

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

FORM 10-K

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

For the fiscal year ended September 30, 2021

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

(State or other jurisdiction of incorporation or organization)

40 Burton Hills Blvd., Suite 415

Nashville, TN

(Address of principal executive offices)

82-4052852

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

37215

(Zip Code)

Registrant's telephone number, including area code: (615) 465-4487

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of March 31, 2021, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the Class A common stock held by non-affiliates was approximately \$678.5 million based on the number of shares of Class A common stock held by non-affiliates and the closing price of the Class A common stock on the Nasdaq Global Select Market on such date. The determination of affiliate status for purposes of the foregoing calculation is not necessarily a conclusive determination for any other purpose.

As of November 19, 2021, there were 22,038,723 outstanding shares of Class A common stock, \$0.0001 par value per share, and 10,229,142 outstanding shares of Class B common stock, \$0.0001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2022 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 the 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;*
- 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 (as defined below);*
- *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 Part I, Item 1A of this Annual Report on Form 10-K.*

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 Annual Report on Form 10-K. The matters summarized in "Risk Factors" in Part I, Item 1A of this Annual Report on 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.

RISK FACTORS SUMMARY

Our business faces significant risks and uncertainties. If any of the following risks are realized, our business, financial condition and results of operations could be materially and adversely affected. You should carefully review and consider the full discussion of our risk factors in the section titled "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K. Set forth below is a summary list of the principal risk factors as of the date of the filing this Annual Report on Form 10-K:

- The COVID-19 pandemic is significantly affecting our operations, business and financial condition, and our liquidity could also be negatively impacted, particularly if the U.S. economy remains unstable for a significant amount of time.
- We have a history of operating losses and will need to generate significant revenues to attain and maintain profitability and positive cash flow and continue our acquisition program.
- The payment processing industry is highly competitive. Such competition could adversely affect the fees we receive, and as a result, our margins, business, financial condition and results of operations.
- To acquire and retain clients, we depend in part on distribution partners that generally do not serve us exclusively, may not aggressively market our products and services, are subject to attrition and are not under our control.
- If we cannot keep pace with rapid developments and changes in our industry, the use of our products and services could decline, causing a reduction in our revenues.
- Unauthorized disclosure, destruction or modification of data or disruption of our services could expose us to liability, protracted and costly litigation and damage our reputation.
- If we fail to comply with the applicable requirements of the Visa and Mastercard payment networks, those payment networks could seek to fine us, suspend us or terminate our registrations through our bank sponsors.
- If our bank sponsorships are terminated and we are not able to secure or successfully migrate client portfolios to new bank sponsors, we will not be able to conduct our business.
- Consolidation in the banking and financial services industry could adversely affect our business, results of operations and financial condition.
- We have faced, and may in the future face, significant chargeback liability if our clients refuse or cannot reimburse chargebacks resolved in favor of their customers, and we may not accurately anticipate these liabilities.
- On occasion, we experience increases in interchange and sponsorship fees; if we cannot pass these increases along to our clients, our profit margins will be reduced.
- Third-party hardware that we sell to our customers is generally procured from a limited number of suppliers. Thus, we are at risk of shortages, price increases, changes, delays or discontinuations of hardware, which could disrupt our business.
- Our systems and our third-party providers' systems may fail, or our third-party providers may discontinue providing their services or technology generally or to us specifically, which in either case could interrupt our business, cause us to lose business and increase our costs.
- We are subject to economic and political risk, the business cycles of our clients and distribution partners and changes in the overall level of consumer and commercial spending, which could negatively impact our business, financial condition and results of operations.
- A decline in the use of cards and ACH as payment mechanisms for consumers and businesses or adverse developments in the electronic payment industry in general could adversely affect our business, financial condition and operating results.
- We may not be able to successfully execute our strategy of growth through acquisitions.
- Revenues and profits generated via acquisition may be less than anticipated, the integration process could experience delays or difficulties, and we may fail to uncover all liabilities of acquisition targets through the due diligence process prior to an acquisition, resulting in unanticipated costs, losses or a decline in profits, as well as potential impairment charges.
- Changes in tax laws or their interpretations, or becoming subject to additional U.S., state or local taxes that cannot be passed through to our clients, could negatively affect our business, financial condition and results of operations.
- Many of our clients are SMBs, which can be more difficult and costly to retain than larger enterprises and may increase the effect of economic fluctuations on us.
- We may not be able to successfully manage our intellectual property.

- If we lose key personnel, or if their reputations are damaged, our business, financial condition and results of operations may be adversely affected, and proprietary information of our company could be shared with our competitors.
- In a dynamic industry like ours, our success and growth depend on our ability to attract, recruit, retain and develop qualified employees.
- Our operating results and operating metrics are subject to seasonality and volatility, which could result in fluctuations in our quarterly revenues and operating results or in perceptions of our business prospects.
- We are a decentralized company, which presents certain risks, including the risk that we may be slower or less able to identify or react to problems affecting a key business unit than we would in a more centralized environment, which could materially and adversely affect our business, financial condition and results of operations.
- We are the subject of various claims and legal proceedings and may become the subject of claims, litigation or investigations which could have a material adverse effect on our business, financial condition or results of operations.
- We are subject to extensive government regulation, and any new laws and regulations, industry standards or revisions made to existing laws, regulations or industry standards affecting the electronic payments industry, and the other industries in which we provide services, or our actual or perceived failure to comply with such obligations, may have an unfavorable impact on our business, financial condition and results of operations.
- Changing laws and governmental rules and regulations designed to protect or limit access to or use of personal information could adversely affect our ability to effectively provide our products and services, and actual or perceived failure to comply with such legal and regulatory obligations may negatively impact our business, financial condition and results of operations.
- Actual or perceived failures to comply with applicable healthcare laws and regulations could result in a material breach of contract with one or more of our clients in our healthcare vertical, harm our reputation and subject us to substantial civil and criminal penalties under such laws.
- Our indebtedness could adversely affect our financial health and competitive position.
- We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.
- We may not have the ability to raise the funds necessary to settle exchanges of the Exchangeable Notes or to repurchase the Exchangeable Notes upon a fundamental change.
- The conditional exchange feature of the Exchangeable Notes, if triggered, may adversely affect our financial condition and operating results.
- The potential cessation or modification of LIBOR may increase our interest expense or otherwise adversely affect us.

PART I

Item 1. Business

i3 Verticals, Inc. was formed as a Delaware corporation on January 17, 2018 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. The Company’s headquarters are in Nashville, Tennessee, with operations throughout the United States. The terms “i3 Verticals,” the “Company,” “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 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.

Our Company

Recognizing the convergence of software and payments, i3 Verticals was founded in 2012 with the purpose of delivering seamless integrated payment and software solutions to participants in strategic vertical markets. Having built a platform of payment solutions, now we build and acquire software to serve our broad range of clients across multiple vertical markets. Revenue from software and related services accounts for 39% of our total revenue in the twelve months ended September 30, 2021, up from 5% in the twelve months ended September 30, 2017.

Since commencing operations, we have steadily increased our market share and product breadth through a combination of organic growth initiatives and acquisitions. Our broad suite of vertical market software and integrated payment solutions addresses the specific needs of public and private organizations in our strategic vertical markets.

We focus on strategic vertical markets where we can build lasting customer relationships. Our primary markets are underserved, fragmented, large, and growing. Our primary strategic vertical markets include:

- **Public Sector**—We have products and solutions that create an efficient flow of information throughout a variety of public sector entities, including states and local governments. Our solutions help our clients provide more responsive and efficient services to their citizens. We have products that enable upper and lower court case management, collections, finance and accounting, motor vehicle registration and license plate inventory, property tax management, utility billing, professional licensing, document workflow, and law enforcement software. We deliver integrated payments solutions throughout many of these products and these solutions allow our clients to efficiently process court, tax, utility and other payments. We also assist public schools, from primary through university, in completing payment processing functions such as accepting payments for school lunches (online, at school, or at the point-of-sale (“POS”)) and school activities. Our payment solutions, many of which utilize the payment facilitator model, are self-serve payment and data collection software platforms that manage critical information via web, mobile, and on-site transaction processing. Using our convenience-fee payment technology, our school and court clients in this vertical often receive the full principal amount which alleviates reconciliation issues and processing costs.
- **Healthcare**—We provide businesses in our healthcare vertical with software platforms for revenue cycle management, including coding, insurance adjudication, billing, scheduling and integrated payments. Our solutions help our clients efficiently code and bill for their services, and ultimately receive reimbursement. We offer our software as a service and bundle it with professional services that specialize in outsourced revenue cycle management. Our payment solutions in the healthcare market seamlessly integrate into our own proprietary software, as well as that of our distribution partners, consisting of independent software vendors (“ISVs”). We also provide workflow software and associated professional services to medical insurance payers.

We target vertical markets where businesses and organizations tend to lack integrated payment functionality within their business management systems. When we present software solutions that integrate the customer's operations with their payments, we can build a long-term relationship primed to grow together.

A core component of our growth strategy includes a disciplined approach to acquisitions of companies and technology, evidenced by more than 40 acquisitions since our inception in 2012. Our acquisitions have opened new strategic vertical markets, increased the number of businesses and organizations to whom we provide solutions and augmented our existing payment and software solutions and capabilities. Our management team has significant experience acquiring and integrating vertical market software businesses that complement our existing suite of products and solutions. Due to our management team's longstanding relationships and domain expertise, we maintain a strong pipeline of acquisition targets and are constantly evaluating businesses against our acquisition criteria.

We generate revenue from software licenses and subscriptions, ongoing support, and other software-related solutions. We also generate revenue from volume-based fees generated by payment processing services provided to clients throughout the United States. Our payment processing services enable clients to accept electronic payments, facilitating the exchange of funds and transaction data between clients, financial institutions and payment networks. Our integrated payment and software solutions coupled with our distribution network derive significant scale from operating efficiencies, which enables us to generate strong operating margins and profitability.

In many cases, we deliver our proprietary software solutions to strategic vertical markets through the payment facilitator model, where we:

- enable superior data management by aggregating multiple small merchants under our "master" account, resulting in the collection and management of data not historically readily available;
- streamline and simplify merchant onboarding, often resulting in client approval in minutes or hours rather than days or weeks; and
- provide ease of reporting and reconciliation, allowing our clients to accept electronic payments in a faster, more convenient fashion.

Our Segments

We have two reportable segments, Merchant Services and Proprietary Software and Payments, and an Other category. For additional information on our segments, see Note 17 to our consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Merchant Services

Our Merchant Services segment provides comprehensive payment solutions to businesses and organizations. Our Merchant Services segment includes third-party integrated payment solutions as well as 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.

Our Products, Solutions and Technology

We deliver to our clients and distribution partners a comprehensive suite of integrated payment technology and vertical market software solutions. Our products and solutions are strategically aligned to support new client growth and promote customer retention.

In addition to our broad suite of vertical market software described above, we have developed a suite of payment technology solutions that serves clients in each of our vertical markets:

- integrate with a broad number of client business management systems;
- perform a broad range of risk management, transaction processing and value-added services beneficial to our clients;
- increase convenience to our clients;
- provide ease of use and greater functionality for our clients;
- offer validated point-to-point encryption (“P2PE”); and
- offer PCI-compliant security and extensive reporting tools.

We offer our clients a single point of access through our powerful, simple and capable proprietary core platform (the “Burton Platform”). Combining a centralized environment for scalability, PCI Service Level Provider (“SLP”) Level 1 security and redundancy, the Burton Platform offers a broad suite of payment and software solutions, enabling omni-channel POS, spanning brick and mortar locations and electronic- and mobile-commerce, including app-based payments. We employ project management, release management and product development lifecycle methodologies that enable us to deploy initial downloads and upgrades in a quick and efficient manner via the cloud.

The Burton Platform is the core of our technology suite. A platform designed to be highly scalable and built for high transaction volume, the Burton Platform brings together common components of our vertical software technologies as well as several historically disparate solutions.

The Burton Platform includes an Application Programming Interface (“API”) suite that provides access to merchant of record processing, ACH processing and payment facilitator merchant processing capabilities. The platform APIs allow access to Europay, Mastercard and Visa (“EMV”) devices as well as validated P2PE certified devices using an implementation that shields software providers from the requirements of PCI / payment application data security standard (“PA-DSS”) certification.

Our Sales and Marketing

Our sales strategy includes both inside representatives and a broad network of distribution partners. Our external partners are comprised of ISVs, value-added resellers (“VARs”), independent sales organizations (“ISOs”) and our referral partners which include financial institutions, trade associations, chambers of commerce and card issuers. These distribution partners are a consistent and scalable source for new client acquisition. Leveraging our vertically focused suite of products and services, we are able to maximize the performance and retention of current distribution partners while attracting new partners. These one-to-many distribution partners accelerate penetration within our vertical markets in a cost-effective manner.

We utilize our direct sales team to sell our proprietary software and payment technology solutions directly to clients in our vertical markets. Sales teams are organized and coordinated by vertical, leading to extensive cross-selling opportunities across our broad array of solutions.

Our product and partner marketing is delivered through a shared-services model which is coordinated with each business unit. Marketing is tightly aligned with our sales efforts by providing event coordination, demand generation resources, physical and electronic marketing campaigns and partner marketing collateral. Our enterprise marketing function establishes our overall corporate marketing strategy to enhance brand awareness and demand generation. We use a broad variety of traditional and digital marketing mediums to engage prospective clients.

Our Operations

Our operations team is uniquely structured to optimize the experience of our clients and distribution partners. These regionally distributed and vertically focused business support teams allow us to establish a level of expertise that delivers a scalable support structure and enables us to align our services with the economic goals and specific expectations of the respective business unit. Each operations team is positioned to support the functions of their respective client base and key performance indicators mark their progress toward achieving the goals established by each business unit. Our client and partner databases provide visibility into each overall client relationship, tracking the status of the relationship from initial contact through the lifecycle of that client relationship. Our centralized technology department is structured to rapidly enhance and effectively maintain our products and services.

Our operations team is structured to effectively support the individual needs of our clients. This support includes:

- client onboarding and data conversions;
- software configurations and integrations;
- client support and retention;
- client training and activations;
- billing and financial review;
- credit underwriting and risk management;
- payment processing support; and
- end-user customer support.

Our technical operations team oversees the execution of development, quality control, delivery and support for our vertical software and payment processing applications. Applications are developed and tested according to the software development lifecycle, composed of iterative development and testing with a dedicated focus on planning and execution. Releases are modeled on continuous deployment and added to the live environment on a routine basis. Each application stack is built with redundancy to foster resiliency and built to be easily managed during a disaster recovery scenario. The entire solution is hosted within a managed, dedicated environment that is certified PCI-compliant to protect all personal and transactional data.

Our Competition

We compete with a variety of vertical market software providers and merchant acquirers that have different business models, go-to-market strategies and technical capabilities. We believe the most significant competitive factors in our markets are:

1. quality, including the ability of our products and solutions to address the specific needs of our clients;
2. service, including our ability to bring value-added solutions and strong customer support;
3. trust, including a strong reputation for quality service and trusted distribution partners;
4. convenience, such as speed in client onboarding and approving applications;
5. economics, including fees charged to clients and residuals and incentives offered to distribution partners.

Our competitors range from large and well established companies to smaller, earlier-stage businesses. See “Risk Factors—Risks Related to Our Business and Industry— The vertical market software and payment processing industries are highly competitive. Such competition could adversely affect the revenue we receive, and as a result, our margins, business, financial condition and results of operations.” in Part I, Item 1A of this Annual Report on Form 10-K.

Human Capital

To facilitate talent attraction and retention, we strive to make i3 Verticals a safe and healthy workplace, with opportunities for our employees to grow and develop in their careers, supported by competitive compensation and benefits programs and opportunities for advancement.

The success of our business is fundamentally connected to the well-being of our people. Accordingly, we provide our eligible employees with access to flexible and convenient medical programs intended to meet their

needs and the needs of their families. In addition to standard medical coverage, we offer dental and vision coverage, health savings and flexible spending accounts, paid time off, flexible work schedules on a case-by-case basis, employee assistance programs, voluntary short term and long term disability insurance and term life insurance. In response to the COVID-19 pandemic, we implemented changes that we determined were in the best interest of our employees, as well as the communities in which we operate, and which comply with government regulations. This included having the majority of our employees work from home for several months, while implementing additional safety measures for employees continuing critical on-site work then and now.

We provide competitive compensation and benefits programs to help meet the needs of our employees. In addition to salaries, these programs (which vary across our businesses) include bonus opportunities and a 401(k) Plan. We use targeted stock option grants with vesting conditions to facilitate retention of personnel, and we are proud that a large percentage of our workforce owns i3 Verticals shares or options to purchase i3 Verticals shares. We believe this dynamic aligns important economic incentives and encourages an entrepreneurial spirit.

We have built a collaborative culture that recognizes and rewards innovation and offers employees a variety of opportunities and experiences. We believe that our culture is critical to our success. We are an acquisitive company and regularly add new employees in locations across the United States as a result of our acquisition activity. Our employee headcount has significantly increased since our Initial Public Offering in June 2018, and as of November 19, 2021, we have approximately 1,438 employees in 42 states. We believe that our employee retention rates are competitive and we think this is a result of strong emphasis on workforce culture in our acquisition process and in our operational decision making.

Government Regulation

We operate in an increasingly complex legal and regulatory environment. Our business and the products and services that we offer are subject to a variety of federal, state and local laws and regulations and the rules and standards of the payment networks that we utilize to provide our electronic payment services, as more fully described below.

Dodd-Frank Act

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the related rules and regulations have resulted in significant changes to the regulation of the financial services industry. Changes impacting the electronic payment industry include providing merchants with the ability to set minimum dollar amounts for the acceptance of credit cards and to offer discounts or incentives to entice consumers to pay with cash, checks, debit cards or credit cards, as the merchant prefers. New rules also contain certain prohibitions on payment network exclusivity and merchant routing restrictions of debit card transactions. Additionally, the Durbin Amendment to the Dodd-Frank Act provides that the interchange fees that certain issuers charge merchants for debit transactions will be regulated by the Federal Reserve and must be "reasonable and proportional" to the cost incurred by the issuer in authorizing, clearing and settling the transactions. Rules released by the Federal Reserve in July 2011 to implement the Durbin Amendment mandate a cap on debit transaction interchange fees for issuers with assets of \$10 billion or greater.

The Dodd-Frank Act also created the Consumer Financial Protection Bureau (the "CFPB"), which has assumed responsibility for most federal consumer protection laws, and the Financial Stability Oversight Council, which has the authority to determine whether any non-bank financial company, such as us, should be supervised by the Board of Governors of the Federal Reserve System because it is systemically important to the U.S. financial system. Any new rules or regulations implemented by the CFPB or the Financial Stability Oversight Council or in connection with the Dodd-Frank Act that are applicable to us, or any changes that are adverse to us resulting from litigation brought by third parties challenging such rules and regulations, could increase our cost of doing business or limit permissible activities.

Privacy and Information Security Regulations

We provide services that may be subject to privacy laws and regulations of a variety of jurisdictions. Relevant federal privacy laws include the Gramm-Leach-Bliley Act of 1999, which applies directly to a broad range of financial institutions and indirectly, or in some instances directly, to companies that provide services to financial institutions. These laws and regulations restrict the collection, processing, storage, use and disclosure of personal information, require notice to individuals of privacy practices and provide individuals with certain rights to prevent the use and disclosure of certain nonpublic or otherwise legally protected information. These laws also impose requirements for safeguarding and proper destruction of personal information through the issuance of data security standards or guidelines. Our business also may be subject to the Fair Credit Reporting Act and the Fair and Accurate Credit Transactions Act of 2003, which regulate the use and reporting of consumer credit information and impose disclosure requirements on entities who take adverse action based on information obtained from credit reporting agencies. In addition, there are state laws that restrict the ability to collect and utilize certain types of personal information, such as Social Security and driver's license numbers, and impose secure disposal requirements for personal data. Certain state laws mandate businesses to implement reasonable data security measures. Massachusetts requires any business that processes the personal information of a Massachusetts resident to adopt and implement a written information security program. States are increasingly legislating data protection requirements for a broader list of personal data and are strengthening protections for students' personal information. For example, Illinois regulates the collection of biometric information under its Biometric Information Privacy Act, and at least five other states have legislation pending regarding the collection of biometric data. All fifty states, Puerto Rico, and the U.S. Virgin Islands have enacted data breach notification laws requiring businesses that experience a security breach of their computer databases that contain personal information to notify affected individuals, consumer reporting agencies and governmental agencies. For example, the California Consumer Privacy Act of 2018 (the "CCPA"), which went into effect on January 1, 2020, requires companies that process personal information of California residents to make certain disclosures to consumers about data practices, grants consumers specific access rights to their data, allows consumers to opt out of certain data sharing activities and creates a private right of action for data breaches. The California Privacy Rights Act of 2020 (the "CPRA"), which will come into effect on January 1, 2023, but applies to certain personal information collected on or after January 1, 2022, amends and expands the CCPA to create additional consumer privacy rights, such as the right of correction and right to limit the use of sensitive personal information, and establishes a privacy enforcement agency known as the California Privacy Protection Agency (the "CPPA"). In addition, various states have enacted, and other states are expected to enact, new laws and regulations concerning privacy, data protection and information security in the near future. To the extent we are subject to such legislation, the potential effects on our business are often far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. The recently enacted laws often provide for civil penalties or fines for violations. Each privacy law and regulation that applies to us could increase our cost of doing business or limit permissible activities.

As an entity that provides services to educational institutions, we are indirectly subject to the Family Educational Rights and Privacy Act ("FERPA") and the privacy requirements of the Protection of Pupil Rights Amendment ("PPRA"), and we may not transfer or otherwise disclose or use any personally identifiable information from a student record to another party other than on a basis and in a manner permitted under the statutes. See "Risk Factors—If we violate the Family Educational Rights and Privacy Act ("FERPA") and the Protection of Pupil Rights Amendment ("PPRA"), it could result in a material breach of contract with one or more of our clients in our education vertical and could harm our reputation. Further, if we disclose student information in violation of FERPA or PPRA, our access to student information could be suspended."

Healthcare Regulatory Matters

Our healthcare vertical business provides services to healthcare providers who are highly regulated and subject to frequently changing political, legislative, regulatory and other influences. Although some regulatory requirements do not directly apply to our operations, these requirements affect the business of our healthcare customers and the demand for our services.

Failure to satisfy those legal and regulatory requirements, or the adoption of new laws or regulations, could have a significant negative impact on our healthcare vertical operations and financial condition. U.S. federal, state, local laws and regulations are evolving and can be subject to significant change.

In addition, the application and interpretation of these laws and regulations are often uncertain. These laws are enforced by federal, state and local regulatory agencies in the jurisdictions where we operate, and in some instances also through private civil litigation.

Examples of the most significant of these laws include, but are not limited to, the following:

HIPAA Privacy and Security Requirements

There are numerous federal and state laws and regulations related to the privacy and security of health information. In particular, regulations promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") establish privacy and security standards that limit the use and disclosure of certain individually identifiable health information (known as "protected health information") and require covered entities, including health plans and most healthcare providers, to implement administrative, physical and technical safeguards to protect the privacy of protected health information and ensure the confidentiality, integrity and availability of electronic protected health information. In addition, the HIPAA administrative simplification provisions require the use of uniform electronic data transmission standards of healthcare claims and payment transactions submitted or received electronically.

Certain provisions of the security and privacy regulations promulgated pursuant to HIPAA apply to business associates (entities that handle protected health information on behalf of covered entities), and business associates are subject to direct liability for violation of these provisions. As a provider of services to entities subject to HIPAA, we are a "business associate" of our customers and must safeguard the protected health information we handle. To the extent permitted by applicable regulations and contracts and associated business associate agreements with our customers, we are permitted to use and disclose protected health information to perform our services and for other limited purposes, but other uses and disclosures, such as marketing communications, require written authorization from the patient or must meet an exception specified under the privacy regulations. Violations of the HIPAA privacy and security regulations may result in substantial civil monetary penalties and, in certain circumstances, criminal penalties. The U.S. Department of Health and Human Services ("HHS") enforces the privacy and security regulations, and state attorneys general may also enforce the regulations in response to violations that threaten the privacy of state residents. To the extent we are permitted under our customer contracts, we may de-identify protected health information and use de-identified information for our purposes without obtaining patient authorization or further complying with HIPAA. Determining whether protected health information has been sufficiently de-identified to comply with the HIPAA privacy standards and our contractual obligations may require complex factual and statistical analyses. Any failure by us to meet HIPAA requirements with respect to de-identification could subject us to penalties.

Other Privacy and Security Requirements

In addition to HIPAA, numerous other U.S. federal and state laws govern the collection, dissemination, use, access to and confidentiality of personal information. In many cases, state laws are more restrictive than, and not preempted by, HIPAA, and may allow personal rights of action with respect to privacy or security breaches, as well as fines. State laws are contributing to increased enforcement activity and are subject to interpretation by various courts and other governmental authorities.

