost	Accumulated Amortization	Carrying Value	Amortization Life and Method
Finite-lived intangible assets:				
Merchant relationships	$ 265,911	$ (73,010)	$ 192,901	9 to 25 years – accelerated or straight-line
Non-compete agreements	1,478	(742)	736	3 to 6 years – straight-line
Website and brand development costs	218	(131)	87	3 to 4 years – straight-line
Trade names	7,820	(3,481)	4,339	3 to 7 years – straight-line
Residual buyouts	6,718	(1,827)	4,891	8 years – straight-line
Referral and exclusivity agreements	800	(653)	147	5 years – straight-line
Total finite-lived intangible assets	282,945	(79,844)	203,101	
Indefinite-lived intangible assets:				
Trademarks	42	—	42	
Total identifiable intangible assets	$ 282,987	$ (79,844)	$ 203,143	

Amortization expense for intangible assets amounted to $8,774 and $7,112 during the three and six months ended March 31, 2022, and 2021 respectively.

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

Based on net carrying amounts at March 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:

2022 (six months remaining)	$	9,117
2023		17,517
2024		16,534
2025		16,249
2026		15,855
Thereafter		127,829
	$	203,101

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

A summary of the Company's accrued expenses and other current liabilities as of March 31, 2022 and September 30, 2021 is as follows is as follows:

	March 31, 2022		September 30, 2021	
Accrued wages, bonuses, commissions and vacation	$	5,977	$	6,649
Accrued interest		478		271
Accrued contingent consideration — current portion		39,037		25,768
Escrow liabilities		13,251		9,067
Customer deposits		1,801		1,913
Employee health self-insurance liability		1,306		1,032
Other current liabilities		9,534		6,115
Accrued expenses and other current liabilities	$	71,384	$	50,815

7. LONG-TERM DEBT, NET

A summary of long-term debt, net as of March 31, 2022 and September 30, 2021 is as follows:

	Maturity	March 31, 2022		September 30, 2021	
Revolving lines of credit to banks under the Senior Secured Credit Facility	May 9, 2024	$	188,324	$	104,396
1% Exchangeable Senior Notes due 2025	February 15, 2025		102,148		99,808
Debt issuance costs, net			(3,087)		(3,599)
Total long-term debt, net of issuance costs		$	287,385	$	200,605

2020 Exchangeable Notes Offering

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

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

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

Prior to August 15, 2024, the Exchangeable Notes are exchangeable only upon satisfaction of certain conditions and during certain periods described in the Indenture, and thereafter, the Exchangeable Notes are exchangeable at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. The Exchangeable Notes are exchangeable on the terms set forth in the Indenture into cash, shares of Class A common stock, or a combination thereof, at i3 Verticals, LLC’s election. The exchange rate is initially 24.4666 shares of Class A common stock per $1,000 principal amount of Exchangeable Notes (equivalent to an initial exchange price of approximately $40.87 per share of Class A common stock). The exchange rate is subject to adjustment in certain circumstances. In addition, following certain corporate events that occur prior to the maturity date or i3 Verticals, LLC’s delivery of a notice of redemption, i3 Verticals, LLC will increase, in certain circumstances, the exchange rate for a holder who elects to exchange its Exchangeable Notes in connection with such a corporate event or notice of redemption, as the case may be.

If the Company or i3 Verticals, LLC undergoes a fundamental change, holders may require i3 Verticals, LLC to repurchase all or part of their Exchangeable Notes at a repurchase price equal to 100% of the principal amount of the Exchangeable Notes to be repurchased, plus accrued and unpaid interest to, but not including, the fundamental change repurchase date. As of March 31, 2022, none of the conditions permitting the holders of the Exchangeable Notes to early convert have been met.

i3 Verticals, LLC may not redeem the Exchangeable Notes prior to February 20, 2023. On or after February 20, 2023, and prior to the 47th scheduled trading day immediately preceding the maturity date, if the last reported sale price per share of Class A common stock has been at least 130% of the exchange price for the Exchangeable Notes for at least 20 trading days (whether or not consecutive), i3 Verticals, LLC may redeem all or any portion of the Exchangeable Notes at a cash redemption price equal to 100% of the principal amount of the Exchangeable Notes to be redeemed plus accrued and unpaid interest on such note to, but not including, the redemption date.

The Exchangeable Notes are general senior unsecured obligations of i3 Verticals, LLC. The guarantee is the Company’s senior unsecured obligation and rank senior in right of payment to all of i3 Verticals, LLC’s and the Company’s future indebtedness that is expressly subordinated in right of payment to the Exchangeable Notes or the guarantee, as applicable. The Exchangeable Notes and the guarantee rank equally in right of payment with all of i3 Verticals, LLC’s and the Company’s existing and future unsecured indebtedness that is not so expressly subordinated in the right of payment to the Exchangeable Notes or the guarantee, as applicable. The Exchangeable Notes and the guarantee are effectively subordinated to any of the Companies’ existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness (including obligations under the credit agreement governing the Senior Secured Credit Facility, defined below). The Exchangeable Notes and the guarantee will be structurally subordinated to all indebtedness and other liabilities and obligations (including the debt and trade payables) of the Company’s subsidiaries, other than i3 Verticals, LLC.