Data Protection and Breaches

Most states require holders of personal information to maintain safeguards, and all states have laws that require take certain actions in response to a data breach, such as providing prompt notification of the breach to affected individuals or the state's attorney general. In some states, these laws are limited to electronic data, but

states increasingly are enacting or considering stricter and broader requirements. The laws are inconsistent across states, which can increase the costs of compliance. Additionally, HIPAA imposes certain notification requirements on business associates. In certain circumstances involving large breaches, media notice is required. A non-permitted use or disclosure of protected health information is presumed to be a breach under HIPAA unless the business associate or covered entity establishes that there is a low probability the information has been compromised consistent with the risk assessment requirements enumerated under HIPAA. In addition, the Federal Trade Commission uses its consumer protection authority to initiate enforcement actions in response to data breaches.

Anti-Kickback Laws

A number of federal and state laws govern patient referrals, financial relationships with physicians and other referral sources and inducements to providers and patients, including restrictions contained in amendments to the Social Security Act, commonly known as the federal Anti-Kickback Statute ("AKS"). The AKS prohibits any person or entity from offering, paying, soliciting or receiving, directly or indirectly, anything of value with the intent of generating referrals of items or services covered by Medicare, Medicaid or other federal healthcare programs. Courts have interpreted the law broadly and held that there is violation of the statute if any one of the purposes of an arrangement is to encourage patient referrals or other federal healthcare program business, regardless of whether there are other legitimate purposes for the arrangement. Actual knowledge of the statute or specific intent to violate it is not required to commit a violation. Violation of the AKS is a felony, and penalties for AKS violations can be severe, and include imprisonment, criminal fines, civil penalties with treble damages and exclusion from participation in federal healthcare programs. In addition, submission of a claim or services or items generated in violation of the AKS may be subject to additional penalties under the federal False Claims Act ("FCA").

The AKS contains a limited number of exceptions, and the Office of the Inspector General ("OIG") of HHS has created regulatory safe harbors to the AKS. Activities that comply with a safe harbor are deemed protected from prosecution under the AKS. Failure to meet a safe harbor does not automatically render an arrangement illegal under the AKS. The arrangement, however, does risk increased scrutiny by government enforcement authorities, based on our particular facts and circumstances. Our contracts and other arrangements may not meet an exception or a safe harbor. Additionally, many states have similar anti-kickback laws that are not necessarily limited to items or services for which payment is made by a federal or state healthcare program.

Although we believe that our relationships with referral sources and recipients have been structured to comply with current law and available interpretations, we cannot provide assurance that regulatory authorities enforcing these laws will determine these financial arrangements comply with the AKS or other applicable laws.

False or Fraudulent Claim Laws; Medical Billing and Coding

Medical billing, coding and collection activities are governed by numerous federal and state civil and criminal laws, regulations, and sub-regulatory guidance. We provide billing and coding services, claims processing and other solutions to providers that relate to, or directly involve, the reimbursement of health services covered by Medicare, Medicaid, other federal and state healthcare programs and private payers. These services may be subject us to, or we may be contractually required to comply with, numerous federal and state laws that prohibit false or fraudulent claims including but not limited to the FCA, the federal Civil Monetary Penalties Law ("CMP Law"), and state equivalents. We rely on our customers to provide us with accurate and complete information and to appropriately use the solutions we provide to them, but they may not always do so.

The FCA prohibits the knowing submission of false claims or statements to the federal government, including to the Medicare and Medicaid programs. The FCA defines the term "knowingly" broadly to include not only actual knowledge of a claim's falsity, but also reckless disregard of the truth of the information, or deliberate ignorance of the truth or falsity of a claim. Specific intent to defraud is not required. The FCA may be enforced by the federal government directly or by a qui tam plaintiff, or whistleblower, on the government's behalf. The government may use the FCA to prosecute Medicare and other government program fraud in areas such as coding errors and billing for services not rendered. Further, submission of a claim for an item or service generated in violation of the AKS constitutes a false or fraudulent claim for purposes of the FCA. When an entity is determined to have violated the FCA, it may be required to pay three times the actual damages sustained by the government, plus substantial civil penalties for each false claim, and may be excluded from participation in federal healthcare

programs. We rely on our customers to provide us with accurate and complete information and to appropriately use the solutions we provide to them, but they may not always do so.

Anti-Money Laundering and Counter-Terrorism Regulation

Our business is subject to U.S. federal anti-money laundering laws and regulations, including the Bank Secrecy Act of 1970, as amended by the USA PATRIOT Act of 2001, which we refer to collectively as the “BSA.” The BSA, among other things, requires money services businesses to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity and maintain transaction records. We are also subject to certain economic and trade sanctions programs that are administered by the Office of Foreign Assets Control (“OFAC”) that prohibit or restrict transactions to or from (or transactions dealing with) specified countries, their governments and, in certain circumstances, their nationals, such as those who might be narcotics traffickers and terrorists or terrorist organizations. Similar anti-money laundering, counter terrorist financing and proceeds of crime laws apply to movements of currency and payments through electronic transactions and to dealings with persons specified on lists maintained by organizations similar to OFAC in several other countries and which may impose specific data retention obligations or prohibitions on intermediaries in the payment process. We have developed and continue to enhance compliance programs and policies to monitor and address related legal and regulatory requirements and developments.

Unfair or Deceptive Acts or Practices

We and many of our clients are subject to Section 5 of the Federal Trade Commission Act prohibiting unfair or deceptive acts or practices. In addition, laws prohibiting these activities and other laws, rules and or regulations, including the Telemarketing Sales Act, may directly impact the activities of certain of our clients, and in some cases may subject us, as the client’s payment processor or provider of certain services, to investigations, fees, fines and disgorgement of funds if we are deemed to have aided and abetted or otherwise provided the means and instrumentalities to facilitate the illegal or improper activities of the client through our services. Various federal and state regulatory enforcement agencies, including the Federal Trade Commission and the states attorneys general, have authority to take action against non-banks that engage in unfair or deceptive acts or practices or violate other laws, rules and regulations and to the extent we are processing payments or providing services for a client that may be in violation of laws, rules and regulations, we may be subject to enforcement actions and as a result may incur losses and liabilities that may impact our business.

In addition, the CFPB has recently attempted to extend certain provisions of the Dodd-Frank Act that prevent the employment of unfair, deceptive or abusive acts or practices (“UDAAP”) to payment processors. Though there is still litigation involving whether payment processing companies are subject to these requirements (and the extent of their application), these requirements may apply or be applicable in the future. UDAAPs could involve omissions or misrepresentations of important information to consumers or practices that take advantage of vulnerable consumers, such as elderly or low-income consumers.

Stored Value Services

Stored value cards, store gift cards and electronic gift certificates are subject to various federal and state laws and regulations, which may include laws and regulations related to consumer and data protection, licensing, consumer disclosures, escheat, anti-money laundering, banking, trade practices and competition and wage and employment. The clients who utilize the gift card processing products and services that we may sell may be subject to these laws and regulations. In the future, if we seek to expand these stored value card products and services, or as a result of regulatory changes, we may be subject to additional regulation and may be required to obtain additional licenses and registrations which we may not be able to obtain.

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “Card Act”) created new requirements applicable to general-use prepaid gift cards, store gift cards and electronic gift certificates. The Card Act, along with the Federal Reserve’s amended Regulation E, created new requirements with respect to these cards and electronic certificates. These include certain prohibited features and revised disclosure obligations. Prepaid services may also be subject to the rules and regulations of Visa, Mastercard, Discover and American Express and other payment networks with which our clients and the card issuers do business. The clients who utilize the gift card processing products and services that we may sell are responsible for compliance with all applicable rules and requirements relating to their gift product program.

Additionally, the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, or “FinCEN”, issued a final rule in July 2011 regarding the applicability of the BSA’s regulations to “prepaid access” products and services. This rulemaking clarifies the anti-money laundering obligations for entities engaged in the provision and sale of prepaid services, such as prepaid gift cards. We are not registered with FinCEN based on our determination that our current products and services do not constitute a “prepaid program” as defined in the BSA and we are not a “provider” of prepaid access. We may in the future need to register with FinCEN as a “money services business-provider of prepaid access” in accordance with the rule based on changes to our products or services.

Indirect Regulatory Requirements

Certain of our distribution partners are financial institutions that are directly subject to various regulations and compliance obligations issued by the CFPB, the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration and other agencies responsible for regulating financial institutions, which includes state financial institution regulators. While these regulatory requirements and compliance obligations do not apply directly to us, many of these requirements materially affect the services we provide to our clients and us overall. The financial institution regulators have imposed requirements on regulated financial institutions to manage their third-party service providers. Among other things, these requirements include performing appropriate due diligence when selecting third-party service providers; evaluating the risk management, information security, and information management systems of third-party service providers; imposing contractual protections in agreements with third-party service providers (such as performance measures, audit and remediation rights, indemnification, compliance requirements, confidentiality and information security obligations, insurance requirements, and limits on liability); and conducting ongoing monitoring, diligence and audits of the performance of third-party service providers. Accommodating these requirements applicable to our clients imposes additional costs and risks in connection with our financial institution relationships. We expect to expend significant resources on an ongoing basis in an effort to assist our clients in meeting their legal requirements.

Payment Network Rules and Standards

Payment networks establish their own rules and standards that allocate liabilities and responsibilities among the payment networks and their participants. These rules and standards, including the PCI DSS, govern a variety of areas of the payments industry, including how we can process transactions, how consumers and clients may use their cards, how our clients may conduct their business regarding the acceptance of payments (including the types and amounts of fees that can be assessed for the acceptance of payments), the security features of cards, security standards for processing, data security and allocation of liability for certain acts or omissions including liability in the event of a data breach. The payment networks may change these rules and standards from time to time as they may determine in their sole discretion and with or without advance notice to their participants. These changes may be made for any number of reasons, including as a result of changes in the regulatory environment, to maintain or attract new participants, or to serve the strategic initiatives of the networks and may impose additional costs and expenses on or be disadvantageous to certain participants. Changes to these rules and standards could alter or prohibit certain current industry business practices which could impact our ability to provide services to various market segments we service. Participants are subject to audit by the payment networks to ensure compliance with applicable rules and standards. The networks may fine, penalize or suspend the registration of participants for certain acts or omissions or the failure of the participants to comply with applicable rules and standards.

An example of a recent standard is the “chip and pin” or “chip and signature” card requirement, known as EMV, which was mandated by Visa, Mastercard, American Express and Discover to be supported by payment processors by April 2013 and by merchants by October 2015. This mandate set new requirements and technical standards, including requiring integrated point of sale systems to be capable of accepting the more secure “chip” cards that utilize the EMV standard and setting new rules for data handling and security. Processors and clients that do not comply with the mandate or do not use systems that are EMV compliant risk fines and liability for fraud-related losses. We have invested significant resources to ensure our systems’ compliance with the mandate, and to assist our clients in becoming compliant.

To provide our electronic payment services, we must be registered either indirectly or directly as a service provider with each of the payment networks that we utilize. Because we are not a bank, we are not eligible for primary membership in certain payment networks, including Visa and Mastercard, and are therefore unable to directly access these networks. The operating regulations of certain payment networks, including Visa and Mastercard, require us to be sponsored by a member bank as a service provider. We are registered with certain payment networks, including Visa and Mastercard, through various sponsor banks. The agreements with our bank sponsors give them substantial discretion in approving certain aspects of our business practices including our solicitation, application and qualification procedures for clients and the terms of our agreements with clients. We are also subject to network operating rules and guidelines promulgated by the National Automated Clearing House Association (“NACHA”) relating to payment transactions we process using the ACH Network. Like the card networks, NACHA may update its operating rules and guidelines at any time and we will be subject to these changes. For example, NACHA’s WEB Debit Account Validation Rule, took effect March 19, 2021. This rule requires changes to ACH validation of bank accounts associated with internet WEB ACH payments. The NACHA Operating Rules and Guidelines allocate responsibility and liabilities to the various participants in the payment network, including us and our partner financial institutions. Recently, NACHA has focused upon data security and privacy responsibilities. We are subject to audit by our partner financial institutions for compliance with the rules and guidelines. Our sponsor financial institutions have substantial discretion in approving certain aspects of our business practices, including the terms of our agreements with our ACH processing clients.

Money Transmitter Regulation

We are subject to various U.S. federal, state, and foreign laws and regulations governing money transmission and the issuance and sale of payment instruments, including some of the prepaid products we may sell.

In the United States, most states license money transmitters and issuers of payment instruments. These states not only regulate and control money transmitters, but they also license entities engaged in the transmission of funds. Many states exercise authority over the operations of our services related to money transmission and payment instruments and, as part of this authority, subject us to periodic examinations. Many states require, among other things, that proceeds from money transmission activity and payment instrument sales be invested in high-quality marketable securities before the settlement of the transactions or otherwise restrict the use and safekeeping of such funds. Such licensing laws also may cover matters such as regulatory approval of consumer forms, consumer disclosures and the filing of periodic reports by the licensee and require the licensee to demonstrate and maintain specified levels of net worth. Many states also require money transmitters, issuers of payment instruments, and their agents to comply with federal and/or state anti-money laundering laws and regulations.

Other Regulation

We are subject to U.S. federal and state unclaimed or abandoned property (escheat) laws which require us to turn over to certain government authorities the property of others we hold that has been unclaimed for a specified period of time such as account balances that are due to a distribution partner or client following discontinuation of its relationship with us. The Housing Assistance Tax Act of 2008 requires certain merchant acquiring entities and third-party settlement organizations to provide information returns for each calendar year with respect to payments made in settlement of electronic payment transactions and third-party payment network transactions occurring in that calendar year. Reportable transactions are also subject to backup withholding requirements.

The foregoing is not an exhaustive list of the laws and regulations to which we are subject and the regulatory framework governing our business is changing continuously. See “Risk Factors—Risks Related to Our Business and Industry” in Part I, Item 1A of this Annual Report on Form 10-K.

Our Intellectual Property

Certain of our products and services are based on proprietary software and related payment systems solutions. We rely on a combination of copyright, trademark, and trade secret laws, as well as employee and third-party non-disclosure, confidentiality, and contractual arrangements to establish, maintain, and enforce our intellectual property rights in our technology, including with respect to our proprietary rights related to our products and services. In addition, we license technology from third parties that is integrated into some of our solutions.

We own a number of registered federal service marks, including i3 Verticals®, PaySchools® and Axia®. We also own a number of domain names, including www.i3verticals.com.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are filed with the Securities and Exchange Commission (the “SEC”). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements and other information with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. We also maintain a website at www.i3verticals.com, through which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this Annual Report on Form 10-K and the inclusion of our website address in this report is an inactive textual reference only.

Item 1A. Risk Factors

Our business faces significant risks and uncertainties. If any of the following risks are realized, our business, financial condition and results of operations could be materially and adversely affected. The following risk factors, some of which contain statements that constitute forward-looking statements, should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes.

Risks Related to Our Business and Industry

The COVID-19 pandemic has and may in the future affect our operations, business and financial condition, and our liquidity could also be negatively impacted, particularly if the U.S. economy remains unstable for a significant amount of time.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. The COVID-19 pandemic has had widespread and unpredictable impacts on global society, economies, financial markets, and business practices, and may in the future impact our business operations, including our employees, customers, partners, and communities. There is considerable uncertainty regarding the extent to which COVID-19 will continue to spread, the emergence of new variants of COVID-19, the development, availability, distribution and effectiveness of vaccines and treatments, and public confidence in such vaccines and treatments, and the extent and duration of measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders, and business and government shutdowns. Refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations (Part II, Item 7 of this Form 10-K) for further discussion regarding the impact of COVID-19 on our financial results for fiscal year 2021. The extent to which the COVID-19 pandemic impacts our business going forward will depend on numerous evolving factors we cannot reliably predict.

The spread of COVID-19 has caused several states and cities to declare states of emergency or disaster proclamations. State and local governments, together with public health officials, have recommended and mandated precautions 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. Although many of the restrictions have eased across the country, the pandemic has yet to show substantial signs of consistent decline in the U.S. and some areas have re-imposed closures and other restrictions due to increased rates of COVID-19 cases. The economic impact of these conditions is materially impacting our business and is expected to continue to adversely impact our strategic verticals and our business in general. For example, we and our clients have experienced a decline and subsequent partial recovery in payment volume and the number of transactions processed, and therefore, a decline and subsequent partial recovery in revenue in our strategic verticals.

There are no reliable estimates of how long the pandemic will last, how many people are likely to be affected by it or the duration or types of restrictions that will be imposed. While the COVID-19 pandemic is having an adverse effect on our business, financial condition and results of operations, the extent of such impact will depend on future developments, which cannot be accurately predicted at this time. The COVID-19 pandemic has resulted in and may continue to result in lower results of operations due to a number of operational factors, including:

- the temporary closures, re-closures and failures of our customers; which creates risk of chargeback liability and delayed payment or failure to pay by our clients for our solutions and services
- continued unemployment, which has influenced and may continue to negatively influence consumer spending;
- third-party disruptions, including potential outages at network providers, call centers and other suppliers;
- increased cyber and payment fraud risk related to the COVID-19 pandemic, as cybercriminals attempt to profit from the disruption, given increased online banking, e-commerce and other online activity; and
- challenges to the availability and reliability of our solutions and services due to changes to operations, including the possibility of COVID-19 cases occurring at our locations, affecting our employees or affecting the systems or employees of our clients or other third parties on which we depend.

Since the outbreak, the market price per share of our common stock has been volatile. If general economic conditions were to deteriorate or remain uncertain for an extended period of time, our liquidity and ability to repay our outstanding debt may be harmed and the trading price of our common stock could decline. If the stock price were to decrease significantly, it may cause a triggering event for impairment testing of fair-valued assets, including goodwill and intangible assets. Furthermore, the COVID-19 pandemic has previously caused disruption in the financial markets and the businesses of financial institutions and may do so again, potentially causing a slowdown in the decision-making of these institutions. This may affect the timing on which we may obtain any additional funding and there can be no assurance that we will be able to raise additional funds, in the form of debt or equity, or to amend our Senior Secured Credit Facility on terms acceptable to us, if at all, even if we determined such actions were necessary in the future.

In response to the economic and market conditions resulting from the COVID-19 pandemic, governments and regulatory authorities, including the Federal Reserve, have acted and may take further action to provide fiscal and monetary stimuli to support the economy. However, there can be no assurance that these measures will stimulate the economy or avert continued recessionary conditions in markets or economies in which we conduct operations.

The foregoing and other continued disruptions to our business as a result of the COVID-19 pandemic could result in a material adverse effect on our business, result of operations, financial condition, cash flows and our ability to service our indebtedness. Furthermore, the COVID-19 pandemic could heighten the risks in certain of the other risk factors described herein.

We have a history of operating losses and will need to generate significant revenues to attain and maintain profitability and positive cash flow and continue our acquisition program.

Since inception in 2012, we have been engaged in growth activities and have made a significant number of acquisitions that have grown our business. This acquisition activity requires substantial capital and other expenditures. As a result, 2017 was the first fiscal year for which we attained profitability, and we incurred net losses attributable to i3 Verticals, Inc. in the years ended September 30, 2021, 2020 and 2019, and we may incur losses again in the future. A substantial portion of our historical revenue growth has resulted from acquisitions. For the year ended September 30, 2021, revenues attributable to the acquisitions we completed in 2020 and 2021 were \$63.6 million, or 28.4% of our total revenues. We expect our cash needs to increase significantly for the next several years as we:

- make additional acquisitions;
- market our products and services;
- expand our client support and service operations;
- hire additional marketing, client support and administrative personnel; and
- implement new and upgraded operational and financial systems, procedures and controls.

As a result of these continuing costs and expenses, we need to generate significant revenues to attain and maintain profitability and positive cash flow. To date, our operations have been supported by equity and debt financings. If we do not continue to increase our revenues, our business, results of operations and financial condition could be materially and adversely affected.

The vertical market software and payment processing industries are highly competitive. Such competition could adversely affect the revenue we receive, and as a result, our margins, business, financial condition and results of operations.

The market for payment processing services is highly competitive and has relatively low barriers to entry. Other providers of payment processing services have established a sizable market share in the merchant acquiring sector and service more clients than we do. Our growth will depend, in part, on a combination of the continued growth of the electronic payment market and our ability to increase our market share.

Our payment and software solutions compete against many peers. Our competitors include, among others, Tyler Technologies, Inc., EverCommerce, Inc., EngageSmart, LLC, GTY Technology Holdings, Inc., Constellation Software, Inc., Global Payments, Inc., Stripe, Inc., and Square, Inc.

Many of our competitors have substantially greater financial, technological, and marketing resources than we have. Accordingly, if these competitors specifically target our business model, they may be able to offer more attractive solutions to our clients and more attractive compensation to our distribution partners. They also may be able to offer and provide products and services that we do not offer. Additionally, larger financial institutions may decide to perform in-house some or all of the services we provide or could provide, which may give them with a competitive advantage in the market. There are also a large number of small providers of vertical market software services or payment processing services that provide various ranges of services to our clients and our potential clients. This competition may effectively limit the prices we can charge and requires us to control costs aggressively in order to maintain acceptable profit margins. Competition could also result in a loss of existing distribution partners and clients and greater difficulty attracting new distribution partners and clients. One or more of these factors could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are also subject to risks as a result of changes in business habits of our vendors and customers as they adjust to the competitive marketplace. Because our standing arrangements and agreements with our vendors and customers typically contain no purchase or sale obligations and are terminable by either party upon no or relatively short notice, we are subject to significant risks associated with the loss or change at any time in the business habits and financial condition of key vendors as they adapt to changes in the market.

To acquire and retain clients, we depend in part on distribution partners that generally do not serve us exclusively, may not aggressively market our products and services, are subject to attrition and are not under our control.

We rely heavily on the efforts of our distribution partners to market our products and services to existing clients and potential clients. Generally, our agreements with distribution partners are not exclusive and these partners retain the right to refer potential clients to other merchant acquirers. Gaining and maintaining loyalty or exclusivity may require financial concessions to maintain current distribution partners or to attract potential distribution partners from our competitors who may be offering significantly more enticing pricing terms, such as increased signing bonuses or residuals payable to our referral partners, which could have a negative impact on our results of operations. If these distribution partners switch to another merchant acquirer, focus more heavily on promoting the products and services of one or more other merchant acquirers, cease operations or become insolvent, we may no longer receive new referrals from them or may receive fewer new referrals from them, and we also risk losing existing clients with whom the distribution partner has a relationship. Additionally, some of our distribution partners are subject to the requirements imposed by our bank sponsors, which may result in fines to them for non-compliance and may, in some cases, result in these entities ceasing to market our products and services. If we are unable to maintain our existing base of distribution partners or develop relationships with new distribution partners, our business, financial condition and results of operations would be materially adversely affected. Further, we may be named in legal proceedings in connection with the actions of our distribution partners where it is alleged that our distribution partners have intentionally or negligently misrepresented pricing or other contractual terms to clients or potential clients related to our processing solutions or related products. Our distribution partners are independent businesses and we have no control over their day-to-day business activities, including their client marketing and solicitation practices. While in some cases we may have indemnification rights against our distribution partners for these activities, there is no guarantee that we will be able to successfully enforce those indemnification rights or that our distribution partners are adequately capitalized in a manner necessary to satisfy their indemnification obligations to us. If one or more judgments or settlements in any litigation or other investigation, plus related defense and investigation costs, significantly exceed our insurance coverage and we are unable to enforce our indemnification rights against a distribution partner or partners, our business, financial condition and results of operations could materially suffer.

If we cannot keep pace with rapid developments and changes in our industry, the use of our products and services could decline, causing a reduction in our revenues.

The electronic payments market is subject to constant and significant changes. This market is characterized by rapid technological evolution, new product and service introductions, evolving industry standards, changing client needs and the entrance of non-traditional competitors, including products and services that enable card networks and banks to transact with consumers directly. To remain competitive, we continually pursue initiatives to develop new products and services to compete with these new market entrants. These projects carry risks, such as cost overruns, delays in delivery, performance problems and lack of client acceptance. In addition, new products and offerings may not perform as intended or generate the business or revenue growth expected. Additionally, we look for acquisition opportunities, investments and alliance relationships with other businesses that will increase our market penetration and enhance our technological capabilities, product offerings and distribution capabilities. Any delay in the delivery of new products and services or the failure to differentiate our products and services or to accurately predict and address market demand could render our products and services less desirable, or even obsolete, to our clients and to our distribution partners. Furthermore, even though the market for integrated payment processing products and services is evolving, it may develop too rapidly or not rapidly enough for us to recover the costs we have incurred in developing new products and services targeted at this market. Any of the foregoing could have a material and adverse effect on our operating results and financial condition.

The continued growth and development of our payment processing activities will depend on our ability to anticipate and adapt to changes in consumer behavior. For example, consumer behavior may change regarding the use of payment card transactions, including the relative increased use of cash, crypto-currencies, other emerging or alternative payment methods and payment card systems that we or our processing partners do not adequately support or that do not provide adequate commissions to parties like us. Any failure to timely integrate emerging payment methods into our software, to anticipate consumer behavior changes or to contract with processing partners that support such emerging payment technologies could cause us to lose traction among our customers or referral sources, resulting in a corresponding loss of revenue, if those methods become popular among end-users of their services.

The products and services we deliver are designed to process complex transactions and provide reports and other information on those transactions, all at very high volumes and processing speeds. Our technology offerings must also integrate with a variety of network, hardware, mobile and software platforms and technologies, and we need to continuously modify and enhance our products and services to adapt to changes and innovation in these technologies. Any failure to deliver an effective, reliable and secure service or any performance issue that arises with a new product or service could result in significant processing or reporting errors or other losses. If we do not deliver a promised new product or service to our clients or distribution partners in a timely manner or the product or service does not perform as anticipated, our development efforts could result in increased costs and a loss in business that could reduce our earnings and cause a loss of revenue. We also rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies, including software and hardware. Our future success will depend in part on our ability to develop or adapt to technological changes and evolving industry standards. If we are unable to develop, adapt to or access technological changes or evolving industry standards on a timely and cost-effective basis, our business, financial condition and results of operations would be materially adversely affected.

Unauthorized disclosure, destruction or modification of data or disruption of our services could expose us to liability, protracted and costly litigation and damage our reputation.

We are responsible both for our own business and to a significant degree for acts and omissions by certain of our distribution partners and third-party vendors under the rules and regulations established by the payment networks, such as Visa and Mastercard, Discover and American Express, and the debit networks. We and other third parties collect, process, store and transmit sensitive data, such as names, addresses, social security numbers, credit or debit card numbers and expiration dates, drivers' license numbers and bank account numbers, and we have ultimate liability to the payment networks and member financial institutions that register us with the payment networks for our failure, or the failure of certain distribution partners and third parties with whom we contract, to protect this data in accordance with payment network requirements. The loss, destruction or unauthorized modification of client or cardholder data could result in significant fines, sanctions and proceedings or actions against us by the payment networks, governmental bodies, consumers or others, which could have a material adverse effect on our business, financial condition and results of operations. Any such sanction, fine, proceeding or action could damage our reputation, force us to incur significant expenses in defense of these proceedings, disrupt our operations, distract our management, increase our costs of doing business and may result in the imposition of monetary liability.

We could be subject to breaches of security by hackers or other unauthorized persons. For example, 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 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, seeking monetary damages related 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. For additional information about this litigation, see Note 15 to our consolidated financial statements. Although we proactively employ multiple measures to defend our systems against intrusions and attacks and to protect the data we collect, our measures may not prevent unauthorized access or use of sensitive data. Recently, several municipalities have been the victims of cyberattacks, and in some cases, ransomware, through which an attacker gains access to the organization's computer files, renders them temporarily inaccessible and threatens to permanently delete them if a cash ransom is not paid by a specified deadline. While we or, to our knowledge, our distribution partners, third-party vendors or clients have not been subject to a material ransomware or cyber-extortion attack impacting us, if such an event were to occur it could significantly disrupt our operations, expose us to liability under HIPAA and/or state data breach laws, adversely impact our reputation, impact our client relationships or subject us to material losses or liability. We may be required to expend significant additional resources in our efforts to modify or enhance our protective measures against evolving threats. A breach of our system or a third-party system upon which we rely may subject us to material losses or liability, including payment network fines, assessments and claims for unauthorized purchases with misappropriated credit, debit or card information, impersonation or other similar fraud claims. A misuse of such data or a cybersecurity breach could harm our reputation and deter our clients and potential clients from using electronic payments generally and our products and services specifically, thus reducing our revenue. In addition, any such misuse or breach could cause us to incur costs to correct the breaches or failures, expose us to uninsured liability, expose us to liability under HIPAA, increase our risk of regulatory scrutiny, subject us to lawsuits and result in the imposition of material penalties and fines under state and federal laws or by the payment networks. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. A significant cybersecurity breach could also result in payment networks prohibiting us from processing transactions on their networks or the loss of our financial institution sponsorship that facilitates our participation in the payment networks, either of which could materially impede our ability to conduct business.

Although we generally require that our agreements with our distribution partners and service providers who have access to client and customer data include confidentiality obligations that restrict these parties from using or disclosing any client or customer data except as necessary to perform their services under the applicable agreements, there can be no assurance that these contractual measures will prevent the unauthorized disclosure of business or client data, nor can we be sure that such third parties would be willing or able to satisfy liabilities arising from their breach of these agreements. Any failure by such third parties to adequately take these protective measures could result in protracted or costly litigation.

In addition, our agreements with our bank sponsors (as well as payment network requirements) require us to take certain protective measures to ensure the confidentiality of business and consumer data. Any failure to adequately comply with these protective measures could result in fees, penalties, litigation or termination of our bank sponsor agreements.

Any significant unauthorized disclosure of sensitive data entrusted to us would cause significant damage to our reputation, impair our ability to attract new integrated technology and distribution partners and may cause parties with whom we already have such agreements to terminate them.

If we fail to comply with the applicable requirements of the Visa and Mastercard payment networks, those payment networks could seek to fine us, suspend us or terminate our registrations through our bank sponsors.

We do not directly access the payment card networks, such as Visa and Mastercard, that enable our acceptance of credit cards and debit cards, including some types of prepaid cards. Accordingly, we must rely on banks or other payment processors to process transactions and must pay fees for the services. To provide our merchant acquiring services, we are registered through our bank sponsors with the Visa and Mastercard networks as service providers for member institutions. The majority of our \$18.8 billion in payment volume in fiscal year 2021 was attributable to transactions processed on the Visa and Mastercard networks. As such, we, our bank sponsors and many of our clients are subject to complex and evolving payment network rules. The payment networks routinely update and modify requirements applicable to merchant acquirers, including rules regulating data integrity, third-party relationships (such as those with respect to bank sponsors and ISOs), merchant chargeback standards and PCI DSS. The rules of the card networks are set by their boards, which may be influenced by card issuers, some of which offer competing transaction processing services. The request for comments for PCI DSS 4.0 closed in November 2019 and the PCI council plans to release version 4.0 by the middle of 2021. Anticipated changes to PCI DSS 4.0 include stronger standards that will increase the compliance burden on processors and require additional training, education and support tools for processors to support their merchants.

If we or our bank sponsors fail to comply with the applicable rules and requirements of the Visa or Mastercard payment networks, Visa or Mastercard could suspend or terminate our member registration or certification, which would make it impossible for us to conduct our business on its current scale. Further, our transaction processing capabilities, including with respect to settlement processes, could be delayed or otherwise disrupted, and recurring non-compliance could result in the payment networks seeking to fine us. In addition, card networks and their member financial institutions regularly update, and generally expand, security expectations and requirements related to the security of cardholder data and environment. Under certain circumstances, we are required to report incidents to the card networks within a specified time frame.

We may also be subject to penalties from the payment card networks if we fail to detect that our clients are engaging in activities that are illegal, contrary to the payment card network operating rules, or considered “high-risk.” We must either prevent high-risk merchants from using our products and services or register such merchants with the payment card networks and conduct additional monitoring with respect to such merchants. Such penalties could be material and could result in termination of registration or could require changes in our process for registering new clients. This could materially and adversely affect our business.

Under certain circumstances specified in the payment network rules, we may be required to submit to periodic audits, self-assessments or other assessments of our compliance with the PCI DSS. Such activities may reveal that we have failed to comply with the PCI DSS. In addition, even if we comply with the PCI DSS, there is no assurance that we will be protected from a security breach. The termination of our registration with the payment networks, or any changes in payment network or issuer rules that limit our ability to provide merchant acquiring services, could have an adverse effect on our payment processing volumes, revenues and operating costs. If we are unable to comply with the requirements applicable to our settlement activities, the payment networks may no longer allow us to provide these services, which would require us to spend additional resources to obtain settlement services from a third-party provider. In addition, if we were precluded from processing Visa and Mastercard electronic payments, we would lose substantially all of our revenues.

We are also subject to the operating rules of NACHA, a self-regulatory organization which administers and facilitates private-sector operating rules for ACH payments and defines the roles and responsibilities of financial institutions and other ACH network participants. The NACHA Rules and Operating Guidelines impose obligations on us and our partner financial institutions. These obligations include audit and oversight by the financial institutions and the imposition of mandatory corrective action, including termination, for serious violations. If an audit or self-assessment under PCI DSS or NACHA identifies any deficiencies that we need to remediate, the remediation efforts may distract our management team and be expensive and time consuming.

If our bank sponsorships are terminated and we are not able to secure or successfully migrate client portfolios to new bank sponsors, we will not be able to conduct our business.

If the banks that sponsor us with the Visa and Mastercard networks stop sponsoring us, we would need to find other financial institutions to provide those services, which could be difficult and expensive. If we were unable to find a replacement financial institution to provide sponsorship, we could no longer provide processing services to affected clients, which would negatively impact our revenues and earnings. Furthermore, some agreements with our bank sponsors give them substantial discretion in approving certain aspects of our business practices, including our solicitation, application and qualification procedures for clients and the terms of our agreements with clients. Our bank sponsors' discretionary actions under these agreements could have a material adverse effect on our business, financial condition, and results of operations.

Consolidation in the banking and financial services industry could adversely affect our business, results of operations and financial condition.

Consolidations have been, and continue to be, active in the banking and financial services industry. It is possible that larger financial institutions that result from consolidations will have increased bargaining power when negotiating, which could result in less favorable contractual terms for us. Larger financial institutions resulting from consolidations may also decide to perform in-house some or all of the services we provide or could provide. These foregoing matters could have an adverse effect on our business, result of operations and financial condition.

We have faced, and may in the future face, significant chargeback liability if our clients refuse or cannot reimburse chargebacks resolved in favor of their customers, and we may not accurately anticipate these liabilities.

We have potential liability for chargebacks associated with our clients' processing transactions. In most circumstances, if a billing dispute between a client and a cardholder is not ultimately resolved in favor of our client, the disputed transaction is "charged back" to the client's bank and credited to the account of the cardholder. Anytime our client is unable to satisfy a chargeback, we are responsible for that chargeback.

If we are unable to collect the chargeback from the client's account or reserve account (if applicable), or if the client refuses or is financially unable due to bankruptcy or other reasons to reimburse us for the chargeback, we bear the loss for the amount of the refund paid to the cardholder's bank. We incurred chargeback losses of \$0.3 million, or less than 0.2% of revenues, in our 2021 fiscal year and \$0.1 million, or less than 0.1% of revenues, in our 2020 fiscal year. Any increase in chargebacks not paid by our clients could have a material adverse effect on our business, financial condition and results of operations.

We are potentially liable for losses caused by fraudulent card transactions. Card fraud occurs when a client's customer uses a stolen or counterfeit credit, debit or prepaid card, card number or other credentials to purchase merchandise or services. In a traditional card-present transaction, if the client swipes the card, receives authorization for the transaction from the card issuing bank and verifies the signature on the back of the card against the paper receipt signed by the customer, the card issuing bank remains liable for any loss. In a fraudulent card-not-present transaction, even if the client receives authorization for the transaction, the client is liable for any loss arising from the transaction. Many of the SMB clients that we serve are small and transact a substantial percentage of their sales over the Internet or in response to telephone or mail orders. Because their sales are card-not-present transactions, these clients are more vulnerable to customer fraud than larger clients. Because we target these SMB clients, we experience chargebacks arising from cardholder fraud more frequently than providers of payment processing services that service larger businesses and organizations.

Business fraud occurs when a business or organization, rather than a cardholder, knowingly uses a stolen or counterfeit card or card number to record a false sales transaction, or intentionally fails to deliver the merchandise or services sold in an otherwise valid transaction. Business fraud also occurs when employees of businesses change the business demand deposit accounts to their personal bank account numbers, so that payments are improperly credited to the employee's personal account. We have established systems and procedures to detect and reduce the impact of business fraud, but there can be no assurance that these measures are or will be effective. Incidents of fraud could increase in the future. Failure to effectively manage risk and prevent fraud could increase our chargeback liability and other liability, which could have a material adverse effect on our business, financial condition and results of operations.

New Visa rules associated with chargeback monitoring that were originally announced October 1, 2019 are due to become effective in April 2021. The new Visa rules will tighten monitoring and control of risks to combat the high rates of fraud and disputes. The planned changes will impact when merchants are enrolled in the Visa Fraud Monitoring Program (the "VFMP") and the Visa Chargeback Monitoring Program (the "VCMP"). The VFMP and the VCMP target merchants with higher levels of chargebacks and fraud. Visa's new rules could have serious implications for the types of businesses that we can support, and high-risk merchants will be impacted by the changes.

On occasion, we experience increases in interchange and sponsorship fees; if we cannot pass these increases along to our clients, our profit margins will be reduced.

We pay interchange fees or assessments to issuing banks through the card associations for each transaction that is processed using their credit and debit cards. From time to time, the card associations increase the interchange fees that they charge processors and the sponsoring banks. At their sole discretion, our sponsoring banks have the right to pass any increases in interchange fees on to us. In addition, our sponsoring banks may seek to increase their sponsorship fees charged to us, all of which are based upon the dollar amount of the payment transactions we process. If we are not able to pass these fee increases along to clients through corresponding increases in our processing fees, our profit margins will be reduced.

Third-party hardware that we sell to our customers is generally procured from a limited number of suppliers. Thus, we are at risk of shortages, price increases, changes, delays or discontinuations of hardware, which could disrupt our business.

Many of our solutions require or benefit from the use of third-party hardware products that we sell to our customers, such as payment terminals and point of sale equipment. A number of such products come from limited number of suppliers. Due to our reliance on the products produced by a limited number of suppliers, we are subject to the risk of shortages and long lead times in the supply of certain products. Additionally, various sources of supply-chain risk, including strikes or shutdowns at delivery ports or loss of or damage to our products while they are in transit or storage, intellectual property theft, losses due to tampering, issues with quality or sourcing control, failure by our suppliers to comply with applicable laws and regulation, potential tariffs or other trade restrictions, or other similar problems could limit or delay the supply of our products or harm our reputation. In the event of a shortage or supply interruption from suppliers, we may not be able to develop alternate sources quickly, cost-effectively, or at all. Any interruption or delay in manufacturing supply, any increases in costs, or the inability to obtain these products from alternate sources at acceptable prices and within a reasonable amount of time, could harm our ability to provide products to our customers.

One such provider of third-party hardware is manufactured by PAX Technology and sold worldwide. On October 26, 2021, the US offices of PAX Technology were search by federal investigators. On October 27, 2021, FIS Worldpay announced that it had removed PAX Technology payment terminals from its payments infrastructure over concerns regarding the website connections being made by the hardware. While no specific security vulnerabilities for the PAX Technology hardware have been announced or identified, if major hardware vendors such as FIS Worldpay begin sourcing hardware from other suppliers, the supply of third-party hardware could be impacted and our ability to source third-party hardware from other providers could be negatively impacted.

Our systems and our third-party providers' systems may fail, or our third-party providers may discontinue providing their services or technology generally or to us specifically, which in either case could interrupt our business, cause us to lose business and increase our costs.

We rely on third parties for specific services, software and hardware used in providing our products and services. Some of these organizations and service providers are our competitors or provide similar services and technology to our competitors, and we may not have long-term contracts with them. If these contracts are canceled or we are unable to renew them on commercially reasonable terms, or at all, our business, financial condition and results of operation could be adversely impacted. The termination by our service or technology providers of their arrangements with us or their failure to perform their services efficiently and effectively may adversely affect our relationships with our clients and, if we cannot find alternate providers quickly, may cause those clients to terminate their processing agreements with us.

We also rely in part on third parties for the development and access to new technologies, or for updates to existing products and services for which they provide ongoing support. Failure by these third-party providers to devote an appropriate level of attention to our products and services could result in delays in introducing new products or services, or delays in resolving any issues with existing products or services for which third-party providers provide ongoing support.

Our systems and operations or those of our third-party technology vendors could be exposed to damage or interruption from, among other things, fire, natural disaster, power loss, telecommunications failure, unauthorized entry, computer viruses, denial-of-service attacks, acts of terrorism, human error, vandalism or sabotage, financial insolvency and similar events. Our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur. Likewise, while we have disaster recovery policies and arrangements in place, they have not been tested under actual disasters or similar events. Defects in our systems or those of third parties, errors or delays in the processing of payment transactions, telecommunications failures or other difficulties could result in:

- loss of revenues;
- loss of clients;
- loss of client and cardholder data;
- fines imposed by payment networks or regulators;
- harm to our business or reputation resulting from negative publicity;
- exposure to fraud losses or other liabilities;
- additional operating and development costs; or
- diversion of management, technical and other resources, among other consequences.

We are subject to economic and political risk, the business cycles of our clients and distribution partners and changes in the overall level of consumer and commercial spending, which could negatively impact our business, financial condition and results of operations.

The electronic payment industry depends heavily on the overall level of consumer and commercial spending. We are exposed to general economic conditions that affect consumer confidence, consumer spending, consumer discretionary income and changes in consumer purchasing habits. A sustained deterioration in general economic conditions, particularly in the United States, continued uncertainty for an extended period of time, due to the COVID-19 pandemic, supply chain disruptions or otherwise, or increases in interest rates, could adversely affect our financial performance by reducing the number or aggregate volume of transactions made using electronic payments. A reduction in the amount of consumer or commercial spending could result in a decrease in our revenue and profits. If our clients make fewer purchases or sales of products and services using electronic payments, or consumers spend less money through electronic payments, we will have fewer transactions to process at lower dollar amounts, resulting in lower revenue. Additionally, credit card issuers may reduce credit limits and become more selective in their card issuance practices. Any of these developments could have a material adverse impact on our financial position and results of operations.

A weakening in the economy as a result of the COVID-19 pandemic has had a negative impact on our clients, particularly within our Education vertical because of widespread school closures and government subsidized lunches, and could continue to do so, as well as their customers who purchase products and services using the payment processing systems to which we provide access, which has and could continue to, in turn, negatively affect our business, financial condition and results of operations. In addition, the weakening as a result of the COVID-19 pandemic has forced SMBs to close at higher than historical rates, and any future weakening in the economy could further this trend, in part because many of them are not as well capitalized as larger organizations, which has exposed, and could expose us in the future, to potential credit losses and future transaction declines. Further, credit card issuers may reduce credit limits and become more selective in their card issuance practices. We also have a certain amount of fixed and semi-fixed costs, including rent, debt service and salaries, which could limit our ability to quickly adjust costs and respond to changes in our business and the economy.

A decline in the use of cards and ACH as payment mechanisms for consumers and businesses or adverse developments in the electronic payment industry in general could adversely affect our business, financial condition and operating results.

If consumers and businesses do not continue to use cards or ACH as payment mechanisms for their transactions or if the mix of payments among the types of cards and ACH changes in a way that is adverse to us, it could have a material adverse effect on our business, financial condition and results of operations. Regulatory changes may also result in our clients seeking to charge their customers additional fees for use of credit or debit cards. Additionally, in recent years, increased incidents of security breaches have caused some consumers to lose confidence in the ability of businesses to protect their information, causing certain consumers to discontinue use of electronic payment methods. Security breaches could result in financial institutions canceling large numbers of credit and debit cards, or consumers or businesses electing to cancel their cards following such an incident.

We may not be able to successfully execute our strategy of growth through acquisitions.

Our future growth and profitability depend, in part, upon our continued expansion within the vertical markets in which we currently operate, the emergence of other vertical markets for electronic payments and our integrated solutions, and our ability to penetrate new vertical markets and our current distribution partners' customer base. As part of our strategy to expand into new vertical markets, we look for acquisition opportunities and partnerships with other businesses that will allow us to increase our market penetration, technological capabilities, product offerings and distribution capabilities.

Although we expect to continue to execute our acquisition strategy:

- we may not be able to identify suitable acquisition candidates or acquire additional assets on favorable terms;
- we may compete with others to acquire assets, which competition may increase, and any level of competition could result in decreased availability or increased prices for acquisition candidates;
- we may compete with others for select acquisitions and our competition may consist of larger, better-funded organizations with more resources and easier access to capital;
- we may experience difficulty in anticipating the timing and availability of acquisition candidates;
- we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions; and
- we may not be able to generate cash necessary to execute our acquisition strategy.

The occurrence of any of these factors could adversely affect our growth strategy.

Our expansion into new vertical markets also depends upon our ability to adapt our existing technology or to develop new technologies to meet the particular needs of each new vertical market. We may not have adequate financial or technological resources to develop effective and secure services or distribution channels that will satisfy the demands of these new vertical markets. Penetrating these new vertical markets may also prove to be more challenging or costly or take longer than we may anticipate. If we fail to expand into new vertical markets and increase our penetration into existing vertical markets, we may not be able to continue to grow our revenues and earnings.

Revenues and profits generated via acquisition may be less than anticipated, the integration process could experience delays or difficulties, and we may fail to uncover all liabilities of acquisition targets through the due diligence process prior to an acquisition, resulting in unanticipated costs, losses or a decline in profits, as well as potential impairment charges.

In evaluating and determining the purchase price for a prospective acquisition, we estimate the future revenues and profits from that acquisition based largely on historical financial performance. Following an acquisition, we may experience some attrition in the number of clients serviced by an acquired provider of payment processing services or included in an acquired portfolio of merchant accounts. Should the rate of post-acquisition client attrition exceed the rate we forecasted, the revenues and profits from the acquisition may be less than we estimated, which could result in losses or a decline in profits, as well as potential impairment charges.

We perform a due diligence review of each of our acquisition partners. This due diligence review, however, may not adequately uncover all of the contingent or undisclosed liabilities we may incur as a consequence of the proposed acquisition, exposing us to potentially significant, unanticipated costs, as well as potential impairment charges. An acquisition may also subject us to additional regulatory burdens that affect our business in potentially unanticipated and significantly negative ways.

The acquisition of a provider of payment processing services, as well as a portfolio of merchant accounts, requires the transfer of various data processing functions and connecting links to our systems and those of our third-party service providers. If the transfer of these functions and links does not occur rapidly and smoothly, payment processing delays and errors may occur, resulting in a loss of revenues, increased client attrition and increased expenditures to correct the transitional problems, which could preclude our attainment of, or reduce, our anticipated revenue and profits. Additionally, any integrations that do not occur rapidly and smoothly could divert the attention of management away from other strategic matters, including, but not limited to, acquisitions or product development.

In connection with some acquisitions, we may incur non-recurring severance expenses, restructuring charges or change of control payments. These expenses, charges or payments, as well as the initial costs of integrating the personnel and facilities of an acquired business with those of our existing operations, may adversely affect our operating results during the initial financial periods following an acquisition. In addition, the integration of newly acquired companies may lead to diversion of management attention from other ongoing business concerns.

Many of our clients are SMBs, which can be more difficult and costly to retain than larger enterprises and may increase the effect of economic fluctuations on us.

Many of our clients are SMBs. To continue to grow our revenue, we must add new SMB clients, sell additional products and services to existing SMB clients and encourage existing SMB clients to continue doing business with us. However, retaining SMB clients can be more difficult than retaining large enterprises because SMBs often have higher rates of business failures and more limited resources and are typically less able to make technology-related decisions based on factors other than price.

SMBs are typically more susceptible to the adverse effects of economic fluctuations. Adverse changes in the economic environment or business failures of our SMB clients may have a greater impact on us than on our competitors who do not focus on SMBs to the extent that we do. As a result, we may need to onboard new clients at an accelerated rate or decrease our expenses to reduce negative impacts on our business, financial condition and results of operations.

We may not be able to successfully manage our intellectual property.

Our intellectual property is critical to our future success, particularly in our strategic verticals where we may offer proprietary software solutions to our clients. We rely on a combination of contractual license rights and copyright, trademark and trade secret laws to establish and protect our proprietary technology. Third parties may challenge, invalidate, circumvent, infringe or misappropriate our intellectual property or the intellectual property of our third-party licensors, or such intellectual property may not be sufficient to permit us to take advantage of current market trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain service offerings or other competitive harm. Others, including our competitors, may independently develop similar technology, duplicate our products and services, design around or reverse engineer our intellectual property, and in such cases neither we nor our third-party licensors may be able to assert intellectual property rights against such parties. Further, our contractual license arrangements may be subject to termination or renegotiation with unfavorable terms to us, and our third-party licensors may be subject to bankruptcy, insolvency and other adverse business dynamics, any of which might affect our ability to use and exploit the products licensed to us by these third-party licensors. We may have to litigate to enforce or determine the scope and enforceability of our intellectual property rights (including litigation against our third-party licensors), which is expensive, could cause a diversion of resources and may not prove successful. The loss of intellectual property protection or the inability to obtain third-party intellectual property could harm our business and ability to compete.

We may be subject to infringement claims.

We may be subject to costly litigation if our products or services are alleged to infringe upon or otherwise violate a third party's proprietary rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products and services. Any of these third parties could make a claim of infringement against us with respect to our products and services. We may also be subject to claims by third parties for patent infringement, breach of copyright, trademark, license usage or other intellectual property rights. Any claim from third parties may result in a limitation on our ability to use the intellectual property subject to these claims. Additionally, in recent years, individuals and groups have been purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from companies like ours. Even if we believe that intellectual property related claims are without merit, defending against such claims is time consuming and expensive and could result in the diversion of the time and attention of our management and employees. Claims of intellectual property infringement also might require us to redesign affected products or services, enter into costly settlement or license agreements, pay costly damage awards for which we may not have insurance, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products or services. Even if we have an agreement for indemnification against such costs, the indemnifying party, if any in such circumstances, may be unable to uphold its contractual obligations. If we cannot or do not license the infringed technology on reasonable terms or substitute similar technology from another source, our revenue and earnings could be materially and adversely affected.

Some of our solutions contain "open-source" software, and any failure to comply with the terms of one or more of applicable open-source licenses could negatively affect our business.