In accounting for the issuance of the Exchangeable Notes, the Company separated the Exchangeable Notes into liability and equity components. The carrying amount of the liability component before the allocation of any transaction costs was calculated by measuring the fair value of a similar liability that does not have an associated exchangeable feature. The carrying amount of the equity component (before the allocation of any transaction costs), representing the conversion option, which does not require separate accounting as a derivative as it meets a scope exception for certain contracts involving an entity's own equity, was determined by deducting the fair value of the liability component from the par value of the Exchangeable Notes. The difference between the principal amount of the Exchangeable Notes and the liability component represents the debt discount, which is recorded as a direct deduction from the related debt liability in the consolidated balance sheet and accreted over the period from the date of issuance to the contractual maturity date, resulting in the recognition of non-cash interest expense. The equity component of the Exchangeable Notes of approximately $28,662 is included in additional paid-in capital in the consolidated balance sheet and is not remeasured as long as it continues to meet the conditions for equity classification. Transaction costs were allocated to the liability and equity components in the same proportion as the allocation of the proceeds. Transaction costs attributable to the liability component were recorded as debt issuance costs in the consolidated balance sheet and are amortized to interest expense using the effective interest method over the term of the Exchangeable Notes, and transaction costs attributable to the equity component were netted with the equity component in stockholders' equity.

The Company incurred third-party issuance costs totaling $5,238, in connection with the issuance of the Exchangeable Notes. The Company capitalized $4,150 of debt issuance costs in connection with the Exchangeable Notes and allocated $1,088 of the third-party issuance costs to equity. Non-cash interest expense, including amortization of debt issuance costs, related to the Exchangeable Notes for the three and six months ended March 31, 2022 was $164, and $323, and $145 and $285 for the three and six months ended March 31, 2021, respectively. The Company also wrote off a portion of the debt issuance costs in connection with the repurchase transactions in April and September 2020, as described below. Total unamortized debt issuance costs related to the Exchangeable Notes were $2,282 as of March 31, 2022.

The estimated fair value of the Exchangeable Notes was $110,822 as of March 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.

The Company can choose to purchase its Exchangeable Notes on the open market. In April and September 2020, the Company paid $17,414 in aggregate to repurchase $21,000 in aggregate principal amount of the Exchangeable Notes and to repay approximately $24 in accrued interest on the repurchased portion of the Exchangeable Notes. The Company recorded a loss on retirement of debt of $2,297 due to the carrying value exceeding the fair value of the repurchased portion of the Exchangeable Notes at the dates of repurchases. The Company wrote off $592 of debt issuance costs in connection with the repurchase transactions.

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 existing senior secured credit facility with a new credit agreement (the "Senior Secured Credit Facility"). On February 18, 2020, the Company entered into the second amendment to the Senior Secured Credit Facility in connection with the offering of the Company's Exchangeable Notes. The second amendment reduced the Company's borrowing capacity under the Senior Secured Credit Facility. The Senior Secured Credit Facility consists of a $275,000 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 the London Inter Bank Offered Rate ("LIBOR") (based upon an interest period of one, two, three or six months or, under some circumstances, up to twelve months) plus an applicable margin of 2.25% to 3.25% (3.25% as of March 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) LIBOR plus 1.00%), plus an applicable margin of 0.25% to 1.25% (1.25% as of March 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 March 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 maturity date of the Senior Secured Credit Facility is May 9, 2024. The Senior Secured Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 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 March 31, 2022, the Company was in compliance with these covenants, and there was $86,676 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

March 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 no debt issuance costs during the three and six months ended March 31, 2022 and 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 $259 and $513 during the three and six months ended March 31, 2022, respectively and $240 and $475 during the three and six months ended March 31, 2021, respectively.

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 $884 and $656 for the three and six months ended March 31, 2022, respectively and a benefit of $136 and $146 during the three and six months ended March 31, 2021, respectively.

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 six months ended March 31, 2022, the Company acquired an aggregate of 55,000 Common Units in i3 Verticals, LLC in connection with the redemption of Common Units from the Continuing Equity Owners, which resulted in an increase in the tax basis of our investment in i3 Verticals, LLC subject to the provisions of the Tax Receivable Agreement. As a result of the exchange, during the six months ended March 31, 2022, the Company recognized an increase to its net deferred tax assets in the amount of $436, and corresponding Tax Receivable Agreement liabilities of $370, representing 85% of the tax benefits due to the Continuing Equity Owners.

The deferred tax asset and corresponding Tax Receivable Agreement liability balances were $40,817 and $39,493, respectively, as of March 31, 2022.

Payments to the Continuing Equity Owners related to exchanges through March 31, 2022 will range from $0 to $3,200 per year and are expected to be paid over the next 26 years. The amounts recorded as of March 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 March 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 March 31, 2022 and 2021 was five and six years, respectively. The Company had no significant short-term leases during the three and six months ended March 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 7.1% and 7.0% as of March 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 and six months ended March 31, 2022 were $1,455 and $2,946, respectively, which are included in selling, general and administrative expenses in the condensed consolidated statements of operations. Operating lease costs for the three and six months ended March 31, 2021 were $1,046 and $1,900, respectively.

Total operating lease costs for the three and six months ended March 31, 2022 include variable lease costs of approximately $6 and $44, 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. Total operating lease costs for the three and six months ended March 31, 2021 were $3 and $4, respectively.

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

Short-term rent expense for the three and six months ended March 31, 2022 was $46 and $93, respectively, and are included in selling, general and administrative expenses in the condensed consolidated statements of operations. Short term rent expense for the three and six months ended March 31, 2021 was $72 and $130, respectively.

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

Years ending September 30:	
2022 (six months remaining)	$ 2,946
2023	5,461
2024	4,710
2025	4,029
2026	3,327
Thereafter	3,574
Total future minimum lease payments (undiscounted)[1]	24,047
Less: present value discount	(3,343)
Present value of lease liability	$ 20,704

1. Total future minimum lease payments excludes payments of $36 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 March 31, 2022 and 2021, because of the relatively short maturity dates on these instruments. The carrying amount of debt approximates fair value as of March 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, 2021	$ 36,229
Contingent consideration accrued at time of business combination	5,481
Change in fair value of contingent consideration included in Operating expenses	16,430
Contingent consideration paid	(10,200)
Balance at March 31, 2022	$ 47,940

	Accrued Contingent Consideration
Balance at September 30, 2020	$ 13,034
Contingent consideration accrued at time of business combination	18,650
Change in fair value of contingent consideration included in Operating expenses	2,226
Contingent consideration paid	(5,851)
Balance at March 31, 2021	$ 28,059

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 $39,037 and $25,768 of contingent consideration was recorded in accrued expenses and other current liabilities as of March 31, 2022 and September 30, 2021, respectively. Approximately $8,903 and $10,461 of contingent consideration was recorded in other long-term liabilities as of March 31, 2022 and September 30, 2021, 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 $110,822 as of March 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 and six months ended March 31, 2022 and 2021 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2022	2021	2022	2021
Stock options	$ 6,042	$ 4,142	$ 12,666	$ 7,583
Restricted stock units	215	—	215	—
Equity-based compensation expense	$ 6,257	$ 4,142	$ 12,881	$ 7,583

Amounts are included in general and administrative expense on the condensed consolidated statements of operations. Income tax benefits of $68 and $95 were recognized during the three and six months ended March 31, 2022, respectively, and $277 and $482 during the three and six months ended March 31, 2021.

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 year, beginning with the 2019 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 March 31, 2022, there were 939,068 equity awards 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 March 31, 2022, there were 938,597 equity awards 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 six months ended March 31, 2022 and during the year ended September 30, 2021 was determined on the grant date using the Black-Scholes valuation model based on the following weighted-average assumptions:

	March 31, 2022	September 30, 2021
Expected volatility(1)	55.7 %	59.7 %
Expected dividend yield(2)	— %	— %
Expected term(3)	6 years	6 years
Risk-free interest rate(4)	1.5 %	0.7 %

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.
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 six months ended March 31, 2022 is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at September 30, 2021	7,547,622	$ 25.26
Granted	1,511,821	24.43
Exercised	(159,391)	17.35
Forfeited	(428,022)	29.35
Outstanding at March 31, 2022	8,472,030	$ 25.05
Exercisable at March 31, 2022	4,064,893	$ 22.23

The weighted-average grant date fair value of stock options granted during the six months ended March 31, 2022 was $12.87.

As of March 31, 2022, total unrecognized compensation expense related to unvested stock options, including an estimate for pre-vesting forfeitures, was $44,436, which is expected to be recognized over a weighted-average period of two years.

The total fair value of stock options that vested during the three and six months ended March 31, 2022 was $11,167 and $16,108, respectively.

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 six months ended March 31, 2022 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at September 30, 2021	—	$ —
Granted	257,426	26.52
Exercised	—	—
Forfeited	—	—
Outstanding at March 31, 2022	257,426	$ 26.52

The weighted-average grant date fair value of restricted stock units granted during the six months ended March 31, 2022 was $26.52.

As of March 31, 2022, total unrecognized compensation expense related to unvested RSUs, including an estimate for pre-vesting forfeitures, was $5,612, which is expected to be recognized over a weighted average period of four years.

As of March 31, 2022, there were no RSUs vested.

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

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company utilizes office space and equipment under operating leases. Rent expense under these leases amounted to $1,501 and $3,039 during the three and six months ended March 31, 2022, respectively and $1,118 and $2,030 during the three and six months ended March 31, 2021, respectively. Refer to Note 9 for further discussion and a table of the future minimum payments under these leases.

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 March 31, 2022, such minimum fee commitments were as follows:

Years ending September 30:	
2022 (six months remaining)	$ 1,840
2023	2,690
2024	450
2025	—
2026	—
Thereafter	—
Total	$ 4,980

Third Party Sales Organization Buyout Agreement

The Company has conditionally committed to a future buyout of the 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 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. 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 “Amended Petition”). Plaintiffs moved to remand the action to state court on November 5, 2021, which motion remains pending. 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 Amended 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.

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

The Company is unable to predict the outcome of this litigation. While we do not believe that this matter will have a material adverse effect on our business or financial condition, we cannot give assurance that this matter will not have a material effect on our results of operations 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 March 31, 2022, the total amount due under the Tax Receivable Agreement was $39,493.

14. SEGMENTS

The Company determines its operating segments based on ASC 280, *Segment Reporting*, how the chief operating decision making group monitors and manages the performance of the business and 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 to SMBs and organizations in strategic vertical markets. This is accomplished through the Merchant Services and Proprietary Software and Payments 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 merchant of record payment services across the Company's strategic vertical markets.

The Proprietary Software and Payments segment delivers solutions, including embedded payments, to the Company's clients through proprietary software. Payments are delivered through both the payment facilitator model and the traditional merchant processing model.

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 and six months ended March 31, 2022 and 2021.

	As of and for the Three Months Ended March 31, 2022			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	$ 29,180	$ 48,962	$ (22)	$ 78,120
Other costs of services	(13,528)	(3,124)	21	(16,631)
Residuals	8,054	448	(13)	8,489
Processing margin	$ 23,706	$ 46,286	$ (14)	$ 69,978
Residuals				(8,489)
Selling general and administrative				(48,716)
Depreciation and amortization				(7,447)
Change in fair value of contingent consideration				(11,503)
Loss from operations				$ (6,177)
Total assets	$ 205,922	$ 506,409	$ 60,325	$ 772,656
Goodwill	$ 119,086	$ 230,368	$ —	$ 349,454

	As of and for the Six Months Ended March 31, 2022			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	$ 58,357	$ 93,736	$ (34)	$ 152,059
Other costs of services	(26,970)	(6,204)	33	(33,141)
Residuals	16,235	791	(17)	17,009
Processing margin	$ 47,622	$ 88,323	$ (18)	$ 135,927
Residuals				(17,009)
Selling general and administrative				(95,103)
Depreciation and amortization				(14,317)
Change in fair value of contingent consideration				(16,430)
Loss from operations				$ (6,932)
Total assets	$ 205,922	$ 506,409	$ 60,325	$ 772,656
Goodwill	$ 119,086	$ 230,368	$ —	$ 349,454