We use certain software licensed under open-source licenses and may continue to use such software in the future. Some open-source licenses require us to make available source code for modifications or derivative works that we create based upon the open-source software, and that we license such modifications or derivative works pursuant to a particular open source license or other license allowing further use by third parties. Some open-source licenses could require us to release the source code of our proprietary software if we combine our proprietary software with the open-source software subject to that license. Additionally, the terms of many open-source licenses have not been interpreted by United States or other courts, and there is a risk that these licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. Using open-source software can also be riskier than using software subject to a more restrictive license because open-source licenses generally do not contain such protections as warranties. Many of the risks associated with using open-source software cannot be eliminated and using such software could adversely affect us.

If we lose key personnel, or if their reputations are damaged, our business, financial condition and results of operations may be adversely affected, and proprietary information of our company could be shared with our competitors.

We depend on the ability and experience of a number of our key personnel, particularly Messrs. Daily, Whitson, Stanford and Bertke, who have substantial experience with our operations, the rapidly changing payment processing industry and the vertical markets in which we offer our products and services. Many of our key personnel have worked for us for a significant amount of time or were recruited by us specifically due to their experience. Our success depends in part upon the reputation and influence within the industry of our senior managers who have, over the years, developed long standing and favorable relationships with our vendors, card associations, bank sponsors and other payment processing and service providers. It is possible that the loss of the services of one or a combination of our senior executives or key managers could have a material adverse effect on our business, financial condition and results of operations. In addition, contractual obligations related to confidentiality and assignment of intellectual property rights may be ineffective or unenforceable, and departing employees may share our proprietary information with competitors in ways that could adversely impact us.

In a dynamic industry like ours, our success and growth depend on our ability to attract, recruit, retain and develop qualified employees.

Our business functions at the intersection of rapidly changing technological, social, economic and regulatory developments that require a wide-ranging set of expertise and intellectual capital. For us to continue to successfully compete and grow, we must attract, recruit, develop and retain the necessary personnel who can provide the needed expertise across the entire spectrum of our intellectual capital needs. While we have a number of key personnel who have substantial experience with our operations, we must also develop our personnel to provide succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. The market for qualified personnel is competitive, and we may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart with qualified or effective successors. Our effort to retain and develop personnel may also result in significant additional expenses, which could adversely affect our profitability. We can make no assurances that qualified employees will continue to be employed or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our operating results and operating metrics are subject to seasonality and volatility, which could result in fluctuations in our quarterly revenues and operating results or in perceptions of our business prospects.

We have experienced in the past, and expect to continue to experience, seasonal fluctuations in our revenues as a result of consumer spending patterns. Historically our revenues have been strongest in our first, third and fourth fiscal quarters and weakest in our second fiscal quarter. This is due to the increase in the number and amount of electronic payment transactions related to seasonal retail events, such as holiday and vacation spending. The number of business days in a month or quarter also may affect seasonal fluctuations. We also experience volatility in certain other metrics, such as clients, transactions and dollar volume. Volatility in our key operating metrics or their rates of growth could have a negative impact on our financial results and investor perceptions of our business prospects. Furthermore, we are not able to predict the impact that the COVID-19 pandemic may have on the seasonality of our business.

We are a decentralized company, which presents certain risks, including the risk that we may be slower or less able to identify or react to problems affecting a key business unit than we would in a more centralized environment, which could materially and adversely affect our business, financial condition and results of operations.

We are a decentralized company. While we believe this structure has catalyzed our growth and enabled us to remain responsive to opportunities and to our clients' needs, it necessarily places significant control and decision-making powers in the hands of local management. This presents various risks, including the risk that we may be slower or less able to identify or react to problems affecting a key business unit than we would in a more centralized environment. In addition, it means that we may be slower to detect compliance related problems and that "company-wide" business initiatives, such as the integration of disparate information technology systems, are often more challenging and costly to implement, and their risk of failure higher, than they would be in a more centralized environment. Depending on the nature of the problem or initiative in question, such failure could materially and adversely affect our business, financial condition or results of operations.

We are the subject of various claims and legal proceedings and may become the subject of claims, litigation or investigations which could have a material adverse effect on our business, financial condition or results of operations.

In the ordinary course of business, we are the subject of various claims and legal proceedings and may become the subject of claims, litigation or investigations, including commercial disputes and employee claims, such as claims of age discrimination, sexual harassment, gender discrimination, immigration violations or other local, state and federal labor law violations, and from time to time may be involved in governmental or regulatory investigations or similar matters arising out of our current or future business. Any claims asserted against us or our management, regardless of merit or eventual outcome, could harm our reputation or the reputation of our management and have an adverse impact on our relationship with our clients, distribution partners and other third parties and could lead to additional related claims. In light of the potential cost and uncertainty involved in litigation, we have in the past and may in the future settle matters even when we believe we have a meritorious defense. Certain claims may seek injunctive relief, which could disrupt the ordinary conduct of our business and operations or increase our cost of doing business. Our insurance or indemnities may not fully cover all claims that may be asserted against us. Furthermore, there is no guarantee that we will be successful in defending ourselves in pending or future litigation or similar matters under various laws. Any judgments or settlements in any pending litigation or future claims, litigation or investigation could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Regulation

We are subject to extensive government regulation, and any new laws and regulations, industry standards or revisions made to existing laws, regulations or industry standards affecting the electronic payments industry and the other industries in which we provide services, or our actual or perceived failure to comply with such obligations, may have an unfavorable impact on our business, financial condition and results of operations.

We are subject to numerous federal and state regulations that affect the electronic payments industry. Regulation of our industry has increased significantly in recent years and is constantly evolving. Changes to statutes, regulations or industry standards, including interpretation and implementation of statutes, regulations or standards, could increase our cost of doing business or affect the competitive balance. We are also subject to U.S. financial services regulations, numerous consumer protection laws, escheat regulations and privacy and information security regulations, among other laws, rules and regulations. Failure to comply with regulations may have an adverse effect on our business, including the limitation, suspension or termination of services provided to, or by, third parties, and the imposition of penalties or fines. To the extent these regulations negatively impact the business, operations or financial condition of our clients, our business and results of operations could be materially and adversely affected because, among other matters, our clients could have less capacity to purchase products and services from us, could decide to avoid or abandon certain lines of business, or could seek to pass on increased costs to us by negotiating price reductions. We could be required to invest a significant amount of time and resources to comply with additional regulations or oversight or to modify the manner in which we contract with or provide products and services to our clients; and those regulations could directly or indirectly limit how much we can charge for our services. We may not be able to update our existing products and services, or develop new ones, to satisfy our clients' needs. Any of these events, if realized, could have a material adverse effect on our business, results of operations and financial condition.

These and other laws and regulations, including those in other industries in which we provide services, even if such laws and regulations not directed at us, may require us to make significant efforts to change our products and services and may require that we incur additional compliance costs and change how we price our products and services to our clients and distribution partners. Implementing new compliance efforts is difficult because of the complexity of new regulatory requirements, and we are devoting and will continue to devote significant resources to ensure compliance. Furthermore, regulatory actions may cause changes in business practices by us and other industry participants which could affect how we market, price and distribute our products and services, and which could materially adversely affect our business, financial condition and results of operations. In addition, even an inadvertent failure to comply with laws and regulations, as well as rapidly evolving social expectations of corporate fairness, could damage our business or our reputation.

Compliance with the Dodd-Frank Act and other federal and state regulations may increase our compliance costs, limit our revenues and otherwise negatively affect our business.

Since the enactment of the Dodd-Frank Act, there have been substantial reforms to the supervision and operation of the financial services industry, including numerous new regulations that have imposed compliance costs and, in some cases, limited revenue sources for us and our financial institution partners and clients. Among other things, the Dodd-Frank Act established the CFPB, which is empowered to conduct rule-making and supervision related to, and enforcement of, federal consumer financial protection laws. The CFPB has issued guidance that applies to "supervised service providers," which the CFPB has defined to include service providers, like us, to CFPB supervised banks and nonbanks. In addition, federal and state agencies have recently proposed or enacted cybersecurity regulations, such as the Cybersecurity Requirements for Financial Services Companies issued by the New York State Department of Financial Services and the Advance Notice of Proposed Rulemaking on Enhanced Cyber Risk Management Standards issued by The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation in October 2016. Such cybersecurity regulations are applicable to large bank holding companies and their subsidiaries, as well as to service providers to those organizations. Any new rules and regulations implemented by the CFPB, state or other authorities or in connection with the Dodd-Frank Act could, among other things, slow our ability to adapt to a rapidly changing industry, require us to make significant additional investments to comply with them, redirect time and resources to compliance obligations, modify our products or services or the manner in which they are provided, or limit or change the amount or types of revenue we are able to generate.

Interchange fees, which the payment processor typically pays to the card issuer in connection with credit and debit card transactions, are subject to increasingly intense legal, regulatory and legislative scrutiny. In particular, the Dodd-Frank Act regulates and limits debit card fees charged by certain card issuers and allows businesses and organizations to set minimum dollar amounts for the acceptance of credit cards. Specifically, under the so-called “Durbin Amendment” to the Dodd-Frank Act, the interchange fees that certain issuers charge businesses and organizations for debit transactions are regulated by the Federal Reserve and must be “reasonable and proportional” to the cost incurred by the issuer in authorizing, clearing and settling the transactions. Rules released by the Federal Reserve in July 2011 to implement the Durbin Amendment mandate a cap on debit transaction interchange fees for card issuers with assets of \$10 billion or greater. Since October 2011, a payment network may not prohibit a card issuer from contracting with any other payment network for the processing of electronic debit transactions involving the card issuer’s debit cards, and card issuers and payment networks may not inhibit the ability of businesses and organizations to direct the routing of debit card transactions over any payment networks that can process the transactions.

Rules implementing the Dodd-Frank Act also contain certain prohibitions on payment network exclusivity and merchant routing restrictions. These restrictions could negatively affect the number of debit transactions processed, and prices charged per transaction, which would negatively affect our business.

If we violate the Family Educational Rights and Privacy Act (“FERPA”) and the Protection of Pupil Rights Amendment (“PPRA”), it could result in a material breach of contract with one or more of our clients in our education vertical and could harm our reputation. Further, if we disclose student information in violation of FERPA or PPRA, our access to student information could be suspended.

Our systems and solutions must also comply, in certain circumstances, with FERPA and PPRA, as well as with rapidly emerging state student data privacy laws that require schools to protect student data and to adopt privacy policies which can significantly vary from one state to another. FERPA generally prohibits an educational institution from disclosing personally identifiable information from a student’s education records without a parent’s consent unless certain statutory exceptions apply. Our school clients and their students disclose to us, and we may store, certain information that originates from or comprises a student education record under FERPA. PPRA puts limits on “survey, analysis or evaluations” that may come into play when schools employ internet-based educational services. Schools are required to develop policies that address, among other things, the collection, disclosure or use of personal information collected from students for the purpose of marketing or selling that information, and can place restrictions on third parties’ use of that data. As an entity that provides services to educational institutions, we are indirectly subject to FERPA’s and PPRA’s privacy requirements, and we may not transfer or otherwise disclose or use any personally identifiable information from a student record to another party other than on a basis and in a manner permitted under the statutes. If we violate FERPA or PPRA, it could result in a material breach of contract with one or more of our clients and could reduce our revenues or harm our reputation. Further, if we disclose student information in violation of FERPA or PPRA, our access to student information could be suspended, thus inhibiting our business operations.

Actual or perceived failures to comply with applicable privacy and security laws and regulations could result in a material breach of contract with one or more of our clients in our healthcare vertical, harm our reputation and subject us to substantial civil and criminal penalties under laws such as HIPAA.

The data protection landscape is rapidly evolving, and we are or may become subject to numerous federal and state laws and regulations governing the collection, use, disclosure, retention, and security of health-related and other personal information. The cost of compliance with the laws and regulations is high and is likely to increase in the future. Any failure or perceived failure by us to comply with applicable data privacy and security laws or regulations, our internal policies and procedures or our contracts governing our processing of personal information could result in negative publicity, government investigations and enforcement actions, claims by third parties and damage to our reputation, any of which could have an adverse effect on our operations, financial performance and business.

For example, the HIPAA privacy and security regulations extensively regulate the use and disclosure of protected health information and requires business associates such as our company to implement administrative, physical and technical safeguards to protect the security of such information. If we are unable to properly protect the privacy and security of protected health information entrusted to us, we could be found to have breached our

contracts with our customers and be subject to investigation by the HHS Office for Civil Rights (“OCR”). In the event OCR finds that we have failed to comply with applicable HIPAA privacy and security standards, we could face civil and criminal penalties. OCR has become an increasingly active regulator and has signaled its intention to continue this trend. OCR has the discretion to impose penalties without being required to attempt to resolve violations through informal means. Further, OCR may require companies to enter into resolution agreements and corrective action plans which impose ongoing compliance requirements. OCR enforcement activity can result in financial liability and reputational harm, and responses to such enforcement activity can consume significant internal resources. In addition to enforcement by OCR, state attorneys general are authorized to bring civil actions under either HIPAA or similar state laws, seeking either injunctions or damages in response to violations that threaten the privacy of state residents. Although we have implemented and maintain policies, processes and a compliance program infrastructure to assist us in complying with these laws and regulations and our contractual obligations, we cannot provide assurance regarding how these laws and regulations will be interpreted, enforced or applied to our healthcare vertical operations. In addition to the risks associated with enforcement activities and potential contractual liabilities, our ongoing efforts to comply with evolving laws and regulations at the federal and state levels also might require us to make costly system purchases and/or modifications or otherwise divert significant resources to privacy and security compliance initiatives from time to time.

If we violate the federal AKS, the CMP Law, the federal FCA, or similar federal or state laws and regulations, it could result in a material breach of contract with one or more of our clients in our healthcare vertical, harm our reputation and subject us to substantial civil and criminal penalties.

We strive to comply with healthcare laws, regulations and other requirements applicable to us directly and to our customers and contractors, but there can be no assurance that our operations will not be challenged or impacted by enforcement initiatives. We have been, and in the future may become, involved in governmental investigations, audits, reviews and assessments. Even an unsuccessful challenge by regulatory and other authorities or private whistleblowers could be expensive and time-consuming, could result in loss of business, exposure to adverse publicity and injury to our reputation and could adversely affect our ability to retain and attract customers.

Healthcare laws, regulations and other requirements impacting our healthcare vertical operations include the following:

Anti-Kickback Laws. A number of federal and state laws govern patient referrals, financial relationships with physicians and other referral sources and inducements to providers and patients, including restrictions contained in amendments to the Social Security Act, commonly known as the AKS. The AKS contains a limited number of exceptions, and the Office of the Inspector General (“OIG”) of HHS has created regulatory safe harbors to the AKS. Activities that comply with a safe harbor are deemed protected from prosecution under the AKS. Certain of our contracts and other arrangements may not meet an exception or a safe harbor. Failure to qualify for safe harbor protection does not mean the arrangement necessary violates the AKS, but it may subject the arrangement to greater government scrutiny. We cannot provide assurance that practices outside of a safe harbor will not be found to violate the AKS. Allegations of violations of the AKS may be brought under the civil CMP Law, which requires a lower burden of proof than some other fraud and abuse laws, including the AKS.

The HHS OIG has a longstanding concern that percentage-based billing arrangements may increase the risk of improper billing practices. The HHS OIG recommends that medical billing companies develop and implement comprehensive compliance programs to mitigate this risk. In addition, certain states have adopted laws or regulations forbidding splitting of fees with non-physicians which may be interpreted to prevent business service providers, including medical billing providers, from using a percentage-based billing arrangement. While we have developed and implemented a comprehensive billing compliance program that we believe is consistent with the federal guidance, our failure to ensure compliance with controlling legal requirements, accurately anticipate the application of these laws and regulations to our business and contracting model, or other failure to comply with regulatory requirements, could create liability for us, result in adverse publicity and negatively affect our business.

Violation of the AKS is a felony, and penalties may include imprisonment, criminal fines and substantial civil monetary penalties. In addition, submission of a claim for items or services generated in violation of the AKS may be subject to additional penalties under the federal FCA as a false or fraudulent claim.

False or Fraudulent Claim Laws; Medical Billing and Coding. Medical billing, coding and collection activities are governed by numerous federal and state civil and criminal laws, regulations and sub-regulatory guidance. Our healthcare vertical may be subject to, or contractually required to comply with, numerous federal and state laws that prohibit false or fraudulent claims including but not limited to the federal FCA, the CMP Law and state equivalents. For example, errors or the unintended consequences of data manipulations by us or our systems with respect to the entry, formatting, preparation or transmission of claims, coding, audit, eligibility and other information, may result in allegations of false or fraudulent claims.

False or fraudulent claims under the FCA and other laws include, but are not limited to, billing for services not rendered, making or causing to be made or used a false record or statement that is material to a false claim, failing to report and refund known overpayments within 60 days of identifying the overpayment, misrepresenting actual services rendered, improper coding and billing for medically unnecessary items or services. Submission of a claim for an item or service generated in violation of the AKS constitutes a false or fraudulent claim. In addition, the FCA prohibits the knowing submission of false claims or statements to the federal government, including to Medicare and Medicaid programs. Although simple negligence will not give rise to liability under the FCA, "knowingly" submitting a false claim may result in liability. When an entity is determined to have violated the FCA, the government may impose substantial civil fines and penalties for each false claim, plus treble damages, and exclude the entity from participation in federal healthcare programs. Private parties are able to bring qui tam, or whistleblower, lawsuits on half of the government in connection with alleged false claims submitted to the government, and these private parties are entitled to share in any amounts recovered by the government. Several states, including states in which we operate, have adopted their own false claims provisions and their own whistleblower provisions whereby a private individual may file a civil lawsuit in state court.

Some other fraud and abuse laws, including CMP, require a lower burden of proof than other fraud, waste and abuse laws. Federal and state authorities increasingly assert liability under the CMP Law, especially where they believe they cannot meet the higher burden of proof requirements under the various criminal healthcare fraud provisions. Current penalties under CMP are significant. In some cases, violations of the CMP Law may result in penalties of up to three times the amount claimed or received. Civil monetary penalties, including those imposed under the AKS, FCA, and CMP Law are updated annually based on changes to the consumer price index.

Although we believe our processes are consistent with applicable reimbursement rules and industry practice, a court, government authority or whistleblower could challenge these processes. In addition, we cannot guarantee that federal and state authorities will regard any billing and coding errors we process or make as inadvertent or will not hold us responsible for any compliance issues related to claims, reports and other information we handle on behalf of our clients. We cannot predict the impact of any enforcement actions under the various false claims and fraud, waste and abuse laws applicable to our operations. Even an unsuccessful challenge of our practices could cause us to incur adverse publicity and significant legal and related costs.

The laws and regulations in this area are both broad and vague and judicial interpretation can be inconsistent. We review our practices with regulatory experts in an effort to comply with all applicable laws and regulatory requirements. However, we are unable to predict how laws and regulations will be interpreted or the full extent of their application, particularly to services that are not directly billed to or reimbursed by federal healthcare programs, such as transaction processing services. Any determination by a federal or state regulatory authority that any of our activities or those of our customers or vendors violate any of these laws or regulations could: (i) subject us to civil or criminal penalties, (ii) require us to enter into corporate integrity agreements or similar agreements with government regulators to meet ongoing compliance obligations, (iii) require us to change or terminate some portions of our business, (iv) require us to refund a portion of our service fees, and/or (v) disqualify us from providing services to customers that are, or do business with, government programs. These activities could result in a material adverse impact on our business, results of operations or financial condition. Even an unsuccessful challenge of our activities could result in adverse publicity and could require a costly response.

We must comply with laws and regulations prohibiting unfair or deceptive acts or practices, and any failure to do so could materially and adversely affect our business.

We and many of our clients are subject to Section 5 of the Federal Trade Commission Act prohibiting unfair or deceptive acts or practices. In addition, provisions of the Dodd-Frank Act that prohibit unfair, deceptive or abusive acts or practices (“UDAAP”), the Telemarketing Sales Act and other laws, rules and or regulations, may directly impact the activities of certain of our clients, and in some cases may subject us, as the electronic payment processor or provider of certain services, to investigations, fees, fines and disgorgement of funds if we were deemed to have improperly aided and abetted or otherwise provided the means and instrumentalities to facilitate the illegal or improper activities of the client through our services. Various federal and state regulatory enforcement agencies including the Federal Trade Commission and state attorneys general have authority to take action against non-banks that engage in UDAAP, or violate other laws, rules and regulations. To the extent we are processing payments or providing products and services for a client that may be in violation of laws, rules and regulations, we may be subject to enforcement actions and as a result may incur losses and liabilities that may adversely affect our business.

Numerous other federal laws affect our business, and any failure to comply with those laws could harm our business.

Our payment facilitator solutions present certain regulatory challenges, principally those relating to money transmitter issues. To address these challenges we, along with our third-party service providers, use structural arrangements designed to prevent us from receiving or controlling our client's funds and therefore remove our activities from the scope of money transmitter regulation. There can be no assurance that these structural arrangements will remain effective as money transmitter laws continue to evolve or that the applicable regulatory bodies, particularly state agencies, will view our payment facilitator activities as compliant.

Our business may also be subject to the Fair Credit Reporting Act (the “FCRA”), which regulates the use and reporting of consumer credit information and imposes disclosure requirements on entities that take adverse action based on information obtained from credit reporting agencies. We could be liable if our practices under the FCRA do not comply with the FCRA or regulations under it.

The Housing Assistance Tax Act of 2008 included an amendment to the Internal Revenue Code of 1986, as amended (the “Code”), that requires information returns to be made for each calendar year by payment processing entities and third-party settlement organizations with respect to payments made in settlement of electronic payment transactions and third-party payment network transactions occurring in that calendar year. Reportable transactions are also subject to backup withholding requirements. We could be liable for penalties if our information returns are not in compliance with these regulations.

Our solutions may be required to conform, in certain circumstances, to requirements set forth in HIPAA, which governs the privacy and security of “protected health information.”

Depending on how our products and services evolve, we may be subject to a variety of additional laws and regulations, including those governing money transmission, gift cards and other prepaid access instruments, electronic funds transfers, anti-money laundering, counter-terrorist financing, restrictions on foreign assets, gambling, banking and lending, U.S. Safe Harbor regulations, and import and export restrictions. Additionally, we are contractually required to comply with certain anti-money laundering regulations in connection with our payment processing activities. These regulations are generally governed by FinCEN and OFAC. Our efforts to comply with these laws and regulations could be costly and result in diversion of management time and effort and may still not guarantee compliance. Regulators continue to increase their scrutiny of compliance with these obligations, which may require us to further revise or expand our compliance program, including the procedures we use to verify the identity of our clients and our clients' customers, and to monitor transactions. If we are found to be in violation of any such legal or regulatory requirements, we may be subject to monetary fines or other penalties such as a cease and desist order, or we may be required to make product changes, any of which could have an adverse effect on our business and financial results.

Changes in tax laws or their interpretations, or becoming subject to additional U.S., state or local taxes that cannot be passed through to our clients, could negatively affect our business, financial condition and results of operations.

We are subject to extensive tax liabilities, including federal and state and transactional taxes such as excise, sales/use, payroll, franchise, withholding, and ad valorem taxes. Changes in tax laws or their interpretations could increase our tax burden and decrease the amount of revenues we receive, the value of any tax loss carryforwards and tax credits recorded on our balance sheet and the amount of our cash flow, and have a material adverse impact on our business, financial condition and results of operations. Some of our tax liabilities are subject to periodic audits by the respective taxing authority which could increase our tax liabilities. Furthermore, companies in the payment processing industry, including us, may become subject to incremental taxation in various tax jurisdictions. Taxing jurisdictions have not yet adopted uniform positions on this topic. If we are required to pay additional taxes and are unable to pass the tax expense through to our clients, our costs would increase and our net income would be reduced, which could have a material adverse effect on our business, financial condition and results of operations.

Changing laws and governmental rules and regulations designed to protect or limit access to or use of personal information could adversely affect our ability to effectively provide our products and services, and actual or perceived failure to comply with such legal and regulatory obligations may negatively impact our business, financial condition and results of operations.

In addition to those regulations discussed previously that are imposed by the card networks and NACHA, governmental bodies in the United States have adopted, or are considering the adoption of, laws and regulations restricting the use, collection, storage, transfer and disposal of, and requiring safeguarding of, personal information. Our operations are subject to certain provisions of these laws. Relevant federal privacy laws include, in addition to FERPA and PPRRA described above, the Gramm-Leach-Bliley Act of 1999, which applies directly to a broad range of financial institutions and indirectly, or in some instances directly, to companies that provide services to financial institutions. In addition to the CCPA and CPRA described above, the U.S. Children's Online Privacy Protection Act also regulates the collection of information by operators of websites and other electronic solutions that are directed to children under 13 years of age. These laws and regulations restrict the collection, processing, storage, use and disclosure of personal information, require notice to individuals of privacy practices and provide individuals with certain rights to prevent the use and disclosure of protected information. These laws also impose requirements for safeguarding and proper destruction of personal information through the issuance of data security standards or guidelines. In addition, there are state laws restricting the ability to collect and utilize certain types of information such as Social Security and driver's license numbers. Certain state laws impose similar privacy obligations as well as obligations to provide notification of security breaches of computer databases that contain personal information to affected individuals, state officers and consumer reporting agencies and businesses and governmental agencies that own data.