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

	As of and for the Three months ended March 31, 2021[1]			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	$ 26,106	$ 23,769	$ (678)	$ 49,197
Other costs of services	(11,782)	(210)	678	(11,314)
Residuals	6,901	287	(667)	6,521
Processing margin	$ 21,225	$ 23,846	$ (667)	$ 44,404
Residuals				(6,521)
Selling general and administrative				(30,511)
Depreciation and amortization				(5,851)
Change in fair value of contingent consideration				(322)
Income from operations				$ 1,199
Total assets	$ 211,002	$ 330,941	$ 64,110	$ 606,053
Goodwill	$ 119,155	$ 147,987	$ —	$ 267,142

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement.

	As of and for the Six Months Ended March 31, 2021[1]			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	$ 51,167	$ 43,762	$ (1,111)	$ 93,818
Other costs of services	(22,623)	(3,467)	1,110	(24,980)
Residuals	12,845	544	(1,093)	12,296
Processing margin	$ 41,389	$ 40,839	$ (1,094)	$ 81,134
Residuals				(12,296)
Selling general and administrative				(55,473)
Depreciation and amortization				(10,943)
Change in fair value of contingent consideration				(2,226)
Income from operations				$ 196
Total assets	$ 211,002	$ 330,941	$ 64,110	$ 606,053
Goodwill	$ 119,155	$ 147,987	$ —	$ 267,142

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement.

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

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.

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 March 31, 2022, i3 Verticals, Inc. owned 22,133,682 of i3 Verticals, LLC's Common Units, representing a 68.5% economic ownership interest in i3 Verticals, LLC.

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

	Six months ended March 31,	
	2022	2021[1]
Net loss attributable to non-controlling interest	$ (4,218)	$ (997)
Transfers to (from) non-controlling interests:		
Redemption of common units in i3 Verticals, LLC	(458)	(11,714)
Allocation of equity to non-controlling interests	3,517	10,777
Net transfers to (from) non-controlling interests	3,059	(937)
Change from net loss attributable to non-controlling interests and transfers to (from) non-controlling interests	$ (1,159)	$ (1,934)

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement.

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 and six months ended March 31, 2022 and 2021:

	Three months ended March 31,		Six months ended March 31,	
	2022	2021[1]	2022	2021[1]
Basic[2] net (loss) income per share:				
Numerator				
Net (loss) income	$ (10,438)	$ 1,330	$ (14,119)	$ (1,692)
Less: Net (loss) income attributable to non-controlling interests	(3,065)	27	(4,218)	(997)
Net (loss) income attributable to Class A common stockholders	$ (7,373)	$ 1,303	$ (9,901)	$ (695)
Denominator				
Weighted average shares of Class A common stock outstanding	22,076,297	20,940,725	22,059,365	20,024,936
Basic net (loss) income per share	$ (0.33)	$ 0.06	$ (0.45)	$ (0.03)
Dilutive net income per share:				
Numerator				
Net income (loss) attributable to Class A common stockholders		$ 1,303		$ (695)
Reallocation of net income (loss) assuming conversion of common units[3][4]		20		(751)
Net income (loss) attributable to Class A common stockholders - diluted		1,323		(1,446)
Denominator				
Weighted average shares of Class A common stock outstanding[1]		20,940,725		20,024,936
[3] Weighted average effect of dilutive securities[2]		12,464,258		11,212,739
Weighted average shares of Class A common stock outstanding - diluted		33,404,983		31,237,675
Diluted net income (loss) per share		$ 0.04		$ (0.05)

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement.
2. Excludes 4,925 and 11,974 restricted Class A common stock units for the three and six months ended March 31, 2021, respectively.
3. For the three and six months ended March 31, 2022, all potentially dilutive securities were anti-dilutive, so diluted net loss per share was equivalent to basic net loss per share. The following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted net loss per share of Class A common stock:
   a. 10,210,142 and 10,216,615 shares of weighted average Class B common stock for the three and six months ended March 31, 2022, respectively, along with the reallocation of net income assuming conversion of these shares, were excluded because the effect would have been anti-dilutive,
   b. 4,667,581 and 5,388,813 stock options for the three and six months ended March 31, 2022, 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,
   c. 522,355 and 613,913 shares for the three and six months ended March 31, 2022, 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.

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

4. For the three and six months ended March 31, 2021, 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. 1,760,997 and 2,506,997 stock options for the three and six months ended March 31, 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
   b. 1,449,216 shares for the six months ended March 31, 2021 resulting from estimated stock option exercises as calculated by the treasury stock method, and 11,974 restricted Class A common units for the six months ended March 31, 2021, were excluded because the effect of including them would have been anti-dilutive.

Since the Company expects to settle the principal amount of its outstanding Exchangeable Notes in cash and any excess in cash or shares of the Company's Class A common stock, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's Class A common stock for a given period exceeds the exchange price of $40.87 per share for the Exchangeable Notes.

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

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

17. SIGNIFICANT NON-CASH TRANSACTIONS

The Company engaged in the following significant non-cash investing and financing activities during the six months ended March 31, 2022 and 2021:

	Six months ended March 31,	
	2022	2021
Class A common stock issued as part of acquisition's purchase consideration (Note 3)	$ —	$ 35,245
Acquisition date fair value of contingent consideration in connection with business combinations	$ 5,481	$ 18,650
Right-of-use assets obtained in exchange for operating lease obligations	$ 7,584	$ 16,295

18. SUBSEQUENT EVENTS

Recent Acquisitions

Subsequent to March 31, 2022, the Company completed the acquisition of a businesses that further strengthens the Company's focus in its healthcare vertical.Total purchase consideration, which includes cash funded by proceeds from our revolving line of credit, and contingent consideration, is still being valued but is expected to be less than $10.0 million.