In connection with providing products and services to our clients, we are required by regulations, government-required standards, and by our client contracts with them and with our financial institution distribution partners to provide assurances regarding the confidentiality and security of non-public consumer information. These contracts may require periodic audits by independent companies regarding our compliance with applicable standards. The compliance standards relate to the security of our infrastructure, and include components and operational procedures designed to safeguard the confidentiality and security of individuals' non-public personal information that our clients share with us. Our ability to maintain compliance with these standards and satisfy these audits will affect our ability to attract, grow and maintain business in the future. If we fail to comply with the laws and regulations relating to data privacy and information security, we could be exposed to legal claims and actions or to regulatory enforcement proceedings. In addition, our relationships and reputation could be harmed, which could inhibit our ability to retain existing clients and distribution partners and obtain new clients and distribution partners.

Legal requirements relating to the collection, storage, handling and transfer of personal data continue to evolve. For example, in June 2018, the State of California enacted the CCPA, which went into effect on January 1, 2020. The CCPA requires companies (regardless of their location) that collect personal information of California residents to notify consumers about their data collection, use, and sharing practices. The CCPA also grants consumers specific rights to access and to delete their data and to opt out of certain data sharing with or sales to third parties. The California Attorney General is currently responsible for the enforcement of the CCPA and issued Final Regulations governing CCPA compliance on August 14, 2020. The California Attorney General can impose statutory fines for violations and consumers have a limited private right of action for unauthorized access to certain categories of information. Notably, it may be possible to have statutory damages imposed without proof of actual damages from the unauthorized access. On November 3, 2020, California voters passed Proposition 24, enacting the CPRA, which will become effective on January 1, 2023, but applies to certain personal information collected on or after January 1, 2022. CPRA amends and expands the CCPA to create additional consumer privacy rights, such as the right of correction and the right to limit the use and disclosure of sensitive personal information. The CPRA also establishes a new privacy enforcement agency, the CPPA, which will assume responsibility for promulgating, revising, and implementing regulations interpreting the CCPA and CPRA by either July 1, 2021, or six months after the CPPA indicates it is ready to begin rulemaking (whichever is later). Unlike the CCPA, the CPRA cannot be repealed by the California legislature, but can be amended by a simple majority provided such amendments are consistent with and further the purpose and intent of the law.

In addition, several other states have introduced or passed similar legislation to the CCPA, including Nevada, Colorado, Virginia and Maine, that may impose varying standards and requirements on our data collection, use and processing activities. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data.

Government regulators, industry groups and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. Regulators and courts may expand interpretations of existing laws, thereby further impacting our business. If more restrictive privacy laws or rules and/or inconsistent legal requirements are adopted by authorities in the future on the federal or state level, or regulators' enforcement priorities shift, our compliance costs may increase and our ability to perform due diligence on, and monitor the risk of, our current and potential clients may decrease, which could create liability for us. Additionally, if we suffer a data breach, other privacy or cybersecurity regulatory compliance failures or are subject to fines, sanctions or proceedings as a result of actual or perceived compliance failures, or any similar event causing reputational harm, our opportunities for growth may be curtailed, and our potential liability for security breaches may increase, all of which could have a material adverse effect on our business, financial condition and results of operations.

These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. Any failure of our products or services to comply with these laws and regulations could result in substantial civil or criminal liability and could, among other things, adversely affect demand for our services, invalidate all or portions of some of our contracts with our customers, require us to change or terminate some portions of our business. Further, reform or changing healthcare regulatory requirements may also render our products or services obsolete or may block us from accomplishing our work or from developing new products or services. This may in turn impose additional costs upon us to adapt to the new operating environment or to further develop or modify our products and services. Such healthcare reforms may also make introduction of new products and service costlier or more time-consuming than we currently anticipate. These changes may also prevent our introduction of new products and services or make the continuation or maintenance of our existing healthcare vertical products and services unprofitable or impossible.

Risks Related to Our Indebtedness

Our indebtedness could adversely affect our financial health and competitive position.

On May 9, 2019, we replaced our existing senior secured credit facility with a new 2019 senior secured credit facility (the “Senior Secured Credit Facility”). The Senior Secured Credit Facility, as amended on February 18, 2020 in connection with our offering of Exchangeable Notes, 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 up to 3.25%, or the base rate (defined as the highest of (x) the Bank of America prime rate, (y) the federal funds rate plus 0.50% and (z) LIBOR plus 1.00%), plus an applicable margin of 0.25% to 1.25% (1.25% as of September 30, 2021), 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 September 30, 2021) 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. As of September 30, 2021, we had borrowings outstanding of \$104.4 million under our Senior Secured Credit Facility. Although we may enter into interest rate swap agreements in the future, we and our subsidiaries are exposed to interest rate increases on the floating portion of our Senior Secured Credit Facility that are not covered by interest rate swaps, to the extent we have indebtedness outstanding. For additional information about our Senior Secured Credit Facility, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” in Part II, Item 7 of this Annual Report on Form 10-K, and “Quantitative and Qualitative Disclosure About Market Risk” in Part II, Item 7A of this Annual Report on Form 10-K.

On February 18, 2020, i3 Verticals, LLC issued \$138.0 million aggregate principal amount of its Exchangeable Notes. 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. 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. As of September 30, 2021, \$117.0 million of the original aggregate principal amount of \$138.0 million was outstanding.

To service our debt and any additional debt we may incur in the future, we need to generate cash. Our ability to generate cash is subject, to a certain extent, to our ability to successfully execute our business strategy, including acquisition activity, as well as general economic, financial, competitive, regulatory and other factors beyond our control. Although we currently 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 expenditures and to service our debt obligations for at least the next twelve months, there can be no assurance that our business will be able to generate sufficient cash flow from operations or that future borrowings or other financing will be available to us in an amount sufficient to enable us to service our debt and fund our other liquidity needs. To the extent we are required to use our cash flow from operations or the proceeds of any future financing to service our debt instead of funding working capital, capital expenditures, acquisition activity or other general corporate purposes, we will be less able to plan for, or react to, changes in our business, industry and in the economy generally. This will place us at a competitive disadvantage compared to our competitors that have less debt. There can be no assurance that we will be able to refinance any of our debt on commercially reasonable terms or at all, or that the terms of that debt will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition and the value of our outstanding debt. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

In addition, the credit agreement governing our Senior Secured Credit Facility contains, and any agreements evidencing or governing other future debt may contain, certain restrictive covenants that limit our ability, among other things, to engage in certain activities that are in our long-term best interests, including our ability to:

- incur liens on property, assets or revenues;
- incur or assume additional debt or amend our debt and other material agreements;
- declare or make distributions and redeem or repurchase equity interests or issue preferred stock;
- prepay, redeem or repurchase debt;
- make investments;
- enter into any sale-and-leaseback of property;
- engage in certain business activities; and
- engage in mergers and asset sales.

The restrictive covenants in our Senior Secured Credit Facility also require us to maintain specified financial ratios. While we have not previously breached and are not in breach of any of these covenants, there can be no guarantee that we will not breach these covenants in the future. Our ability to comply with these covenants and restrictions may be affected by events and factors beyond our control. Our failure to comply with any of these covenants or restrictions could result in an event of default under our Senior Secured Credit Facility. An event of default would permit the lending banks under the facility to take certain actions, including terminating all outstanding commitments and declaring all amounts outstanding under our credit facility to be immediately due and payable, including all outstanding borrowings, accrued and unpaid interest thereon, and all other amounts owing or payable with respect to such borrowings and any terminated commitments. In addition, the lenders would have the right to proceed against the collateral we granted to them, which includes substantially all of our assets.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions or unforeseen circumstances, and may determine to engage in equity or debt financings or enter into credit facilities or refinance existing debt for other reasons. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. The COVID-19 pandemic has previously caused disruption in the financial markets and the businesses of financial institutions and may do so again, potentially causing a slowdown in the decision-making of these institutions. This may affect the timing on which we may obtain any additional funding and there can be no assurance that we will be able to raise additional funds, in the form of debt or equity, or to amend our Senior Secured Credit Facility on terms acceptable to us, if at all, even if we determined such actions were necessary in the future. As discussed above, the credit agreement governing our Senior Secured Credit Facility contains restrictive covenants that limit our ability to incur additional debt and engage in other capital-raising activities. Any debt financing we obtain in the future could involve covenants that further restrict our capital raising activities and other financial and operational matters, which may make it more difficult for us to operate our business, obtain additional capital and pursue business opportunities, including potential acquisitions. Furthermore, if we raise additional funds by issuing equity or convertible debt or other equity-linked securities, our then-existing stockholders could suffer significant dilution. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

We may not have the ability to raise the funds necessary to settle exchanges of the Exchangeable Notes or to repurchase the Exchangeable Notes upon a fundamental change.

Holders of our Exchangeable Notes have the right to require us to repurchase their Exchangeable Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Exchangeable Notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date. In addition, unless we elect to deliver solely shares of Class A common stock to settle an exchange of the Exchangeable Notes, we will be required to make cash payments in respect of such Exchangeable Notes being exchanged. However, we may not have enough available cash or be able to obtain financing at the time we are required to make purchases of Exchangeable Notes surrendered therefor or

Exchangeable Notes being exchanged. In addition, our ability to repurchase the Exchangeable Notes or to pay cash upon exchanges of the Exchangeable Notes is limited by the agreements governing our existing indebtedness (including the Senior Secured Credit Facility) and may also be limited by law, by regulatory authority or by agreements that will govern our future indebtedness. Our failure to repurchase Exchangeable Notes at a time when the repurchase is required by the indenture that governs the Exchangeable Notes or to pay cash payable on future exchanges of the Exchangeable Notes if and/or as required by the Indenture would constitute a default under the Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under the agreements governing our other indebtedness (including the credit agreement governing the Senior Secured Credit Facility) and agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Exchangeable Notes or make cash payments upon exchanges thereof.

The conditional exchange feature of the Exchangeable Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional exchange feature of the Exchangeable Notes is triggered, holders of Exchangeable Notes will be entitled to exchange the Exchangeable Notes at any time during specified periods at their option. If one or more holders elect to exchange their Exchangeable Notes, we may elect to settle all or a portion of our exchange obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to exchange their Exchangeable Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

The potential cessation or modification of LIBOR may increase our interest expense or otherwise adversely affect us.

Our indebtedness under our Senior Secured Credit Facility bears interest at variable interest rates that use LIBOR as a benchmark rate. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit LIBOR quotations after 2021 (the "FCA Announcement"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be assured after 2021, and LIBOR may cease to exist or otherwise be unsuitable for use as a benchmark. In the United States, the Alternative Reference Rates Committee, which was convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative rate for U.S. dollar LIBOR. On November 30, 2020, ICE Benchmark Administration, the administrator of LIBOR announced plans to consult on ceasing publication of U.S. dollar LIBOR on December 31, 2021 for only the one week and two month U.S. dollar LIBOR tenors, and on June 30, 2023 for all other U.S. dollar LIBOR tenors. While this announcement extends the transition period to June 2023, the United States Federal Reserve concurrently issued a statement advising banks to stop new U.S. dollar LIBOR issuances by the end of 2021.

Uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the performance of LIBOR relative to its historic values. Even if financial instruments are transitioned to alternative benchmarks, such as SOFR, successfully, the new benchmarks are likely to differ from LIBOR, and our interest expense associated with our outstanding indebtedness or any future indebtedness we incur may increase. Transitioning to an alternative benchmark rate, such as SOFR, may result in us incurring significant expense and legal risks, as renegotiation and changes to documentation may be required in effecting the transition. We may also incur expenses to amend and adjust our indebtedness to eliminate any differences between any alternative benchmark rate used by our outstanding indebtedness. Any alternative benchmark rate may be calculated differently than LIBOR, may increase the interest expense associated with our existing or future indebtedness and may not align for our assets and liabilities. Any of these occurrences could adversely affect our borrowing costs, financial condition, and results of operations.

Risks Related to Our Organizational Structure and Our Company

We are a holding company with no operations of our own, and our principal asset is our controlling membership interest in i3 Verticals, LLC. Accordingly, we depend on distributions from i3 Verticals, LLC to pay our taxes and other expenses.

We are a holding company with no operations of our own and currently have no significant assets other than our ownership of common units of i3 Verticals, LLC. We currently have no independent means of generating revenue. Consequently, our ability to obtain operating funds depends upon distributions from i3 Verticals, LLC. Furthermore, i3 Verticals, LLC is treated as a partnership for U.S. federal income tax purposes and, as such, is not itself subject to U.S. federal income tax. Instead, its net taxable income is generally allocated to its members, including us, pro rata according to the number of membership interests each member owns. Accordingly, we incur income taxes on our proportionate share of any net taxable income of i3 Verticals, LLC in addition to expenses related to our operations, and our ability to obtain funds to pay these income taxes currently depends upon distributions from i3 Verticals, LLC. We intend to cause i3 Verticals, LLC to distribute cash to us in an amount at least equal to the amount necessary to cover our respective tax liabilities, if any, with respect to our allocable share of the net income of i3 Verticals, LLC and to cover dividends, if any, we declare, as well as any payments due under the Tax Receivable Agreement (the "Tax Receivable Agreement" or "TRA") by and among i3 Verticals, Inc., i3 Verticals, LLC and each of the holders, other than i3 Verticals, Inc., of common units in i3 Verticals, LLC (the "Continuing Equity Owners"). See the detailed discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Senior Secured Credit Facility" in Part II, Item 7 of this Annual Report on Form 10-K for a discussion of the restrictive covenants, including i3 Verticals, LLC's obligations to maintain specific financial ratios, that may limit its ability to make certain distributions to us.

To the extent that we need funds to pay our taxes or other liabilities or to fund our operations, and i3 Verticals, LLC is restricted from making distributions to us under applicable agreements under which it is bound, including its financing agreements, laws or regulations, does not have sufficient cash to make these distributions or is otherwise unable to provide such funds, we may have to borrow funds to meet these obligations and operate our business, and our liquidity and financial condition could be materially adversely affected. To the extent that we are unable to make payments under the Tax Receivable Agreement for any reason, such payments will be deferred and will accrue interest until paid.

The interests of the other Continuing Equity Owners in our business may conflict with the interests of holders of shares of our Class A common stock.

The Continuing Equity Owners, who collectively hold approximately 32% of the combined voting power of our common stock as of November 19, 2021, may receive payments from us under the Tax Receivable Agreement upon a redemption or exchange of their common units in i3 Verticals, LLC, including the issuance of shares of our Class A common stock upon any such redemption or exchange. As a result, the interests of the Continuing Equity Owners may conflict with the interests of holders of shares of our Class A common stock. For example, the Continuing Equity Owners may have different tax positions from us which could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness, and whether and when we should terminate the Tax Receivable Agreement and accelerate our obligations thereunder. In addition, the structuring of future transactions may take into consideration tax or other considerations of the Continuing Equity Owners even in situations where no similar considerations are relevant to us.

We may not be able to realize all or a portion of the tax benefits that are expected to result from future redemptions or exchanges of common units by holders.

Our organizational structure, including the Tax Receivable Agreement, confers certain benefits upon the Continuing Equity Owners that will not benefit the holders of our Class A common stock to the same extent as it will benefit the Continuing Equity Owners. Under the Tax Receivable Agreement, we are entitled to retain (a) 15% of the U.S. federal and state income tax savings we realize as a result of increases in tax basis created by any future redemptions or exchanges of common units held by our equity holders that are parties to the Tax Receivable Agreement for shares of our Class A common stock or cash for the tax years following a redemption or exchange covered by the Tax Receivable Agreement, and (b) all of the U.S. federal and state income tax savings we realize from such redemptions or exchanges for tax periods ending after those covered by the Tax Receivable Agreement. Our ability to realize, and benefit from, these tax savings depends on several assumptions, including that we will earn sufficient taxable income each year during the period over which the deductions arising from any such basis increases and payments are available and that there are no adverse changes in applicable law or regulations. If our actual taxable income were insufficient or there were adverse changes in applicable law or regulations, we may be unable to realize all or a portion of these expected benefits, and our cash flows and stockholders' equity could be negatively affected.

In certain cases, payments under the Tax Receivable Agreement to the Continuing Equity Owners may be accelerated or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the Tax Receivable Agreement.

The Tax Receivable Agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control or if, at any time, we elect an early termination of the Tax Receivable Agreement, then our obligations, or our successor's obligations, under the Tax Receivable Agreement to make payments thereunder would be based on certain assumptions, including an assumption that we would have sufficient taxable income to fully use all potential future tax benefits that are subject to the Tax Receivable Agreement.

As a result of the foregoing, (a) we could be required to make payments under the Tax Receivable Agreement that are greater than the specified percentage of the actual benefits we ultimately realize in respect of the tax benefits that are subject to the Tax Receivable Agreement and (b) if we elect to terminate the Tax Receivable Agreement early, we would be required to make an immediate cash payment equal to the present value of the anticipated future tax benefits that are the subject of the Tax Receivable Agreement, which payment may be made significantly in advance of the actual realization, if any, of such future tax benefits. In these situations, our obligations under the Tax Receivable Agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to fund or finance our obligations under the Tax Receivable Agreement.

In certain circumstances, i3 Verticals, LLC will be required to make distributions to us and the Continuing Equity Owners, and the distributions that i3 Verticals, LLC will be required to make may be substantial.

Funds used by i3 Verticals, LLC to satisfy its tax distribution obligations will not be available for reinvestment in our business. Moreover, the tax distributions that i3 Verticals, LLC will be required to make may be substantial, and will likely exceed (as a percentage of i3 Verticals, LLC's net income) the overall effective tax rate applicable to a similarly situated corporate taxpayer.

As a result of potential differences in the amount of net taxable income allocable to us and to the Continuing Equity Owners, as well as the use of an assumed tax rate in calculating i3 Verticals, LLC's distribution obligations, we may receive distributions significantly in excess of our tax liabilities and obligations to make payments under the Tax Receivable Agreement. To the extent, as currently expected, we do not distribute such cash balances as dividends on our Class A common stock and instead, for example, hold such cash balances or lend them to i3 Verticals, LLC, the Continuing Equity Owners would benefit from any value attributable to such accumulated cash balances as a result of their ownership of Class A common stock following a redemption or exchange of their common units.

Our failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a significant and adverse effect on our business, financial condition, results of operations and reputation.

Since the completion of our IPO, we have been subject to a requirement, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), to conduct an annual review and evaluation of our internal control over financial reporting and furnish a report by management on, among other things, our assessment of the effectiveness of our internal control over financial reporting each fiscal year beginning with the year following our first annual report required to be filed with the SEC. However, because we are an emerging growth company, our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the earlier of the fifth year following our first annual report required to be filed with the SEC or the date we are no longer an emerging growth company. Ensuring that we have adequate internal control over financial reporting in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that must be evaluated frequently. Establishing and maintaining these internal controls is and will continue to be costly and may divert management's attention.

When evaluating our internal control over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. In addition, if we fail to achieve and maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude, on an ongoing basis, that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations. If we have not adequately implemented or complied with the requirements of Section 404 of the Sarbanes-Oxley Act, we may be subject to sanctions or investigation by regulatory authorities, such as the SEC, or suffer other adverse regulatory consequences, including penalties for violation of Nasdaq rules. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. A loss of confidence in the reliability of our financial statements also could occur if we or our independent registered public accounting firm were to report one or more material weaknesses in our internal control over financial reporting. In addition, we may be required to incur costs in improving our internal control system, including the costs of the hiring of additional personnel. Any such action could negatively affect our business, financial condition, results of operations and cash flows and could also lead to a decline in the price of our Class A common stock.

Certain provisions of Delaware law and anti-takeover provisions in our organizational documents could delay or prevent a change of control.

Certain provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws may have an anti-takeover effect and may delay, defer, or prevent a merger, acquisition, tender offer, takeover attempt, or other change of control transaction that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by our stockholders.

These provisions provide for, among other things:

- prohibiting the use of cumulative voting for the election of directors;
- advance notice for nominations of directors by stockholders and for stockholders to include matters to be considered at our annual meetings; and
- certain limitations on convening special stockholder meetings.

In addition, while we have opted out of Section 203 of the Delaware General Corporation Law, or the “DGCL,” our amended and restated certificate of incorporation contains similar provisions providing that we may not engage in certain “business combinations” with any “interested stockholder” for a three-year period following the time that the stockholder became an interested stockholder, unless:

- prior to such time, our board of directors (“Board of Directors”) approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the votes of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or
- at or subsequent to that time, the business combination is approved by our Board of Directors and by the affirmative vote of holders of at least 66 2/3% of the votes of our outstanding voting stock that is not owned by the interested stockholder.

Generally, a “business combination” includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an “interested stockholder” is a person who, together with that person’s affiliates and associates, owns, or within the previous three years owned, 15% or more of the votes of our outstanding voting stock. For purposes of this provision, “voting stock” means any class or series of stock entitled to vote generally in the election of directors.

Under certain circumstances, this provision will make it more difficult for a person who would be an “interested stockholder” to effect various business combinations with our company for a three-year period. This provision may encourage companies interested in acquiring our company to negotiate in advance with our Board of Directors because the stockholder approval requirement would be avoided if our Board of Directors approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our Board of Directors and may make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

These provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a transaction involving a change in control of our company that is in the best interest of our minority stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging future takeover attempts. These provisions could also make it more difficult for stockholders to nominate directors for election to our Board of Directors and take other corporate actions.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Class A common stock, which could depress the price of our Class A common stock.

Our amended and restated certificate of incorporation authorizes us to issue one or more series of preferred stock. Our Board of Directors has the authority to determine the preferences, limitations and relative rights of the shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock can be issued with voting, liquidation, dividend and other rights superior to the rights of our Class A common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for our Class A common stock at a premium to the market price, and materially and adversely affect the market price and the voting and other rights of the holders of our Class A common stock.

Risks Related to Ownership of Our Class A Common Stock

The Continuing Equity Owners own common units in i3 Verticals, LLC, and the Continuing Equity Owners have the right to redeem their common units in i3 Verticals, LLC pursuant to the terms of the limited liability company agreement of i3 Verticals, LLC (the "LLC Agreement") for shares of Class A common stock or cash.

As of September 30, 2021, we have an aggregate of 127,973,902 shares of Class A common stock authorized but unissued, including 10,229,142 shares of Class A common stock issuable, at our election, upon redemption of common units of i3 Verticals, LLC that are held by the Continuing Equity Owners. Subject to certain restrictions contained in the LLC Agreement, the Continuing Equity Owners are entitled to have their common units redeemed from time to time at each of their options (subject in certain circumstances to time-based and service-based vesting requirements and other limitations) for newly-issued shares of our Class A common stock on a one-for-one basis or a cash payment equal to a volume weighted average market price of one share of Class A common stock for each Common Unit redeemed, in each case, in accordance with the terms of the LLC Agreement. At our election, however, we may effect a direct exchange by i3 Verticals, Inc. of such Class A common stock or such cash, as applicable, for such common units in lieu of redemption. The Continuing Equity Owners may exercise such redemption right for as long as their common units remain outstanding. We have also entered into a Registration Rights Agreement pursuant to which the shares of Class A common stock issued to certain Continuing Equity Owners upon such redemption and the shares of Class A common stock issued to certain Continuing Equity Owners in connection with the Reorganization Transactions will be eligible for resale registration, subject to certain limitations set forth in the Registration Rights Agreement.

We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or distributions of substantial amounts of our Class A common stock, including shares issued in connection with an acquisition, or the perception that such sales or distributions could occur, may cause the market price of our Class A common stock to decline.

Holders of our Class A common stock may be diluted by future issuances of preferred stock or additional Class A common stock or common units in connection with our incentive plans, acquisitions or otherwise; future sales of such shares in the public market, or the expectations that such sales may occur, could lower our stock price.

Our amended and restated certificate of incorporation authorizes us to issue shares of our Class A common stock and options, rights, warrants and appreciation rights relating to our Class A common stock for the consideration and on the terms and conditions established by our Board of Directors in its sole discretion. We could issue a significant number of shares of Class A common stock in the future in connection with investments or acquisitions. Any of these issuances could dilute our existing stockholders, and such dilution could be significant. Moreover, such dilution could have a material adverse effect on the market price for the shares of our Class A common stock.

The future issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of shares of our Class A common stock, either by diluting the voting power of our Class A common stock if the preferred stock votes together with the common stock as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote, even if the action were approved by the holders of our shares of our Class A common stock.

The future issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our Class A common stock by making an investment in the Class A common stock less attractive. For example, investors in the Class A common stock may not wish to purchase Class A common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase Class A common stock at the lower conversion price, causing economic dilution to the holders of Class A common stock.

Sales of shares of our Class A common stock in connection with the Registration Rights Agreement, or the prospect of any such sales, could materially affect the market price of our Class A common stock and could impair our ability to raise capital through future sales of equity securities.

In connection with the completion of our IPO, we entered into a Registration Rights Agreement with certain Continuing Equity Owners. Any sales in connection with the Registration Rights Agreement, or the prospect of any such sales, could materially and adversely impact the market price of our Class A common stock and could impair our ability to raise capital through future sales of equity securities.

In the future, we may also issue additional securities if we need to raise capital, including, but not limited to, in connection with acquisitions, which could constitute a material portion of our then-outstanding shares of Class A common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is in Nashville, Tennessee where we occupy approximately 16,000 square feet of office space under a lease that expires in 2027. We lease properties located within various geographic regions in which we conduct business, including Arkansas, California, Colorado, Florida, Georgia, Hawaii, Kentucky, Louisiana, Michigan, Minnesota, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Washington and Wisconsin. Our properties include office spaces and call centers used for operational, sales, management and administrative purposes.

For leases that are scheduled to expire during the next 12 months, we may negotiate new lease agreements, renew existing lease agreements, exercise any respective options to extend the existing lease agreements, or use alternate facilities. We believe our facilities are adequate for our needs and believe that we should be able to renew any of our existing leases or secure similar property without an adverse impact on our operations.

Item 3. Legal Proceedings

The information required with respect to this item can be found in Note 15 to the accompanying audited consolidated financial statements contained in this report and is incorporated by reference into this Part I, Item 3.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

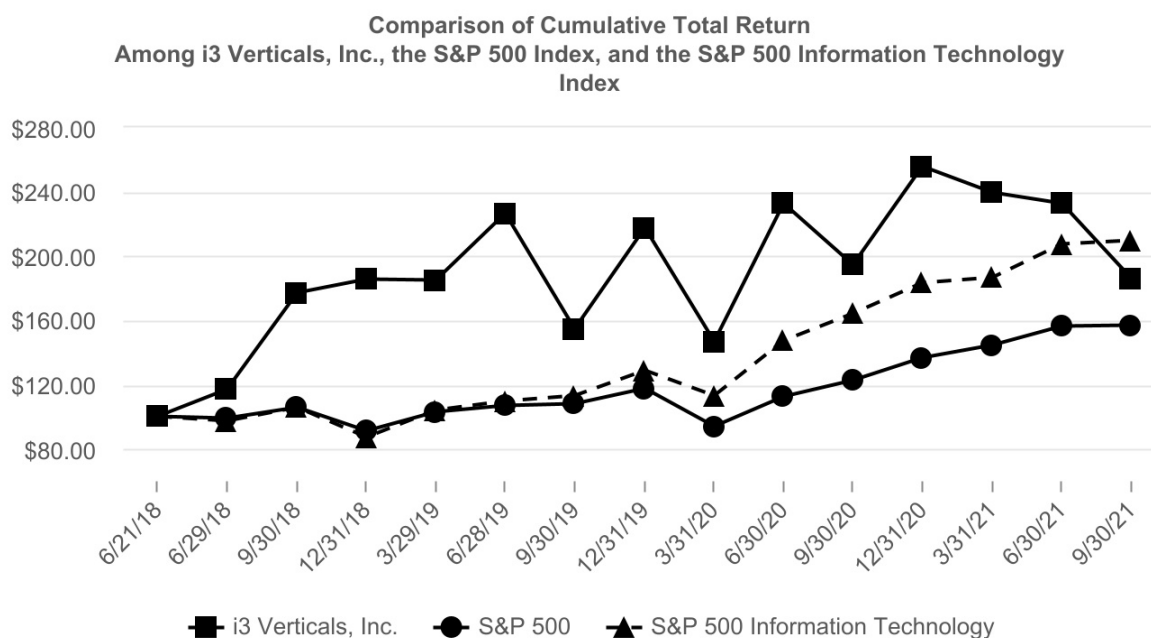
On June 21, 2018, our Class A common stock began trading on the Nasdaq Global Select Market under the symbol “IIIV.” There is currently no established public trading market for our Class B common stock.

Stockholders

As of November 19, 2021, there were 84 stockholders of record of our Class A common stock. The number of record holders does not include persons who held shares of our Class A common stock in nominee or “street name” accounts through brokers. As of November 19, 2021, there were 54 stockholders of record of our Class B common stock.

Performance Graph

The following graph shows a comparison of cumulative total shareholder return for (1) our Class A common stock, (2) the S&P 500 Index and (3) the S&P Information technology Index. The graph begins on June 21, 2018 (the first day our common stock was traded in conjunction with our IPO). The graph assumes the value of the investment in our common stock and each index was \$100.00 on June 21, 2018 and that all dividends, if any, were reinvested. The comparisons reflected in the graph and table are not intended to forecast the future performance of our stock and may not be indicative of our future performance.



The following table presents the corresponding data for the periods shown in the graph:

	i3 Verticals, Inc.		S&P 500		S&P 500 Information Technology	
June 21, 2018	\$	100.00	\$	100.00	\$	100.00
June 29, 2018	\$	117.08	\$	98.86	\$	97.44
September 30, 2018	\$	176.77	\$	105.97	\$	105.71
December 31, 2018	\$	185.38	\$	91.17	\$	87.02
March 29, 2019	\$	184.77	\$	103.08	\$	103.87
June 28, 2019	\$	226.54	\$	106.98	\$	109.74
September 30, 2019	\$	154.77	\$	108.25	\$	113.00
December 31, 2019	\$	217.31	\$	117.49	\$	128.82
March 31, 2020	\$	146.85	\$	93.99	\$	113.08
June 30, 2020	\$	232.69	\$	112.75	\$	147.12
September 30, 2020	\$	194.23	\$	122.30	\$	164.27
December 31, 2020	\$	255.38	\$	136.60	\$	183.20
March 31, 2021	\$	239.46	\$	144.48	\$	186.38
June 30, 2021	\$	232.46	\$	156.29	\$	207.44
September 30, 2021	\$	186.23	\$	156.65	\$	209.78

Sales of Unregistered Securities

We did not issue any Class A common stock in exchange for Class B common stock pursuant to the terms of the LLC Limited Liability Agreement during the quarter ended September 30, 2021. All other sales of unregistered securities during the year ended September 30, 2021, have been previously disclosed in either a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

Issuer Purchases of Equity Securities

We did not repurchase any shares of our Class A or Class B common stock during the quarter ended September 30, 2021.

Dividends

We have never declared or paid a cash dividend on our common stock. We intend to retain any earnings to finance the growth and development of our business and do not expect to declare or pay any cash dividends in the foreseeable future. Our Board of Directors reviews our dividend policy from time to time and may declare dividends at its discretion; however, our Senior Secured Credit Facility (as defined below) places restrictions on the payment of dividends. For further discussion of the Senior Secured Credit Facility, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources."

Item 6. Reserved

Item 7. 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 audited financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those under the heading "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K. Certain amounts in this section may not foot due to rounding.

Executive Overview

Recognizing the convergence of software and payments, i3 Verticals was founded in 2012 with the purpose of delivering seamlessly integrated payment and software solutions to SMBs and organizations in strategic vertical markets. Since commencing operations, we have built a broad suite of payment and software 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 2020 and 2021 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.

Acquisitions

A core component of our growth strategy includes a disciplined approach to acquisitions of companies and technology, evidenced by numerous platform acquisitions and tuck-in acquisitions since our inception in 2012. Our acquisitions have opened new strategic vertical markets, increased the number of businesses and organizations to whom we provide solutions and augmented our existing payment and software solutions and capabilities.

Acquisitions subsequent to September 30, 2021

Subsequent to September 30, 2021, we completed the acquisition of one business within the Company's Healthcare vertical that provides comprehensive revenue cycle management and related administrative and consulting services for hospitals, including academic teaching institutions with residents, practice groups and healthcare providers primarily in the southeast. Total purchase consideration included 60,000 in cash and revolving line of credit proceeds, and an amount of contingent consideration, which is still being valued.

Acquisitions during the year ended September 30, 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 year ended September 30, 2021, we also completed the acquisitions of six unrelated 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 \$65.5 million, including \$57.0 million in revolving credit facility proceeds, and \$8.5 million of contingent consideration.

Acquisitions during the year ended September 30, 2020

During the year ended September 30, 2020, we completed the acquisitions of three unrelated businesses. Two expanded our geographic reach and software capabilities in the public sector vertical. The other added text-to-pay capabilities and other software solutions in our non-profit vertical. Total purchase consideration was \$32.6 million, including \$27.9 million in revolving credit facility proceeds and \$4.7 million of contingent consideration.

The results of operations of these acquired businesses have been included in our financial statements since the applicable acquisition date. For additional information, see Note 4 to our consolidated financial statements.

Our Revenue and Expenses

Revenues

We generate revenue from software licenses and subscriptions, other software related services, and volume-based payment processing fees ("discount fees"), and to a lesser extent, software licensing subscriptions, ongoing support and other 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. Upon our adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606") on October 1, 2019, these fees are presented net within 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 includes 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 payments 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.

Effective July 1, 2020, we realigned one component from the Proprietary Software and Payments segment to the Merchant Services segment. Prior periods have been retroactively adjusted to reflect the Company's current segment presentation. For additional information on our segments, see Note 17 to our consolidated financial statements.

Key Operating Metrics

We evaluate our performance through key operating metrics, including:

- 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.

Our payment volume for the years ended September 30, 2021 and 2020 was \$18.8 billion and \$14.4 billion, respectively, representing a period-to-period growth rate of 31%. We focus on 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 represents 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 60% of our payment volume for the year ended September 30, 2021 from 55% for the year ended September 30, 2020.

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 year ended September 30, 2021, our average net volume attrition per month remained below 1%.

Results of Operations

Year Ended September 30, 2021 Compared to Year Ended September 30, 2020

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

(in thousands)	Year ended September 30,		Change	
	2021	2020	Amount	%
Revenue	\$ 224,124	\$ 150,134	\$ 73,990	49.3 %
Operating expenses				
Other costs of services	57,706	47,230	10,476	22.2 %
Selling general and administrative	134,872	78,323	56,549	72.2 %
Depreciation and amortization	24,418	18,217	6,201	34.0 %
Change in fair value of contingent consideration	7,140	(1,409)	8,549	n/m
Total operating expenses	224,136	142,361	81,775	57.4 %
(Loss) income from operations	(12)	7,773	(7,785)	n/m
Other expenses				
Interest expense, net	9,799	8,926	873	9.8 %
Other (income) expense	(2,595)	2,621	(5,216)	n/m
Total other expenses	7,204	11,547	(4,343)	(37.6)%
Loss before income taxes	(7,216)	(3,774)	(3,442)	91.2 %
Provision for (benefit from) income taxes	623	(2,795)	3,418	n/m
Net loss	(7,839)	(979)	(6,860)	700.7 %
Net loss attributable to non-controlling interest	(3,382)	(560)	(2,822)	503.9 %
Net loss attributable to i3 Verticals, Inc.	\$ (4,457)	\$ (419)	\$ (4,038)	963.7 %

n/m = not meaningful

Revenue

Revenue increased \$74.0 million, or 49.3%, to \$224.1 million for the year ended September 30, 2021 from \$150.1 million for the year ended September 30, 2020. This increase was driven by an increase in revenue from existing businesses of \$10.4 million, primarily due to an overall increase in consumer spending as a result of recovery from the COVID-19 pandemic. Acquisitions completed during the 2021 and 2020 fiscal years contributed an incremental \$63.6 million, net of intercompany eliminations, to our revenue for the year ended September 30, 2021.

Revenue within Merchant Services increased \$10.9 million, or 10.8%, to \$111.9 million for the year ended September 30, 2021 from \$100.9 million for the year ended September 30, 2020.

Revenue within Proprietary Software and Payments increased \$63.5 million, or 124.6%, to \$114.4 million for the year ended September 30, 2021 from \$51.0 million for the year ended September 30, 2020. This increase was principally driven by acquisitions completed during the 2021 and 2020 fiscal years, in addition to an overall increase in consumer spending, as a result of recovery from the COVID-19 pandemic.

Payment volume increased \$4.4 billion, or 30.7%, to \$18.8 billion for the year ended September 30, 2021 from \$14.4 billion for the year ended September 30, 2020. This increase was principally driven by acquisitions completed during the 2021 and 2020 fiscal years and organic growth prior to the COVID-19 pandemic.

Other Costs of Services

Other costs of services increased \$10.5 million, or 22.2%, to \$57.7 million for the year ended September 30, 2021 from \$47.2 million for the year ended September 30, 2020. Acquisitions completed during the 2021 and 2020 fiscal years contributed an incremental \$4.6 million, net of inter-segment eliminations, to our other costs of services for the year ended September 30, 2021. The remaining increase was driven by an increase in revenue from existing businesses of \$5.9 million, primarily due to an overall increase in consumer spending as a result of recovery from the COVID-19 pandemic.

Other costs of services within Merchant Services increased \$7.3 million, or 16.6%, to \$51.2 million for the year ended September 30, 2021 from \$43.9 million for the year ended September 30, 2020. This increase was principally driven an increase in other cost of services from existing businesses of \$6.6 million as a result of recovery from the COVID-19 pandemic.

Other costs of services within Proprietary Software and Payments increased \$3.6 million, or 70.3%, to \$8.6 million for the year ended September 30, 2021 from \$5.1 million for the year ended September 30, 2020. Acquisitions completed during the 2020 and 2021 fiscal years contributed an incremental \$3.9 million, net of intercompany eliminations, to our other cost of sales for the year ended September 30, 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$56.5 million, or 72.2%, to \$134.9 million for the year ended September 30, 2021 from \$78.3 million for the year ended September 30, 2020. This increase was principally driven by a \$50.4 million increase in employment expense, primarily resulting from an increase in headcount that resulted from acquisitions and an increase in stock compensation expense. The majority of the remaining increase was comprised of increases in professional services and insurance of \$1.7 million and technological services of \$1.3 million.

Depreciation and Amortization

Depreciation and amortization increased \$6.2 million, or 34.0%, to \$24.4 million for the year ended September 30, 2021 from \$18.2 million for the year ended September 30, 2020. Amortization expense increased \$5.7 million to \$22.1 million for the year ended September 30, 2021 from \$16.4 million for the year ended September 30, 2020 primarily due to greater amortization expense resulting from acquisitions completed during the 2021 and 2020 fiscal years. Depreciation expense increased \$0.5 million to \$2.3 million for the year ended September 30, 2021 from \$1.8 million for the year ended September 30, 2020.

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 \$7.1 million for the year ended September 30, 2021 due to the performance of some of our acquisitions exceeding our expectations. The change in fair value of contingent consideration for the year ended September 30, 2020 was a benefit of \$1.4 million.

Interest Expense, net

Interest expense, net, increased \$0.9 million, or 9.8%, to \$9.8 million for the year ended September 30, 2021 from \$8.9 million for the year ended September 30, 2020. The increase reflected a higher average outstanding debt balance for the year ended September 30, 2021 as compared to the year ended September 30, 2020.

Other (income) expense

Other income was \$2.6 million for the year ended September 30, 2021, relating to a net gain on sales of investments of \$2.1 million and adjustments of liabilities under our Tax Receivable Agreement related to the remeasurement of the underlying deferred tax asset for changes in estimated income tax rates of \$0.5 million. Other expense was \$2.6 million for the year ended September 30, 2020, relating to a loss on retirement of debt due to the carrying value exceeding the fair value of the repurchased portion of the Exchangeable Notes at the dates of repurchases.

Provision for Income Taxes

The provision for income taxes increased to \$0.6 million for the year ended September 30, 2021 from a benefit of \$2.8 million for the year ended September 30, 2020. As described in Note 2 to our consolidated financial statements, we had a \$2.7 million reduction in the valuation allowance on the deferred tax asset related to our investment in partnership and a corresponding increase in the benefit from income taxes in the year ended September 30, 2020 that did not recur in the year ended September 30, 2021. In addition, current state income tax expense increased for the year ended September 30, 2021 from the year ended September 30, 2020 due to the mix of earnings within the Company. Our effective tax rate of (9)% for the year ended September 30, 2021 differs from the federal statutory rate due to the increase in the valuation allowance, increase in state taxes, and increase in the tax effect of the revaluation of liabilities. 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.

Year Ended September 30, 2020 Compared to Year Ended September 30, 2019

For discussion of our results of operations for fiscal 2020 compared to fiscal 2019, refer to the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Form 10-K for the fiscal year ended September 30, 2020, filed with the SEC on November 23, 2020.

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 (not including acquisitions) and working capital through net cash from operating activities. As of September 30, 2021, we had \$3.6 million of cash and cash equivalents and available borrowing capacity of \$170.6 million under our Senior Secured Credit Facility, subject to the financial covenants. We usually minimize cash balances by making payments on our revolving credit facility to minimize borrowings and interest expense. As of September 30, 2021, we had borrowings outstanding of \$104.4 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 historically have had positive cash flow provided by operations. We currently 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.

Material Cash Requirements

The following table summarizes our material cash requirements as of September 30, 2021 related to contracts, leases and borrowings:

Material Cash Requirements (in thousands)	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Processing minimums ⁽¹⁾	\$ 7,052	\$ 3,912	\$ 3,140	\$ —	\$ —
Facility leases	17,916	4,014	6,291	4,142	3,469
Senior Secured Credit Facility and related interest ⁽²⁾	107,808	3,579	104,229	—	—
Exchangeable Notes and related interest ⁽³⁾	120,949	1,170	2,340	117,439	—
Contingent consideration ⁽⁴⁾	36,229	25,768	10,461	—	—
Total	\$ 289,954	\$ 38,443	\$ 126,461	\$ 121,581	\$ 3,469

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 3.41% in effect on the outstanding balance as of September 30, 2021, plus the unused fee rate of 0.30% in effect as of September 30, 2021.
3. We calculated interest payments through the maturity of our Exchangeable Notes by applying the coupon interest rate of 1.00% on the outstanding principal balance as of September 30, 2021 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 11 of our consolidated financial statements. As a result of the Tax Receivable Agreement, we have been required to establish a liability in our 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 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 September 30, 2021, the total amount due under the Tax Receivable Agreement was \$39.1 million, and payments to the Continuing Equity Owners related to exchanges through September 30, 2021 will range from approximately \$0 to \$3.2 million per year and are expected to be paid over the next 25 years. The amounts recorded as of September 30, 2021, 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.

Our liquidity profile reflects our completed offering in February 2020 of an aggregate principal amount of \$138.0 million in 1.0% Exchangeable Senior Notes due 2025, with substantially all the proceeds being used to pay down outstanding borrowings under our Senior Secured Credit Facility, as well as our September 2020 Public Offering as described below under the heading "Follow-on Offerings." 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 recorded a loss on retirement of debt of \$2.3 million due to the carrying value exceeding the fair value of the repurchased portion of the Exchangeable Notes at the dates of repurchases. 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.

As amended on February 18, 2020 in connection with our offering of Exchangeable Notes, our Senior Secured Credit Facility requires us to maintain a consolidated interest coverage ratio not less than 3.00 to 1.00, a total leverage ratio not exceeding 5.00 to 1.00 and a consolidated senior secured leverage ratio not exceeding 3.25 to 1.00, provided that for each of the four fiscal quarters immediately following a qualified acquisition, the total leverage ratio and the consolidated senior secured leverage ratio would increase by up to 0.25, subject to certain limitations. As of September 30, 2021, we were in compliance with these covenants with a consolidated interest coverage ratio, total leverage ratio and consolidated senior leverage ratio of 10.3x, 3.5x and 1.6x, respectively. Although we believe our liquidity position remains strong, there can be no assurance that we will be able to raise additional funds, in the form of debt or equity, or to amend our Senior Secured Credit Facility on terms acceptable to us, if at all, even if we determined such actions were necessary in the future.

Any material adverse change in client demand and our ability to retain clients, competitive market forces, or uncertainties caused by the COVID-19 pandemic, as well as other factors listed under the heading "Note Regarding Forward-looking Statements," and in our risk factors included herein could affect our ability to continue to fund our liquidity needs from business operations.

Cash Flows

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

Year Ended September 30, 2021 Compared to Year Ended September 30, 2020

	Year ended September 30,	
	2021	2020
	(in thousands)	
Net cash provided by operating activities	\$ 46,774	\$ 23,720
Net cash used in investing activities	\$ (156,315)	\$ (35,431)
Net cash provided by financing activities	\$ 102,103	\$ 29,112

Cash Flow from Operating Activities

Net cash provided by operating activities increased \$23.1 million to \$46.8 million for the year ended September 30, 2021 from \$23.7 million for the year ended September 30, 2020. While our net loss increased \$6.9 million for the year ended September 30, 2021 from the year ended September 30, 2020, most of this increase was driven by non-cash expenses that do not impact cash flows from operating activities. The increase in net cash provided by operating activities was due to comparatively higher increases for the year ended September 30, 2021 from the year ended September 30, 2020 in equity-based compensation of \$10.4 million, liabilities for non-cash contingent consideration of \$8.5 million, depreciation and amortization of \$6.2 million, benefit from deferred income taxes of \$2.9 million and debt discount and issuance cost amortization of \$1.7 million, partially

offset by the loss on the repurchase of Exchangeable Notes of \$2.3 million recognized during the year ended September 30, 2020 and net gain on sale of investments of \$2.1 million recognized during the year ended September 30, 2021. Operating assets and liabilities increased \$1.4 million, which are impacted by the timing of collections and payments.

Cash Flow from Investing Activities

Net cash used in investing activities increased \$120.9 million to \$156.3 million for the year ended September 30, 2021 from \$35.4 million for the year ended September 30, 2020. The increase in net cash used in investing activities was primarily driven by an increase of \$121.8 million in cash used in acquisitions, net of cash acquired, and an increase of \$3.3 million in expenditures for capitalized software. These increases were partially offset by \$3.2 million in proceeds received from sales of investments during the year ended September 30, 2021, and a decrease of \$1.0 million in expenditures for property and equipment for the year ended September 30, 2021 compared to the year ended September 30, 2020.

Cash Flow from Financing Activities

Net cash provided by financing activities increased \$73.0 million to \$102.1 million for the year ended September 30, 2021 from \$29.1 million for the year ended September 30, 2020. The increase in net cash provided by financing activities was primarily the result of an increase in proceeds from the revolving credit facility of \$130.7 million and a decrease in payments on the revolving credit facility of \$114.8 million for the year ended September 30, 2021 from the year ended September 30, 2020. Additionally, we made payments for purchases of exchangeable senior note hedges of \$28.7 million, payments for the repurchase of Exchangeable Notes of \$17.4 million, payments for Common Units in i3 Verticals, LLC from selling unitholders of \$10.9 million and payments of debt issuances costs of \$5.3 million during the year ended September 30, 2020 that did not recur in the year ended September 30, 2021. These increases in net cash provided by financing activities were partially offset by proceeds from borrowings on exchangeable notes of \$138.0 million, proceeds from issuance of Class A common stock sold in public offerings of \$82.9 million and proceeds from issuance of warrants of \$14.7 million during the year ended September 30, 2020 that did not recur in the year ended September 30, 2021.

Year Ended September 30, 2020 Compared to Year Ended September 30, 2019

For a discussion of the cash flows for the year ended September 30, 2020 compared to the year ended September 30, 2019, refer to Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, which was filed with the Securities and Exchange Commission on November 23, 2020.

Senior Secured Credit Facility

On May 9, 2019, we replaced our then existing credit facility (the "2017 Senior Secured Credit Facility") with a new Amended and Restated Credit Agreement with the guarantors and lenders party thereto and Bank of America, N.A., as administrative agent (the "Senior Secured Credit Facility"). For a discussion of our existing 2017 Senior Secured Credit Facility, which consisted of \$40.0 million in term loans and a \$110.0 million revolving line of credit, please refer to Note 10 to the accompanying consolidated financial statements in this Annual Report on Form 10-K. The Senior Secured Credit Facility, as amended on February 18, 2020 in connection with our offering of Exchangeable Notes, provides for aggregate commitments of \$275.0 million in the form of a senior secured revolving credit facility.

The Senior Secured Credit Facility provides that we have the right to seek additional commitments to provide additional term loan facilities or additional revolving credit commitments in an aggregate principal amount up to \$50.0 million so long as, among other things, after giving pro forma effect to the incurrence of such additional borrowings and any related transactions, our consolidated interest coverage ratio would not be less than 3.00 to 1.00, our total leverage ratio would not exceed 5.00 to 1.00 and our consolidated senior leverage ratio would not exceed 3.25 to 1.00, provided that for each of the four fiscal quarters immediately following a qualified acquisition, the total leverage ratio and the consolidated senior secured leverage ratio would increase by up to 0.25, subject to certain limitations.

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

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

Borrowings under the Senior Secured Credit Facility will be made, at our option, at the base rate or the Eurodollar rate, plus, in each case, an applicable margin. The base rate is a fluctuating rate of interest per annum equal to the highest of (a) the federal funds rate plus ½ of 1%, (b) the interest announced from time to time by Bank of America as its prime rate and (c) the Eurodollar rate plus 1%. The Eurodollar rate will be the rate of interest per annum equal to LIBOR (based upon an interest period of one, two, three or six months or, under some circumstances, up to twelve months). The applicable margin is based upon our consolidated total leverage ratio, as reflected in the schedule below:

Consolidated Total Leverage Ratio	Commitment Fee	Letter of Credit Fee	Eurodollar Rate Loans	Base Rate Loans
> 3.00 to 1.0	0.30%	3.25%	3.25%	1.25%
> 2.50 to 1.0 but < 3.00 to 1.0	0.25%	2.75%	2.75%	0.75%
> 2.00 to 1.0 but < 2.50 to 1.0	0.20%	2.50%	2.50%	0.50%
< 2.00 to 1.0	0.15%	2.25%	2.25%	0.25%

In addition to paying interest on outstanding principal under the Senior Secured Credit Facility, we will be required to pay a commitment fee equal to the product of between 0.15% and 0.30% (the applicable percentage depending on our consolidated total leverage ratio as reflected in the schedule above) times the actual daily amount by which \$275.0 million exceeds the total amount outstanding under the Senior Secured Credit Facility and available to be drawn under all outstanding letters of credit.