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, 2021 ("Form 10-K"), filed with the SEC on November 22, 2021. 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:

- *the anticipated impact to our business operations, payment volume and volume attrition due to the global pandemic of a novel strain of coronavirus (COVID-19), including variant strains thereof, including the impact of social distancing, shelter-in-place, shutdowns of non-essential businesses and similar measures imposed or undertaken by governments;*
- *our indebtedness and our ability to maintain compliance with the financial covenants in our Senior Secured Credit Facility (as defined below), particularly in light of the impacts of the COVID-19 pandemic;*
- *our ability to meet our liquidity needs, particularly in light of the impacts of the COVID-19 pandemic;*
- *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 clients, many of which are small-and medium sized businesses ("SMBs"), which can be difficult and costly to retain;*
- *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;*
- *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;*
- *risks related to the cessation or modification of the London Inter Bank Offered Rate ("LIBOR"); and*
- *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

Recognizing the convergence of software and payments, i3 Verticals was founded in 2012 with the purpose of delivering seamlessly integrated software and payment solutions to SMBs and organizations in strategic vertical markets. Since commencing operations, we have built a broad suite of software and payment solutions that address the specific needs of SMBs and other organizations in our strategic vertical markets, and we believe our suite of solutions differentiates us from our competition. Our primary strategic vertical markets include education, non-profit, public sector and healthcare.

COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which continues to spread throughout the United States and other parts of the world. 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.

The COVID-19 pandemic significantly affected overall economic conditions in the United States. The economic impact of these conditions materially impacted our business. Our payment volume fluctuated as a result of the impact of the COVID-19 pandemic. Despite positive developments, such as the availability of vaccines, there are no reliable estimates of how long the pandemic will continue, how many people are likely to be affected by it or the duration or types of restrictions that will be imposed. For that reason, we are unable to predict the long-term impact of COVID-19 and its variant strains on our business at this time.

Liquidity

At March 31, 2022, we had $6.3 million of cash and cash equivalents and $86.7 million of available capacity under our Senior Secured Credit Facility subject to our financial covenants. As of March 31, 2022, we were in compliance with these covenants with a consolidated interest coverage ratio, total leverage ratio and consolidated senior leverage ratio of 8.66x, 3.89x and 2.37x, 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

Subsequent to March 31, 2022, we completed the acquisition of one business which further strengthens our focus in our healthcare vertical. Total purchase consideration, which includes cash funded by proceeds from our revolving line of credit, and contingent consideration, is still being valued but is expected to be less than $10.0 million.

Acquisitions during the six months ended March 31, 2022

We completed the acquisition of substantially all of the assets of two businesses to expand our software offerings, in the public sector and healthcare verticals. Total purchase consideration was $100.5 million, including $95.0 million in cash on hand and proceeds from the Company's revolving credit facility, and $5.5 million in contingent consideration.

Acquisitions during the six months ended March 31, 2021

On November 17, 2020, we completed the acquisition of substantially all of the assets of ImageSoft, Inc. to expand our software offerings, primarily in the public sector vertical. Total purchase consideration was $46.3 million, including $40.0 million in cash consideration, funded by proceeds from our revolving credit facility, and $6.3 million in contingent consideration.

On February 1, 2021, we completed the acquisition of substantially all the assets of Business Information Systems, GP, a Tennessee general partnership and Business Information Systems, Inc., a Tennessee corporation (collectively “BIS”) to expand our software offerings, primarily in the Public Sector vertical. Total purchase consideration was $95.5 million, including $52.5 million in cash on hand and proceeds from the Company's revolving credit facility, 1,202,914 shares of the Company's Class A Common Stock, and $7.8 million in contingent consideration.

During the six months ended March 31, 2021, we also completed the acquisition of three other businesses to expand the Company's software offerings in the public sector and healthcare vertical markets, and to add proprietary technology that will augment the Company's existing platform across several verticals. Total purchase consideration was $22.5 million, including $19.6 million in cash and revolving line of credit proceeds and $2.9 million of 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 clients 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 client referrals. Losses resulting from excessive chargebacks against a client 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 client'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 provides third-party integrated payment solutions as well as merchant of record payment services across our strategic vertical markets.

Proprietary Software and Payments

Our Proprietary Software and Payments segment delivers embedded payment solutions to our clients through proprietary software. Payments are delivered through both the payment facilitator model and the traditional merchant processing model. We have Proprietary Software and Payments clients across all of our strategic vertical markets.

Other

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

Key Operating Metrics

We evaluate our performance through key operating metrics, including:

- annualized recurring revenue ("ARR");
- the dollar volume of payments our clients process through us (“payment volume”);
- the portion of our payment volume that is produced by integrated transactions; and
- period-to-period payment volume attrition.

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 March 31, 2022 and 2021 was $254.5 million and $173.3 million, respectively, representing a period-to-period growth rate of 46.8%.

Our payment volume for the three months ended March 31, 2022 and 2021 was $5.3 billion and $4.3 billion, respectively, representing a period-to-period growth rate of 25.2%. Our payment volume for the six months ended March 31, 2022 and 2021 was $10.6 billion and $8.1 billion, respectively, representing a period-to-period growth rate of 32.0%. We focus on payment volume because it is a reflection of the scale and economic activity of our client base and because a significant part of our revenue is derived as a percentage of our clients’ dollar volume receipts. Payment volume reflects the addition of new clients and same store payment volume growth of existing clients, partially offset by client attrition during the period.