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

In addition, if the total amount borrowed under the Senior Secured Credit Facility exceeds \$275.0 million at any time, the Senior Secured Credit Facility requires us to prepay such excess outstanding amounts.

All obligations under the Senior Secured Credit Facility are unconditionally guaranteed by i3 Verticals, Inc., a Delaware corporation, and each of i3 Verticals, Inc.'s existing and future direct and indirect material, wholly owned domestic restricted subsidiaries, subject to certain exceptions. The obligations are secured by first-priority security interests in substantially all of our tangible and intangible assets, i3 Verticals, Inc. and each subsidiary guarantor, in each case whether owned on the date of the initial borrowings or thereafter acquired.

The Senior Secured Credit Facility places certain restrictions on the ability of us, i3 Verticals, Inc. and their restricted subsidiaries to, among other things, incur debt and liens; merge, consolidate or liquidate; dispose of assets; enter into hedging arrangements; make certain restricted payments; undertake transactions with affiliates; enter into sale-leaseback transactions; make certain investments; prepay or modify the terms of certain indebtedness; and modify the terms of certain organizational agreements.

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

As of September 30, 2021, we were in compliance with these covenants with a consolidated interest coverage ratio, total leverage ratio and consolidated senior leverage ratio of 10.3x, 3.5x and 1.6x, respectively.

Follow-on Offerings

On June 10, 2019, we completed the June 2019 Secondary Public Offering of 5,165,527 shares of our Class A common stock, at a public offering price of \$22.75 per share, which included a full exercise of the underwriters' option to purchase 673,764 additional shares of Class A common stock from us. We received approximately \$111.6 million of net proceeds, after deducting underwriting discounts and commissions, but before offering expenses. We used the net proceeds to purchase (1) 1,000,000 Common Units directly from i3 Verticals, LLC, and (2) 4,165,527 Common Units (including 673,764 Common Units due to the exercise of the underwriters' option to purchase additional shares in full) and an equivalent number of Class B common stock (which shares were then canceled) from certain Continuing Equity Owners, in each case at a price per Common Unit equal to the price per share paid by the underwriters for shares of our Class A common stock in the offering. i3 Verticals, LLC received \$20.9 million in net proceeds from the sale of Common Units to us, which we used to repay outstanding indebtedness. In connection with this offering, we recognized an additional deferred tax asset of \$26.2 million related to the Tax Receivable Agreement and a corresponding liability of \$22.2 million.

On September 15, 2020, we completed a public offering (the "September 2020 Public Offering") of 3,737,500 shares of our Class A common stock, at a public offering price of \$23.50 per share, which included a full exercise of the underwriters' option to purchase 487,500 additional shares of Class A common stock from us. We received approximately \$83.4 million of net proceeds, after deducting underwriting discounts and commissions, but before offering expenses. We used the net proceeds to purchase (1) 3,250,000 Common Units directly from i3 Verticals, LLC, and (2) 487,500 Common Units pursuant to the exercise of the underwriters' option to purchase additional shares in full and an equivalent number of Class B common stock (which shares were then canceled) from certain Continuing Equity Owners, in each case at a price per Common Unit equal to the price per share paid by the underwriters for shares of our Class A common stock in the offering. i3 Verticals, LLC received \$72.0 million in net proceeds from the sale of Common Units to the Company, which we used to repay outstanding indebtedness. In connection with this offering, we recognized an additional deferred tax asset of \$3.0 million related to the Tax Receivable Agreement and a corresponding liability of \$2.5 million.

Exchangeable Notes

On February 18, 2020, i3 Verticals, LLC issued \$138.0 million aggregate principal amount of its 1.0% Exchangeable Senior 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 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 Exchangeable Notes mature on February 15, 2025, unless earlier exchanged, redeemed or repurchased. We received approximately \$132.8 million 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. 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 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"), 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.

Critical Accounting Estimates

The preparation of consolidated financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("GAAP") and the Company's discussion and analysis of its financial condition and operating results requires the Company's 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Note 2, "Summary of Significant Accounting Policies" in the notes to the accompanying consolidated financial statements in Part II, Item 8 of this Form 10-K describe the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. 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, revenue recognition for contracts with multiple performance obligations, 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.

Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

Below is a summary of our critical accounting estimates for which the nature of management's assumptions are material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and for which the impact of the estimates and assumptions on financial condition or operating performance is material.

Contingent Consideration in Acquisitions

On occasion, we may have acquisitions that include contingent consideration. Accounting for business combinations requires us to estimate the fair value of any contingent purchase consideration at the acquisition date. Where relevant, 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. For example, if management's forecasted performance for an acquisition increased, we would have anticipated a higher probability of contingent consideration being paid on the acquisition and would have

recorded additional losses from the change in fair value of contingent consideration. Conversely, if management's forecasted performance for an acquisition decreased, we would have anticipated a higher probability of contingent consideration being paid on the acquisition and would have recorded a gain from change in fair value of contingent consideration. As of September 30, 2021, the fair value of contingent consideration recorded is \$36.2 million, with maximum contingent consideration payout of \$111.7 million dependent upon achievement of specified financial performance targets, as defined in the purchase agreements.

Goodwill

We test goodwill for impairment using a fair value approach at least annually, absent some triggering event that would require an interim impairment assessment. Absent any impairment indicators, we perform our goodwill impairment testing as of July 1 each year.

In our goodwill impairment review, we use significant estimates and assumptions that include the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. Our assessment of qualitative factors involves significant judgments about expected future business performance and general market conditions. In a quantitative assessment, the fair value of each reporting unit is determined based on a combination of techniques, including the present value of future cash flows, applicable multiples of competitors and multiples from sales of like businesses, and requires management to make estimates and assumptions regarding discount rates, growth rates and our future long-term business plans. Changes in any of these estimates or assumptions could materially affect the determination of fair value and the associated goodwill impairment charge for each reporting unit. For example, if management's forecasted earnings decreased for a reporting unit, we may have recorded an impairment loss for that reporting unit.

Related Parties

Transactions involving related parties cannot be presumed to be carried out at an arm's length basis, as the requisite conditions of competitive, free-dealing markets may not exist. A description of related-party transactions is provided in Note 16 in the accompanying consolidated financial statements.

Recently Issued Accounting Pronouncements

Refer to Note 2, "Summary of Significant Accounting Policies" in the notes to the accompanying consolidated financial statements for further discussion.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

As of September 30, 2021, the Senior Secured Credit Facility, as amended on February 18, 2020 in connection with our offering of Exchangeable Notes, 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 September 30, 2021), 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 September 30, 2021), 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 September 30, 2021) on any undrawn amounts under the revolving credit facility and letter of credit fees of up to 3.25% on the maximum amount available to be drawn under each letter of credit issued under the agreement. The Senior 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 September 30, 2021, we were in compliance with these covenants and there was \$170.6 million available for borrowing under the revolving credit facility, subject to the financial covenants.

As of September 30, 2021, we had borrowings of \$104.4 million outstanding under the Senior Secured Credit Facility. A 1.0% increase or decrease in the interest rate applicable to such borrowing (which is the LIBOR rate) would have a \$1.0 million dollar impact on the results of the business.

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 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of i3 Verticals, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of i3 Verticals, Inc., and subsidiaries (the "Company") as of September 30, 2021 and 2020, the related consolidated statements of operations, changes in equity, and cash flows, for each of the two years in the period ended September 30, 2021, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the two years ended September 30, 2021, in conformity with principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has adopted Accounting Standards Codification Topic 842, "Leases", using the modified retrospective adoption method on October 1, 2020.

As discussed in Note 2 to the consolidated financial statements, the Company has adopted Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers", using the modified retrospective adoption method on October 1, 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
November 22, 2021

We have served as the Company's auditor since 2020.

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
i3 Verticals, Inc.
Nashville, Tennessee

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of operations, changes in equity, and cash flows of i3 Verticals, Inc. (the "Company") for the year ended September 30, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of its operations and its cash flows for the year ended September 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ BDO USA, LLP

Nashville, Tennessee
November 22, 2019, except for Notes 8 and 17
to which the date is November 23, 2020

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30,	
	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 3,641	\$ 15,568
Accounts receivable, net	38,500	17,538
Settlement assets	4,768	—
Prepaid expenses and other current assets	11,214	4,869
Total current assets	58,123	37,975
Property and equipment, net	5,902	5,339
Restricted cash	9,522	5,033
Capitalized software, net	41,371	16,989
Goodwill	292,243	187,005
Intangible assets, net	171,706	109,233
Deferred tax asset	49,992	36,755
Operating lease right-of-use assets	14,479	—
Other assets	8,462	5,197
Total assets	\$ 651,800	\$ 403,526
Liabilities and equity		
Liabilities		
Current liabilities		
Accounts payable	\$ 7,865	\$ 3,845
Accrued expenses and other current liabilities	50,815	24,064
Settlement obligations	4,768	—
Deferred revenue	29,862	10,986
Current portion of operating lease liabilities	3,201	—
Total current liabilities	96,511	38,895
Long-term debt, less current portion and debt issuance costs, net	200,605	90,758
Long-term tax receivable agreement obligations	39,122	27,565
Operating lease liabilities, less current portion	11,960	—
Other long-term liabilities	14,011	6,140
Total liabilities	362,209	163,358
Commitments and contingencies (see Note 15)		
Stockholders' equity		
Preferred stock, par value \$0.0001 per share, 10,000,000 shares authorized; 0 shares issued and outstanding as of September 30, 2021 and 2020	—	—
Class A common stock, par value \$0.0001 per share, 150,000,000 shares authorized; 22,026,098 and 18,864,143 shares issued and outstanding as of September 30, 2021 and 2020, respectively	2	2
Class B common stock, par value \$0.0001 per share, 40,000,000 shares authorized; 10,229,142 and 11,900,621 shares issued and outstanding as of September 30, 2021 and 2020, respectively	1	1
Additional paid-in-capital	211,237	157,598
Accumulated deficit	(6,480)	(2,023)
Total stockholders' equity	204,760	155,578
Non-controlling interest	84,831	84,590
Total equity	289,591	240,168
Total liabilities and equity	\$ 651,800	\$ 403,526

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

	Year ended September 30,		
	2021	2020	2019
Revenue	\$ 224,124	\$ 150,134	\$ 376,307
Operating expenses			
Interchange and network fees ⁽¹⁾	—	—	242,867
Other costs of services	57,706	47,230	44,237
Selling general and administrative	134,872	78,323	62,860
Depreciation and amortization	24,418	18,217	16,564
Change in fair value of contingent consideration	7,140	(1,409)	3,389
Total operating expenses	224,136	142,361	369,917
(Loss) income from operations	(12)	7,773	6,390
Other expenses			
Interest expense, net	9,799	8,926	6,004
Other (income) expense	(2,595)	2,621	—
Total other expenses	7,204	11,547	6,004
(Loss) income before income taxes	(7,216)	(3,774)	386
Provision for (benefit from) income taxes	623	(2,795)	(177)
Net (loss) income	(7,839)	(979)	563
Net (loss) income attributable to non-controlling interest	(3,382)	(560)	3,608
Net loss attributable to i3 Verticals, Inc.	\$ (4,457)	\$ (419)	\$ (3,045)
Net loss per share attributable to Class A common stockholders:			
Basic	\$ (0.21)	\$ (0.03)	\$ (0.29)
Diluted	\$ (0.22)	\$ (0.03)	\$ (0.29)
Weighted average shares of Class A common stock outstanding:			
Basic	20,994,598	14,833,378	10,490,981
Diluted	31,714,191	27,429,801	10,490,981

1. Effective October 1, 2019, the Company's revenues are presented net of interchange and network fees in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. See Note 2 to our consolidated financial statements for a description of the recently adopted accounting pronouncement.

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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, 2018	9,112,042	\$ 1	17,213,806	\$ 2	\$ 38,562	\$ 736	\$ 72,897	\$ 112,198
Equity-based compensation	—	—	—	—	6,124	—	—	6,124
Forfeitures of restricted Class A common stock	(36,113)	—	—	—	—	—	—	—
Net (loss) income	—	—	—	—	—	(3,045)	3,608	563
Distributions to non-controlling interest holders	—	—	—	—	—	—	(2,060)	(2,060)
Redemption of common units in i3 Verticals, LLC	4,292,169	—	(4,292,169)	(1)	12,077	—	(12,077)	(1)
Sale of Class A common stock in public offering, net	1,000,000	—	—	—	21,660	—	—	21,660
Capitalization of public offering costs	—	—	—	—	(899)	—	—	(899)
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	3,959	—	—	3,959
Issuance of restricted Class A common stock under Equity Plan	8,799	—	—	—	225	—	—	225
Exercise of equity-based awards	67,218	—	—	—	672	—	—	672
Balance at September 30, 2019	<u>14,444,115</u>	<u>\$ 1</u>	<u>12,921,637</u>	<u>\$ 1</u>	<u>\$ 82,380</u>	<u>\$ (2,309)</u>	<u>\$ 62,368</u>	<u>\$ 142,441</u>

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(In thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2019	14,444,115	\$ 1	12,921,637	\$ 1	\$ 82,380	\$ (2,309)	\$ 62,368	\$ 142,441
Adjustment related to prior periods	—	—	—	—	(2,730)	—	2,730	—
Cumulative effect of adoption of new accounting standard	—	—	—	—	—	705	640	1,345
Equity-based compensation	—	—	—	—	10,452	—	—	10,452
Net loss	—	—	—	—	—	(419)	(560)	(979)
Distributions to non-controlling interest holders	—	—	—	—	—	—	(3)	(3)
Redemption of common units in i3 Verticals, LLC	1,021,016	—	(1,021,016)	—	5,080	—	(5,080)	—
Sale of Class A common stock in public offering, net	3,250,000	1	—	—	72,556	—	—	72,557
Capitalization of public offering costs	—	—	—	—	(697)	—	—	(697)
Deferred tax asset adjustment	—	—	—	—	(941)	—	—	(941)
Establishment of liabilities under a tax receivable agreement	—	—	—	—	896	—	—	896
Exercise of equity-based awards	149,012	—	—	—	254	—	—	254
Allocation of equity to non-controlling interests	—	—	—	—	(24,495)	—	24,495	—
Equity component of exchangeable notes, net of issuance costs and deferred taxes	—	—	—	—	27,578	—	—	27,578
Purchases of exchangeable note hedges	—	—	—	—	(28,676)	—	—	(28,676)
Issuance of warrants	—	—	—	—	14,669	—	—	14,669
Repurchases of exchangeable notes	—	—	—	—	1,272	—	—	1,272
Balance at September 30, 2020	18,864,143	\$ 2	11,900,621	\$ 1	\$ 157,598	\$ (2,023)	\$ 84,590	\$ 240,168

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(In thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2020	18,864,143	\$ 2	11,900,621	\$ 1	\$ 157,598	\$ (2,023)	\$ 84,590	\$ 240,168
Equity-based compensation	—	—	—	—	20,860	—	—	20,860
Net loss	—	—	—	—	—	(4,457)	(3,382)	(7,839)
Redemption of common units in i3 Verticals, LLC	1,671,479	—	(1,671,479)	—	11,714	—	(11,714)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	269	—	—	269
Exercise of equity-based awards	287,562	—	—	—	888	—	—	888
Allocation of equity to non-controlling interests	—	—	—	—	(15,337)	—	15,337	—
Issuance of Class A common stock under the 2020 Inducement Plan	1,202,914	—	—	—	35,245	—	—	35,245
Balance at September 30, 2021	<u>22,026,098</u>	<u>\$ 2</u>	<u>10,229,142</u>	<u>\$ 1</u>	<u>\$ 211,237</u>	<u>\$ (6,480)</u>	<u>\$ 84,831</u>	<u>\$ 289,591</u>

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year ended September 30,		
	2021	2020	2019
Cash flows from operating activities:			
Net (loss) income	\$ (7,839)	\$ (979)	\$ 563
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	24,418	18,217	16,564
Equity-based compensation	20,860	10,452	6,124
Provision for doubtful accounts	22	177	30
Amortization of debt discount and issuance costs	5,450	3,703	721
Debt issuance cost write offs	—	141	152
Loss on repurchase of exchangeable notes	—	2,297	—
Amortization of capitalized client acquisition costs	533	398	—
Loss on disposal of assets	—	1	8
Net gain on sale of investments	(2,100)	—	—
Benefit from deferred income taxes	(287)	(3,207)	(586)
Non-cash lease expense	3,204	—	—
Increase (decrease) in non-cash contingent consideration expense from original estimate	7,140	(1,409)	3,389
Changes in operating assets:			
Accounts receivable	(10,938)	(1,028)	2,430
Prepaid expenses and other current assets	(1,564)	(984)	(817)
Other assets	(4,054)	(1,544)	(2,769)
Changes in operating liabilities:			
Accounts payable	3,883	239	(1,768)
Accrued expenses and other current liabilities	10,453	1,575	1,572
Deferred revenue	5,150	617	2,588
Operating lease liabilities	(3,139)	—	—
Other long-term liabilities	(782)	93	(44)
Contingent consideration paid in excess of original estimates	(3,636)	(5,039)	(1,560)
Net cash provided by operating activities	46,774	23,720	26,597
Cash flows from investing activities:			
Expenditures for property and equipment	(1,938)	(2,911)	(807)
Expenditures for capitalized software	(6,159)	(2,893)	(2,227)
Purchases of merchant portfolios and residual buyouts	(1,819)	(1,788)	(3,586)
Acquisitions of businesses, net of cash acquired	(149,495)	(27,689)	(137,036)
Acquisition of other intangibles	(104)	(150)	(72)
Proceeds from sale of investments	3,200	—	—
Net cash used in investing activities	(156,315)	(35,431)	(143,728)

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Year ended September 30,		
	2021	2020	2019
Cash flows from financing activities:			
Proceeds from revolving credit facility	302,816	172,123	188,491
Payments of revolving credit facility	(198,421)	(313,267)	(51,867)
Proceeds from borrowings on exchangeable notes	—	138,000	—
Payments for purchase of exchangeable senior note hedges	—	(28,676)	—
Proceeds from issuance of warrants	—	14,669	—
Payments for repurchase of exchangeable notes	—	(17,414)	—
Payments of notes payable to banks	—	—	(35,000)
Payments of debt issuance costs	—	(5,300)	(168)
Proceeds from issuance of Class A common stock sold in public offering, net of underwriting discounts and offering costs	—	82,901	111,687
Payments for Common Units in i3 Verticals, LLC from selling unitholders	—	(10,883)	(90,027)
Payments of equity issuance costs	(253)	—	—
Cash paid for contingent consideration	(2,886)	(3,492)	(2,634)
Payments for required distributions to members for tax obligations	—	(3)	(2,060)
Proceeds from stock option exercises	1,578	764	672
Payments for employee's tax withholdings from net settled stock option exercises	(731)	(310)	—
Net cash provided by financing activities	102,103	29,112	119,094
Net (decrease) increase in cash, cash equivalents, and restricted cash	(7,438)	17,401	1,963
Cash, cash equivalents, and restricted cash at beginning of period	20,601	3,200	1,237
Cash, cash equivalents, and restricted cash at end of period	\$ 13,163	\$ 20,601	\$ 3,200

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 4,428	\$ 5,250	\$ 4,911
Cash paid for income taxes	\$ 287	\$ 792	\$ 1,420

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets to that shown in the Consolidated Statements of Cash Flows:

	Year ended September 30,		
	2021	2020	2019
Beginning balance			
Cash and cash equivalents	\$ 15,568	\$ 1,119	\$ 572
Restricted cash	5,033	2,081	665
Total cash, cash equivalents, and restricted cash	\$ 20,601	\$ 3,200	\$ 1,237
Ending balance			
Cash and cash equivalents	\$ 3,641	\$ 15,568	\$ 1,119
Restricted cash	9,522	5,033	2,081
Total cash, cash equivalents, and restricted cash	\$ 13,163	\$ 20,601	\$ 3,200

See Notes to the Consolidated Financial Statements

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

1. ORGANIZATION AND OPERATIONS

i3 Verticals, Inc. (the “Company”) was formed as a Delaware corporation on January 17, 2018. The Company was formed for the purpose of completing an initial public offering (“IPO”) of its Class A common stock and other related transactions in order to carry on the business of i3 Verticals, LLC and its subsidiaries. i3 Verticals, LLC was founded in 2012 and delivers seamlessly integrated payment and software solutions to small- and medium-sized businesses (“SMBs”) and organizations in strategic vertical markets. The Company’s headquarters are 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.

Initial Public Offering

On June 25, 2018, the Company completed the IPO of 7,647,500 shares of its Class A common stock at a public offering price of \$13.00 per share. The Company received approximately \$92,500 of net proceeds, after deducting underwriting discounts and commissions, which the Company used to purchase newly issued common units from i3 Verticals, LLC (the “Common Units”), and Common Units from a selling Common Unit holder, in each case at a price per Common Unit equal to the price per share paid by the underwriters for shares of the Company’s Class A common stock in the IPO.

Reorganization Transactions

In connection with the IPO, the Company completed the following transactions (the “Reorganization Transactions”):

- i3 Verticals, LLC amended and restated its existing limited liability company agreement to, among other things, (1) convert all existing Class A units, common units (including common units issued upon the exercise of existing warrants) and Class P units of ownership interest in i3 Verticals, LLC into either Class A voting common units of i3 Verticals, LLC (such holders of Class A voting common units referred to herein as the “Continuing Equity Owners”) or Class B non-voting common units of i3 Verticals, LLC (such holders of Class B non-voting common units referred to herein as the “Former Equity Owners”), and (2) appoint i3 Verticals, Inc. as the sole managing member of i3 Verticals, LLC upon its acquisition of Common Units in connection with the IPO;
- the Company amended and restated its certificate of incorporation to provide for, among other things, Class A common stock and Class B common stock;
- i3 Verticals, LLC and the Company consummated a merger among i3 Verticals, LLC, i3 Verticals, Inc. and a newly formed wholly-owned subsidiary of i3 Verticals, Inc. (“MergerSub”) whereby: (1) MergerSub merged with and into i3 Verticals, LLC, with i3 Verticals, LLC as the surviving entity; (2) Class A voting common units converted into newly issued Common Units in i3 Verticals, LLC together with an equal number of shares of Class B common stock of i3 Verticals, Inc., and (3) Class B non-voting common units converted into Class A common stock of i3 Verticals, Inc. based on a conversion ratio that provided an equitable adjustment to reflect the full value of the Class B non-voting common units; and
- the Company issued shares of its Class A common stock pursuant to a voluntary private conversion of certain subordinated notes (the “Junior Subordinated Notes”) by certain related and unrelated creditors of i3 Verticals, LLC.

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

Following the completion of the IPO and Reorganization Transactions, the Company became a holding company and its principal asset is the Common Units in i3 Verticals, LLC that it owns. 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.

Public Offerings

On June 10, 2019, the Company completed a secondary public offering (the "June 2019 Secondary Public Offering") of 5,165,527 shares of its Class A common stock, at a public offering price of \$22.75 per share, which included a full exercise of the underwriters' option to purchase 673,764 additional shares of Class A Common Stock from the Company. The Company received approximately \$111,640 of net proceeds, after deducting underwriting discounts and commissions, but before offering expenses. The Company used the net proceeds to purchase (1) 1,000,000 Common Units directly from i3 Verticals, LLC, and (2) 4,165,527 Common Units (including 673,764 Common Units due to the exercise of the underwriters' option to purchase additional shares in full) and an equivalent number of Class B common stock (which shares were then canceled) from certain Continuing Equity Owners, in each case at a price per Common Unit equal to the price per share paid by the underwriters for shares of the Company's Class A common stock in the offering. i3 Verticals, LLC received \$20,870 in net proceeds from the sale of Common Units to the Company, which it used to repay outstanding indebtedness.

On September 15, 2020, the Company completed a primary public offering (the "September 2020 Public Offering") of 3,737,500 shares of its Class A common stock, at a public offering price of \$23.50 per share, which included a full exercise of the underwriters' option to purchase 487,500 additional shares of Class A Common Stock from the Company. The Company received approximately \$83,400 of net proceeds, after deducting underwriting discounts and commissions, but before offering expenses. The Company used the net proceeds to purchase (1) 3,250,000 Common Units directly from i3 Verticals, LLC, and (2) 487,500 Common Units pursuant to the exercise of the underwriters' option to purchase additional shares in full and an equivalent number of Class B common stock (which shares were then canceled) from certain Continuing Equity Owners, in each case at a price per Common Unit equal to the price per share paid by the underwriters for shares of the Company's Class A common stock in the offering. i3 Verticals, LLC received \$72,018 in net proceeds from the sale of Common Units to the Company, which it used to repay outstanding indebtedness.

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.