Integrated payments represent payment transactions that are generated in situations where payment technology is embedded within our own proprietary software, a client’s software or critical business process. We evaluate the portion of our payment volume that is produced by integrated transactions because we believe the convergence of software and payments is a significant trend impacting our industry. We believe integrated payments create stronger client relationships with higher payment volume retention and growth. Integrated payments grew to 62% and 59% of our payment volume for the three months ended March 31, 2022 and 2021, respectively. Integrated payment grew to 62% and 57% of our payment volume for the six months ended March 31, 2022 and 2021, respectively.

We measure period-to-period payment volume attrition as the change in card-based payment volume for all clients that were processing with us for the same period in the prior year. We exclude from our calculations payment volume from new clients added during the period. We experience attrition in payment volume as a result of several factors, including business closures, transfers of clients’ accounts to our competitors and account closures that we initiate due to heightened credit risks. During the six months ended March 31, 2022, our average net volume attrition per month remained below 2%.

Results of Operations

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

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

(in thousands)	Three months ended March 31, 2022	Three months ended March 31, 2021[1]	Change Amount	Change %
Revenue	$ 78,120	$ 49,197	$ 28,923	58.8 %
Operating expenses				
Other costs of services	16,631	11,314	5,317	47.0 %
Selling, general and administrative	48,716	30,511	18,205	59.7 %
Depreciation and amortization	7,447	5,851	1,596	27.3 %
Change in fair value of contingent consideration	11,503	322	11,181	3,472.4 %
Total operating expenses	84,297	47,998	36,299	75.6 %
(Loss) income from operations	(6,177)	1,199	(7,376)	n/m
Interest expense, net	3,377	2,358	1,019	43.2 %
Other income	—	(2,353)	2,353	(100.0) %
Total other expenses	3,377	5	3,372	67,440.0 %
(Loss) income before income taxes	(9,554)	1,194	(10,748)	n/m
Provision for (benefit from) income taxes	884	(136)	1,020	n/m
Net (loss) income	(10,438)	1,330	(11,768)	n/m
Net (loss) income attributable to non-controlling interest	(3,065)	27	(3,092)	n/m
Net (loss) income attributable to i3 Verticals, Inc.	$ (7,373)	$ 1,303	$ (8,676)	n/m

n/m = not meaningful

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement.

Revenue

Revenue increased $28.9 million, or 58.8%, to $78.1 million for the three months ended March 31, 2022 from $49.2 million for the three months ended March 31, 2021. This increase was principally driven by incremental revenue from acquisitions of $18.5 million, net of intercompany eliminations. Revenue from existing businesses grew, primarily due to growth in software and related services revenues and in our public sector vertical and an increase in payment volume from new and existing customers.

Revenue within Proprietary Software and Payments increased $25.2 million, or 106.0%, to $49.0 million for the three months ended March 31, 2022 from $23.8 million for the three months ended March 31, 2021. The increase was principally driven by growth in software and related services revenues in our public sector and healthcare verticals.

Revenue within Merchant Services increased $3.1 million, or 11.8%, to $29.2 million for the three months ended March 31, 2022 from $26.1 million for the three months ended March 31, 2021. Payment volume from new and existing customers increased $1.0 billion, or 25.8%, to $4.8 billion for the three months ended March 31, 2022 from $3.8 billion for the three months ended March 31, 2021.

Other Costs of Services

Other costs of services increased $5.3 million, or 47.0%, to $16.6 million for the three months ended March 31, 2022 from $11.3 million for the three months ended March 31, 2021. This increase was primarily driven by an increase in other cost of services within the Proprietary Software and Payments segment driven by the increase in payment volume.

Other costs of services within Merchant Services increased $1.7 million, or 14.8%, to $13.5 million for the three months ended March 31, 2022 from $11.8 million for the three months ended March 31, 2021.

Other costs of services within Proprietary Software and Payments increased $2.9 million, or 1,387.6%, to $3.1 million for the three months ended March 31, 2022 from $0.2 million for the three months ended March 31, 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $18.2 million, or 59.7%, to $48.7 million for the three months ended March 31, 2022 from $30.5 million for the three months ended March 31, 2021. This increase was primarily driven by a $15.6 million increase in employment expenses, primarily resulting from an increase in headcount that resulted from acquisitions and an increase in stock compensation expense. The remaining increase was primarily driven by increases in technology expense, rental expense, and travel expenses.

Depreciation and Amortization

Depreciation and amortization increased $1.5 million, or 26.4%, to $7.4 million for the three months ended March 31, 2022 from $5.9 million for the three months ended March 31, 2021. Amortization expense increased $1.5 million to $6.8 million for the three months ended March 31, 2022 from $5.3 million for the three months ended March 31, 2021 primarily due to acquisitions completed during the 2021 and 2022 fiscal years. Depreciation expense increased $0.1 million to $0.6 million for the three months ended March 31, 2022 from $0.6 million for the three months ended March 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 $11.5 million for the three months ended March 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 March 31, 2021 was a charge of $0.3 million.

Interest Expense, net

Interest expense, net, increased $1.0 million, or 43.2%, to $3.4 million for the three months ended March 31, 2022 from $2.4 million for the three months ended March 31, 2021. The increase reflects a higher average outstanding debt balance for the three months ended March 31, 2022, as compared to the three months ended March 31, 2021.

Other Income

There was no other income for the three months ended March 31, 2022. Other income was $2.4 million for the three months ended March 31, 2021. In March 2021, the Company became aware of an observable price change in the AxiaMed equity investment, due to a planned third party acquisition of AxiaMed. This resulted in an increase of $2.4 million to the fair value of the AxiaMed investment at March 31, 2021, which the Company recognized in other income.

Provision for (benefit from) Income Taxes

The provision for income taxes increased to a provision for $0.9 million for the three months ended March 31, 2022 from a benefit of $0.1 million for three months ended March 31, 2021. Our effective tax rate was (9.3)% for the three months ended March 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.

Six months ended March 31, 2022 Compared to Six months ended March 31, 2021

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

	Six Months Ended March 31,		Change	
(in thousands)	2022	2021[1]	Amount	%
Revenue	$ 152,059	$ 93,818	$ 58,241	62.1 %
Operating expenses				
Other costs of services	33,141	24,980	8,161	32.7 %
Selling, general and administrative	95,103	55,473	39,630	71.4 %
Depreciation and amortization	14,317	10,943	3,374	30.8 %
Change in fair value of contingent consideration	16,430	2,226	14,204	638.1 %
Total operating expenses	158,991	93,622	65,369	69.8 %
(Loss) income from operations	(6,932)	196	(7,128)	n/m
Interest expense, net	6,531	4,387	2,144	48.9 %
Other income	—	(2,353)	2,353	(100.0) %
Total other expenses	6,531	2,034	4,497	221.1 %
Loss before income taxes	(13,463)	(1,838)	(11,625)	632.5 %
Provision for (benefit from) income taxes	656	(146)	802	n/m
Net loss	(14,119)	(1,692)	(12,427)	734.5 %
Net loss attributable to non-controlling interest	(4,218)	(997)	(3,221)	323.1 %
Net loss attributable to i3 Verticals, Inc.	$ (9,901)	$ (695)	$ (9,206)	1,324.6 %

n/m = not meaningful

1. Effective October 1, 2020, the Company's financial statements are presented in accordance with ASU 2021-08, Accounting Standards Codification Topic 805, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. See Note 2 to the interim consolidated financial statements for a description of the recently adopted accounting pronouncement.

Revenue

Revenue increased $58.2 million, or 62.1%, to $152.1 million for the six months ended March 31, 2022 from $93.8 million for the six months ended March 31, 2021. This increase was principally driven by incremental revenue from acquisitions of $40.7 million, net of intercompany eliminations. Revenue from existing businesses grew, primarily due to growth in software and related services revenues in our public sector vertical and an increase in payment volume from new and existing customers.

Revenue within Proprietary Software and Payments increased $50.0 million, or 114.2%, to $93.7 million for the six months ended March 31, 2022 from $43.8 million for the six months ended March 31, 2021. The increase was principally driven by growth in software and related services revenues in our public sector and healthcare verticals.

Revenue within Merchant Services increased $7.2 million, or 14.1%, to $58.4 million for the six months ended March 31, 2022 from $51.2 million for the six months ended March 31, 2021. Payment volume from new and existing customers increased $2.2 billion, or 30.0%, to $9.6 billion for the six months ended March 31, 2022 from $7,398.8 million for the six months ended March 31, 2021.

Other Costs of Services

Other costs of services increased $8.2 million, or 32.7%, to $33.1 million for the six months ended March 31, 2022 from $25.0 million for the six months ended March 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 $4.4 million, or 19.4%, to $27.0 million for the six months ended March 31, 2022 from $22.6 million for the six months ended March 31, 2021.

Other costs of services within Proprietary Software and Payments increased $2.7 million, or 78.9%, to $6.2 million for the six months ended March 31, 2022 from $3.5 million for the six months ended March 31, 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $39.6 million, or 71.4%, to $95.1 million for the six months ended March 31, 2022 from $55.5 million for the six months ended March 31, 2021. This increase was primarily driven by a $34.2 million increase in employment expenses, primarily resulting from an increase in headcount that resulted from acquisitions and an increase in stock compensation expense. The remaining increase was primarily driven by increases in technology expense, rental expense, and travel expenses.

Depreciation and Amortization

Depreciation and amortization increased $3.4 million, or 30.8%, to $14.3 million for the six months ended March 31, 2022 from $10.9 million for the six months ended March 31, 2021. Amortization expense increased $3.2 million to $13.0 million for the six months ended March 31, 2022 from $9.8 million for the six months ended March 31, 2021 primarily due to acquisitions completed during the 2021 and 2022 fiscal years. Depreciation expense increased $0.2 million to $1.3 million for the six months ended March 31, 2022 from $1.1 million for the six months ended March 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 $16.4 million for the six months ended March 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 six months ended March 31, 2021 was a charge of $2.2 million.

Interest Expense, net

Interest expense, net, increased $2.1 million, or 48.9%, to $6.5 million for the six months ended March 31, 2022 from $4.4 million for the six months ended March 31, 2021. The increase reflects a higher average outstanding debt balance for the six months ended March 31, 2022, as compared to the six months ended March 31, 2021.

Other Income

There was no other income for the six months ended March 31, 2022. Other income was $2.4 million for the six months ended March 31, 2021. In March 2021, the Company became aware of an observable price change in the AxiaMed equity investment, due to a planned third party acquisition of AxiaMed. This resulted in an increase of $2.4 million to the fair value of the AxiaMed investment at March 31, 2021, which the Company recognized in other income.

Provision for (benefit from) Income Taxes

The provision for income taxes increased to a provision for $0.7 million for the six months ended March 31, 2022 from a benefit of $0.1 million for six months ended March 31, 2021. Our effective tax rate was (5)% for the six months ended March 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 March 31, 2022, we had $6.3 million of cash and cash equivalents and available borrowing capacity of $86.7 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 March 31, 2022, we had borrowings outstanding of $188.3 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. During the year ended September 30, 2020, we repurchased $21.0 million in aggregate principal amount of the Exchangeable Notes for an aggregate purchase price of approximately $17.4 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.

Six Months Ended March 31, 2022 and 2021

	Six months ended March 31,			
	2022		2021[1]	
	(in thousands)			
Net cash provided by operating activities	$	31,213	$	29,931
Net cash used in investing activities	$	(99,598)	$	(115,934)
Net cash provided by financing activities	$	77,767	$	83,900

1. The prior period amounts included in the statement of cash flows have been updated to correct settlement assets as restricted cash, which were previously reported as cash flows used in operating activities. These adjustments reflect an increase in prior year cash flows provided by operating activities of $6,056 thousand and a corresponding increase in cash, cash equivalents, and restricted cash at the end of the period.

Cash Flow from Operating Activities

Net cash provided by operating activities increased $1.3 million to $31.2 million for the six months ended March 31, 2022 from $29.9 million for the six months ended March 31, 2021. Our net loss increased from a net loss of $1.7 million for the six months ended March 31, 2021 to a net loss of $14.1 million for the six months ended March 31, 2022, most of this increase in net loss was driven by non-cash expenses that do not impact cash flows from operating activities. The primary driver of the increase in cash provided by operating activities was an increase in non-cash contingent consideration of $14.2 million and an increase in equity-based compensation of $5.3 million. Other changes include decreases in operating assets and liabilities of $13.5 million, which are impacted by the timing of collections and payments and an increase in depreciation and amortization of $3.4 million for the six months ended March 31, 2022 compared to the six months ended March 31, 2021.

Cash Flow from Investing Activities

Net cash used in investing activities decreased $16.3 million to $99.6 million for the six months ended March 31, 2022 from $115.9 million for the six months ended March 31, 2021. The largest driver of cash used in investing activities for the six months ended March 31, 2022 was cash used in acquisitions, net of cash acquired. For the six months ended March 31, 2022, we used $94.3 million of cash for acquisitions, net of cash acquired compared to $112.1 million for the six months ended March 31, 2021. Additionally, expenditures for capitalized software increased $1.4 million for the six months ended March 31, 2022.

Cash Flow from Financing Activities

Net cash provided by financing activities decreased $6.1 million to $77.8 million for the six months ended March 31, 2022 from $83.9 million for the six months ended March 31, 2021. The decrease in net cash provided by financing activities was primarily the result of an increase in payments on the revolving credit facility of $5.5 million and an increase in cash paid for contingent consideration up to our original estimates of $4.5 million for the six months ended March 31, 2022 from the six months ended March 31, 2021. These changes in cash provided by financing activities were partially offset by an increase in proceeds from the revolving credit facility of $4.4 million for six months ended March 31, 2022 from the six months ended March 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”). The Senior Secured Credit Facility consists of a $275.0 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 LIBOR (based upon an interest period of one, two, three or six months or, under some circumstances, up to twelve months) plus an applicable margin of 2.25% to 3.25% (3.25% as of March 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) LIBOR plus 1.00%), plus an applicable margin of 0.25% to 1.25% (1.25% as of March 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 March 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 maturity date of the Senior Secured Credit Facility is May 9, 2024. The Senior Secured Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 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 March 31, 2022, we were in compliance with these covenants, and there was $86.7 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 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”), as further amended on November 22, 2021, under which we may issue and sell, from time to time and through the Sales Agents, shares of our Class A common stock having an aggregate offering price of up to $125.0 million (the “ATM Program”). As of the date of this report, we have not sold any shares of Class A common stock under the ATM Program.

Material Cash Requirements

The following table summarizes our material cash requirements as of March 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)]	$ 4,980	$ 3,135	$ 1,845	$ —	$ —
Facility leases	24,083	5,810	9,388	6,225	2,660
Senior Secured Credit Facility and related interest[(2)]	204	7	197	—	—
Exchangeable Notes and related interest[(3)]	120	1	119	—	—
Contingent consideration[(4)]	47,940	39,037	8,903	—	—
Total	$ 77,327	$ 47,990	$ 20,452	$ 6,225	$ 2,660

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 3.74% in effect on the outstanding balance as of March 31, 2022, plus the unused fee rate of 0.30% in effect as of March 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 March 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 March 31, 2022, the total amount due under the Tax Receivable Agreement was $39.5 million, and payments to the Continuing Equity Owners related to exchanges through March 31, 2022 will range from $0 to $3.2 million per year and are expected to be paid over the next 26 years. The amounts recorded as of March 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 March 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 22, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

As of March 31, 2022, the Senior Secured Credit Facility consists of a $275.0 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 LIBOR (based upon an interest period of one, two, three or six months or, under some circumstances, up to twelve months) plus an applicable margin of 2.25% to 3.25% (3.25% as of March 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) LIBOR plus 1.00%), plus an applicable margin of 0.25% to 1.25% (1.25% as of March 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 March 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 maturity date of the Senior Secured Credit Facility is May 9, 2024. The Senior Secured Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 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 March 31, 2022, we were in compliance with these covenants, and there was $86.7 million available for borrowing under the revolving credit facility, subject to the financial covenants.

As of March 31, 2022, we had borrowings outstanding of $188.3 million under the Senior Secured Credit Facility. A hypothetical 1.0% relative change in the interest rate applicable to such borrowing (which is the LIBOR rate) would result in a $1.9 million change in annual interest expense.

Foreign Currency Exchange Rate Risk

Invoices for our services are denominated in U.S. dollars. We do not expect our future operating results to be significantly affected by foreign currency transaction risk.

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 March 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, 2021 filed with the SEC on November 22, 2021.

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

During the three months ended March 31, 2022, we issued an aggregate of 40,000 shares, of Class A common stock in exchange for an equivalent number of shares of Class B common stock and Common Units pursuant to the terms of the i3 Verticals, LLC Limited Liability Company Agreement. These shares were issued in reliance on an exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933.

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. (incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed with the SEC on June 25, 2018) (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 March 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: May 10, 2022

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: May 10, 2022

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: May 10, 2022

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 March 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: May 10, 2022

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 March 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: May 10, 2022

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