As the Reorganization Transactions are considered transactions between entities under common control, the financial statements retroactively reflect the accounts of i3 Verticals, LLC for periods prior to the IPO and Reorganization Transactions.

The Continuing Equity Owners who own Common Units in i3 Verticals, LLC may redeem at each of their options (subject in certain circumstances to time-based vesting requirements) their Common Units for, at the election of i3 Verticals, LLC, cash or newly-issued shares of the Company's Class A common stock.

As of September 30, 2021, i3 Verticals, Inc. owned 68.3% of the economic interest in i3 Verticals, LLC. As of September 30, 2021, the Continuing Equity Owners owned Common Units in i3 Verticals, LLC representing approximately 31.7% of the economic interest in i3 Verticals, LLC, shares of Class A common stock in the Company representing approximately 0.6% of the economic interest and voting power in the Company, and shares of Class B common stock in i3 Verticals, Inc., representing approximately 31.7% of the voting power in the Company. Combining the Class A common stock and Class B common stock, the Continuing Equity Holders hold approximately 32.3% of the economic interest and voting power in i3 Verticals, Inc.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the reporting and disclosure rules and regulations of the Securities and Exchange Commission ("SEC").

Principles of Consolidation

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

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash on hand, checking accounts, and savings accounts to be cash and cash equivalents. At times, the balance in these accounts may exceed federal insured limits. Cash equivalents are defined as financial instruments readily transferrable into cash with an original maturity less than 90 days.

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 consolidated balance sheets since the related agreements extend beyond the next twelve months. Following the adoption of Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows: Restricted Cash* (Topic 230), the Company includes restricted cash along with the cash and cash equivalents balance for presentation in the consolidated statements of cash flows.

Accounts Receivable and Credit Policies

Accounts receivable consist primarily of uncollateralized credit card processing residual payments due from processing banks requiring payment within thirty days following the end of each month. Accounts receivable also include amounts due from the sales of the Company's technology solutions to its customers. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts, if necessary, which reflects management's best estimate of the amounts that will not be collected. The allowance is estimated based on management's knowledge of its customers, historical loss experience and existing economic conditions. Accounts receivable and the allowance are written-off when, in management's opinion, all collection efforts have been exhausted. The Company's allowance for doubtful accounts was \$181 and \$310 as of September 30, 2021 and 2020, respectively; however, actual write-offs may exceed estimated amounts.

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. As of September 30, 2021, settlement assets and settlement obligations were both \$4,768. As of September 30, 2020, the Company had no settlement assets or settlement obligations.

Inventories

Inventories consist of point-of-sale equipment to be sold to customers and are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Inventories were \$2,220 and \$1,309 at September 30, 2021 and 2020, respectively, and are included within prepaid expenses and other current assets on the accompanying consolidated balance sheets.

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

Property and Equipment

Property and equipment are stated at cost or, if acquired through a business combination or an asset acquisition, fair value at the date of acquisition. Depreciation and amortization are provided over the assets' estimated useful lives (or, if obtained in connection with a business acquisition, over their estimated remaining useful lives) using the straight-line method, except for leasehold improvements, which are depreciated over the shorter of the estimated useful lives of the assets or the lease term.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. Management reviews long-lived assets for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company recognizes impairment when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value of the asset. There were no impairment charges during the years ended September 30, 2021, 2020 and 2019.

Capitalized Software

Development costs for software to be sold or leased to customers are capitalized once technological feasibility of the software product has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed a detailed program design and has determined that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is generally available to clients. Software development costs are amortized using the greater of the straight-line method or the usage method over its estimated useful life, which is generally estimated to be three years.

Software development costs may become impaired in situations where development efforts are abandoned due to the viability of a planned project becoming doubtful or due to technological obsolescence of a planned software product. Management evaluates the remaining useful lives and carrying values of capitalized software at least annually or when events and circumstances warrant such a review, to determine whether significant events or changes in circumstances indicate that impairment in value may have occurred. To the extent estimated net realizable values, which are estimated to equal future undiscounted cash flows, exceed the carrying value, no impairment is necessary. If estimated net realizable values are less than the carrying values, an impairment charge is recorded. Impairment charges during the years ended September 30, 2021, 2020 and 2019 were nominal.

Identifiable software technology intangible assets resulting from acquisitions are amortized using the straight-line method over periods not exceeding their remaining estimated useful lives. GAAP requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their residual values, and reviewed for impairment. Acquisition technology intangibles' net book values are included in capitalized software, net in the accompanying consolidated balance sheets.

Notes Receivable

Notes receivable consist of loans made to unrelated entities. Notes receivable were \$4,695 and \$1,195 at September 30, 2021 and 2020, respectively, and are included within other assets on the accompanying 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 material 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.

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

The fair value of trade names acquired is 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 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 consolidated statements of operations from the date of such acquisition. Acquisitions completed during the year ended September 30, 2021 contributed \$57,819 and \$6,530 of revenue and net income, respectively, to the results in the Company's consolidated statements of operations for the year then ended.

Goodwill

In accordance with ASC 350, Intangibles—Goodwill and Other, the Company tests goodwill for impairment for each reporting unit on an annual basis in the fourth quarter, or when events or circumstances indicate the fair value of a reporting unit is below its carrying value.

The Company's goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in business combinations. The goodwill generated from the business combinations is primarily related to the value placed on the employee workforce and expected synergies. Judgment is involved in determining if an indicator or change in circumstances relating to impairment has occurred. Such changes may include, among others, a significant decline in expected future cash flows, a significant adverse change in the business climate, and unforeseen competition. No goodwill impairment charges were recognized during the years ended September 30, 2021, 2020 and 2019.

The Company has the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. The option of whether or not to perform a qualitative assessment is made annually and may vary by reporting unit. Factors the Company considers in the qualitative assessment include general macroeconomic conditions, industry and market conditions, cost factors, overall financial performance of the Company's reporting units, events or changes affecting the composition or carrying amount of the net assets of its reporting units, sustained decrease in its share price, and other relevant entity specific events. If the Company determines not to perform the qualitative assessment or if it determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying value, then the Company performs a quantitative test for that reporting unit. The fair value of each reporting unit is compared to the reporting unit's carrying value, including goodwill. Subsequent to the adoption on January 1, 2017 of ASU No. 2017-04, Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment, if the fair value of a reporting unit is less than its carrying value, the Company recognizes an impairment equal to the excess carrying value, not to exceed the total amount of goodwill allocated to that reporting unit.

For a discussion of the estimation methodology, the qualitative factors considered when performing a qualitative assessment and the significance of various inputs, please see the subheading below titled "Use of Estimates."

The Company has determined that it has five reporting units as of the date of the most recent annual good impairment test. For each of the years ended September 30, 2021, 2020 and 2019 the Company performed a quantitative assessment for each of its reporting units. The Company determined that none of the reporting units were impaired.

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

Intangible Assets

Intangible assets include acquired merchant relationships, residual buyouts, referral agreements, trademarks, tradenames, website development costs and non-compete agreements. Merchant relationships represent the fair value of customer relationships purchased by the Company. Residual buyouts represent the right to not have to pay a residual to an independent sales agent related to certain future transactions with the agent's referred merchants. Referral agreements represent the right to exclusively obtain referrals from a partner for their customers' credit card processing services.

The Company amortizes definite lived identifiable intangible assets using a method that reflects the pattern in which the economic benefits of the intangible asset are expected to be consumed or otherwise utilized. The estimated useful lives of the Company's customer-related intangible assets approximate the expected distribution of cash flows, whether straight-line or accelerated, generated from each asset. The useful lives of contract-based intangible assets are equal to the terms of the agreement.

During the first quarter of fiscal year 2019, management determined it was appropriate to change the amortization rate of our merchant contract intangible assets to reflect the expected distribution of future cash flows. This change was applied prospectively beginning on October 1, 2018 and resulted in \$1,290 in additional amortization expense recorded in the year ended September 30, 2019.

Management evaluates the remaining useful lives and carrying values of long-lived assets, including definite lived intangible assets, at least annually, or when events and circumstances warrant such a review, to determine whether significant events or changes in circumstances indicate that a change in the useful life or impairment in value may have occurred. There were no impairment charges during the years ended September 30, 2021, 2020 and 2019.

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 amount provided for state income taxes is based upon the amounts of current and deferred taxes payable or refundable at the date of the consolidated financial statements as a result of all events recognized in the financial statements as measured by the provisions of enacted tax laws.

Under GAAP, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company reports a liability for unrecognized tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as part of income tax expense. See additional discussion in Note 11.

Valuation of Contingent Consideration

On occasion, the Company may have acquisitions which include contingent consideration. Accounting for business combinations requires the Company to estimate the fair value of any contingent purchase consideration at the acquisition date. For a discussion of the estimate methodology and the significance of various inputs, please see the subheading below titled "Use of Estimates." Changes in estimates regarding the fair value contingent purchase consideration are reflected as adjustments to the related liability and recognized within operating expenses in the consolidated statements of operations. Short and long-term contingent liabilities are

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

presented within accrued expenses and other current liabilities and other long-term liabilities on the Company's consolidated balance sheets, respectively.

Classification of Financial Instruments

The Company classifies certain financial instruments issued as either equity or as liabilities. Determination of classification is based upon the underlying properties of the instrument. See specific discussion regarding the nature of instruments issued, the presentation on the consolidated financial statements and the related valuation method applied in Notes 10, 13, and 14.

Revenue Recognition and Deferred Revenue

For the years ended September 30, 2021 and 2020, 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. Results for the reporting period beginning October 1, 2019 are presented under ASC 606, while prior period amounts continue to be reported in accordance with the Company's historic accounting practices under previous guidance.

The majority of the Company's revenue for the years ended September 30, 2021, 2020 and 2019 is derived from volume-based payment processing fees ("discount fees") and other related fixed transaction or service fees. The remainder is comprised of sales of software licensing subscriptions, ongoing support, and other POS-related solutions the Company provides to its clients directly and through its processing bank relationships.

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.

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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, for the years ended September 30, 2021 and 2020, subsequent to the adoption of ASC 606.

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 relates to the sale of equipment, is recognized upon transfer of ownership and delivery to the client, after which there are no further performance obligations.

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.

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.

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

The table below presents a disaggregation of the Company's revenue from contracts with clients by product by segment. Refer to Note 17 for discussion of the Company's segments. The Company's products are defined as follows:

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

	For the year ended September 30, 2021			
	Merchant Services	Proprietary Software and Payments	Other	Total
Payments revenue	\$ 92,325	\$ 29,451	\$ (2,095)	\$ 119,681
Software and related services revenue	11,872	75,736	(18)	87,590
Other revenue	7,673	9,246	(66)	16,853
Total revenue	<u>\$ 111,870</u>	<u>\$ 114,433</u>	<u>\$ (2,179)</u>	<u>\$ 224,124</u>

	For the year ended September 30, 2020			
	Merchant Services	Proprietary Software and Payments	Other	Total
Payments revenue	\$ 82,913	\$ 19,359	\$ (1,757)	\$ 100,515
Software and related services revenue	10,203	26,634	—	36,837
Other revenue	7,833	4,960	(11)	12,782
Total revenue	<u>\$ 100,949</u>	<u>\$ 50,953</u>	<u>\$ (1,768)</u>	<u>\$ 150,134</u>

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

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	For the year ended September 30, 2021			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue earned over time	\$ 83,203	\$ 76,367	\$ (2,003)	\$ 157,567
Revenue earned at a point in time	28,667	38,066	(176)	66,557
Total revenue	<u>\$ 111,870</u>	<u>\$ 114,433</u>	<u>\$ (2,179)</u>	<u>\$ 224,124</u>

	For the year ended September 30, 2020			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue earned over time	\$ 72,800	\$ 35,222	\$ (1,743)	\$ 106,279
Revenue earned at a point in time	28,149	15,731	(25)	43,855
Total revenue	<u>\$ 100,949</u>	<u>\$ 50,953</u>	<u>\$ (1,768)</u>	<u>\$ 150,134</u>

Contract Assets

The Company bills for fixed fee professional services once the Company achieves pre-determined milestones in the contract. 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. For the Company's time and materials professional services contracts and transaction processing services, the Company periodically bills the customer after services have been provided but has the right to invoice the customer for services performed to date at any time. 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 September 30, 2021 and September 30, 2020, the Company's contract assets from contracts with customers was \$1,505 and \$0, 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 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.

The following table presents the changes in deferred revenue as of and for the year ended September 30, 2021:

Balance at September 30, 2019	\$	10,237
Deferral of revenue		22,963
Recognition of unearned revenue		(22,146)
Balance at September 30, 2020	\$	11,054
Deferral of revenue		29,966
Recognition of unearned revenue		(10,996)
Balance at September 30, 2021	<u>\$</u>	<u>30,024</u>

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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 September 30, 2021, the Company had \$3,851 of capitalized contract costs, compared to \$3,140 of capitalized contract costs as of September 30, 2020. The contract costs relate to commissions paid to obtain new sales, included within "Prepaid expenses and other current assets" and "Other assets" on the consolidated balance sheets. The Company recorded commissions expense related to these costs for the years ended September 30, 2021 and 2020 of \$533 and \$398, respectively.

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.

Interchange and Network Fees

Interchange and network fees consist primarily of fees that are directly related to discount fee revenue. These include interchange fees paid to issuers and assessment fees payable to card associations, which are a percentage of the processing volume the Company generates from Visa and Mastercard, as well as fees charged by card-issuing banks. Interchange and network fees are recognized at the time the merchant's transactions are processed. As noted above, after adoption of ASC 606 on October 1, 2019, these fees are presented net in discount fee revenue because the Company is acting as an agent in the provision of payment authorization services.

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.

Selling General and Administrative

Selling general and administrative include all personnel costs such as salaries, benefits, bonuses, stock based compensation and commissions, as well as marketing and advertising costs, contractor services, legal and other professional services fees, software and technological services, rental expenses and other general expenses.

Advertising and promotion costs are expensed as incurred. Advertising expense was \$2,623, \$1,813 and \$1,443 for the years ended September 30, 2021, 2020 and 2019, respectively, and is included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Equity-based Compensation

The Company accounts for grants of equity awards to employees in accordance with ASC 718, Compensation—Stock Compensation. This standard requires compensation expense to be measured based on

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the estimated fair value of the share-based awards on the date of grant and recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period.

Equity-based compensation was \$20,860, \$10,452 and \$6,124 for the years ended September 30, 2021, 2020 and 2019, respectively.

Use of Estimates

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

During the year ended September 30, 2020, the Company recorded a \$2,668 reduction in the valuation allowance on the deferred tax asset related to the Company's investment in partnership and a corresponding reduction in the Company's income tax expense for the year ended September 30, 2020. Management determined an additional portion of the deferred tax asset will be more likely than not realized based off an evaluation of the four sources of taxable income. See Note 11 for a discussion of the current period changes in valuation allowances.

During the year ended September 30, 2020, the Company elected to make a policy change to allocate stock compensation expense to the holders of shares of Class B common stock of i3 Verticals, Inc. This change resulted in a \$235 reduction in the benefit from income taxes and a corresponding reduction in the Company's net loss, a \$3,728 increase to the net loss attributable to non-controlling interest and a \$3,493 decrease to the net loss attributable to i3 Verticals, Inc. for the year ended September 30, 2020.

Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09"). The FASB issued updates and clarifications to ASU 2014-09, including ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606): *Principal versus Agent Considerations* (Reporting Gross versus Net) issued in March 2016, ASU 2016-10, *Revenue from Contracts with Customers* (Topic 606): *Identifying Performance Obligations and Licensing* issued in April 2016 and ASU 2016-12, *Revenue from Contracts with Customers* (Topic 606): *Narrow-Scope Improvements and Practical Expedients* issued in May 2016. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605. The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard, as amended, became effective for the Company on October 1, 2019. The amendment allows companies to use either a full retrospective or a modified retrospective approach, through a cumulative adjustment, to adopt this ASU No. 2014-09.

The new standard changed the timing of certain revenue and expenses to be recognized under various arrangement types. More judgment and estimates are required when applying the requirements of the new standard than were required under prior GAAP, such as estimating the amount of variable consideration to include in transaction price and estimating expected periods of benefit for certain costs. Through management's review of

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individual contracts and historical revenue recognition patterns in comparison to the provisions under ASU 2014-09, the Company determined the timing of revenue to be recognized under ASU 2014-09 for each of the Company's revenue categories, including discount fees, software licensing subscriptions, ongoing support, and other POS-related solutions, is similar to the timing of revenue recognized under the historical guidance under ASC 605. The Company will evaluate, on an ongoing basis, costs to obtain contracts with clients, as well as certain implementation and set-up costs, and, in some cases, may be required to amortize these costs over longer periods than they were historically amortized. Finally, the new standard required additional disclosures regarding revenues and related capitalized contract costs, if any.

The Company adopted the new revenue standard using a modified retrospective basis on October 1, 2019. The Company has recorded a \$1,345 cumulative increase to equity, including a \$705 cumulative increase to accumulated earnings and a \$640 cumulative increase to non-controlling interest, as a result of the adoption, due to capitalized costs to obtain contracts with clients being amortized over the expected life of the client rather than the life of the specific contract.

The Company determined that the most significant ongoing impact of adopting the new revenue standard was driven by changes in principal versus agent considerations, with the majority of the change overall in total net revenue attributable to reflecting the Company's payment authorization services net of related interchange and network fees prospectively. The Company's interchange and network fees of \$242,867 were classified in "Operating Expenses" on the consolidated statement of operations for the year ended September 30, 2019. The Company's interchange and network fees of \$244,097 were included as a reduction to revenue on the consolidated statement of operations for the year ended September 30, 2020. Under the modified retrospective basis, the Company has not restated its comparative consolidated financial statements for these effects. The adoption of the new revenue standard did not have a material impact on net income.

In February 2016, the FASB issued ASC 842 with amendments in 2018 and 2019. ASC 842 aims to increase transparency and comparability among organizations by requiring recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements.

The amendments to ASC 842 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. In November 2019, the FASB issued ASU No. 2019-10, which extends the effective date for adoption of ASC 842 for certain entities. In June 2020, the FASB issued ASU No. 2020-05, which further extends the effective date for adoption of ASC 842 for certain entities. As a result of the provisions in ASU No. 2020-05, and as the Company is an emerging growth company and has elected to use the extended transition period of such companies, the Company was not required to adopt ASC 842 until October 1, 2022. The Company elected to early adopt ASC 842 on October 1, 2020, using the optional modified retrospective transition method, under which the prior period financial statements were not restated for the new guidance.

The Company elected to apply the package of practical expedients whereby the Company did not reassess whether expired or existing leases contain a lease, did not reassess the lease classification for any expired or existing leases, and did not reassess initial direct costs for any existing leases. The Company further elected to account for lease and nonlease components in a lease arrangement as a combined lease component for all classes of leased assets. The Company also elected to apply the short-term lease exception practical expedient.

The adoption of ASC 842 resulted in the recognition of the right-of-use assets of \$9,093 and the lease liabilities of \$9,760 as of October 1, 2020. The adoption of ASC 842 also resulted in a reduction in existing prepaid expenses and other current assets of \$202 and in accrued expenses and other current liabilities and other long-term liabilities of \$869 as of October 1, 2020. Lease liabilities are measured as the present value of remaining lease payments, utilizing the Company's incremental borrowing rate based on the remaining lease term as of the adoption date. The right-of-use assets are measured at an amount equal to the lease liabilities adjusted by the amounts of certain assets and liabilities, such as deferred lease obligations and prepaid rent, that were previously

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recognized on the balance sheet prior to the initial application of ASC 842. Refer to Note 12 for further information.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820). The amendments in ASU No. 2018-13 provide clarification and modify the disclosure requirements on fair value measurement in Topic 820, Fair Value Measurement. The amendments in this ASU No. 2018-13 are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. As a public business entity, the Company is an emerging growth company and has elected to use the extended transition period provided for such companies. As a result, the Company was not required to adopt this ASU No. 2018-13 until October 1, 2021. The Company elected to early adopt ASU No. 2018-13 on September 30, 2021, and the adoption did not have a material impact on its disclosures.

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.

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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 consolidated balance sheets as of September 30, 2021:

	As of September 30, 2021		
	Excluding impacts of adoption of ASU 2021-08	Adjustment	Presentation with adoption of ASU 2021-08
Assets			
Goodwill	\$ 287,448	\$ 4,795	\$ 292,243
Deferred tax asset	\$ 50,619	\$ (627)	\$ 49,992
Liabilities and equity			
Liabilities			
Current liabilities			
Accrued expenses and other current liabilities	\$ 50,779	\$ 36	\$ 50,815
Deferred revenue	\$ 29,567	\$ 295	\$ 29,862
Long-term tax receivable agreement obligations	\$ 39,131	\$ (9)	\$ 39,122
Stockholders' equity			
Additional paid-in-capital	\$ 211,044	\$ 193	\$ 211,237
Accumulated deficit	\$ (8,813)	\$ 2,333	\$ (6,480)
Non-controlling interest	\$ 83,511	\$ 1,320	\$ 84,831

The following tables present the material impacts of adoption of ASU 2021-08 on the Company's consolidated statements of operations for the year ended September 30, 2021:

	Year ended September 30, 2021		
	Excluding impacts of adoption of ASU 2021-08	Adjustment	Presentation with adoption of ASU 2021-08
Revenue	\$ 219,624	\$ 4,500	\$ 224,124
Provision for income taxes	\$ 71	\$ 552	\$ 623
Net loss	\$ (11,787)	\$ 3,948	\$ (7,839)
Net loss attributable to non-controlling interest	\$ (4,997)	\$ 1,615	\$ (3,382)
Net loss attributable to i3 Verticals, Inc.	\$ (6,790)	\$ 2,333	\$ (4,457)
Net loss per share attributable to Class A common stockholders:			
Basic	\$ (0.32)	\$ 0.11	\$ (0.21)
Diluted	\$ (0.33)	\$ 0.11	\$ (0.22)

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The adoption of ASU 2021-08 did not have a material impact on the results of the Company's cash flows for the year ended September 30, 2021 or the interim periods therein.

Recently Issued Accounting Pronouncements Not Yet Adopted

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 amendments in this ASU No. 2016-13 are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. As a public business entity, the Company is an emerging growth company and has elected to use the extended transition period provided for such companies. As a result, the Company will not be required to adopt ASU 2016-13 until October 1, 2023. The Company is currently evaluating the impact of the adoption of this principle on the Company's condensed consolidated financial statements.

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 of 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 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. CREDIT RISK AND OTHER CONCENTRATIONS

The Company places its cash with high credit quality financial institutions which provide Federal Deposit Insurance Corporation insurance. The Company performs periodic evaluations of the relative credit standing of these institutions and does not expect any losses related to such concentrations.

The Company's revenues are earned by processing transactions for merchant businesses and other institutions under contract with the Company. The Company utilizes the funds settlement services of primarily six processing banks, from which most accounts receivable are remitted monthly.

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No single customer accounted for more than 10% of the Company's revenue during the years ended September 30, 2021, 2020 and 2019. The Company believes that the loss of any single customer would not have a material adverse effect on the Company's financial condition or results of operations.

The Company uses third party payment processors, three of which facilitate more than 10% of our processing revenues for the years ended September 30, 2021, 2020, and 2019.

4. ACQUISITIONS

During the years ended September 30, 2021, 2020 and 2019 the Company acquired the following intangible assets and businesses:

Residual Buyouts

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

During the years ended September 30, 2021, 2020 and 2019, the Company purchased \$1,819, \$1,788 and \$3,585, respectively, in residual buyouts using a combination of cash on hand and borrowings on the Company's revolving credit facility. The acquired residual buyout intangible assets have weighted average estimated amortization periods of eight, eight and seven years, respectively.

2019 Business Combinations

During the year ended September 30, 2019, the Company completed the acquisitions of unrelated businesses, including Pace Payment Systems, Inc.

Purchase of Pace Payment Systems, Inc.

On May 31, 2019, i3-Holdings Sub, Inc. acquired all of the stock of Pace Payment Systems, Inc. ("Pace") via a reverse triangular merger involving Pace and a special acquisition subsidiary of i3-Holdings Sub, Inc. The Company acquired Pace to expand its software offerings, primarily in the public sector and education verticals. The total purchase consideration was \$56,053, including \$52,492 in cash consideration, funded by proceeds from the Company's revolving credit facility, \$3,336 of contingent consideration and \$225 of restricted shares of Class A common stock in i3 Verticals.

The goodwill associated with the acquisition is not deductible for tax purposes. The acquired merchant relationships intangible asset has an estimated amortization period of fifteen 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 fifteen years. The acquired capitalized software has an estimated amortization period of seven years. The acquisition also included deferred tax assets related to net operating losses and Section 163(j) carryforwards and deferred tax liabilities related to intangibles, which are presented as a total net deferred tax asset as of September 30, 2020.

Acquisition-related costs for Pace amounted to approximately \$507 (\$444 during fiscal year 2019) and were expensed as incurred.

Certain provisions in the merger 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 January 1, 2020 through December 31, 2021. The Company determined the acquisition date fair value of the liability for the contingent consideration based on a discounted

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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 13.

Other 2019 Business Combinations

The Company completed the acquisitions of other businesses to expand the Company's software offerings in the public sector vertical market, provide technology that enhances the Company's Burton Platform and expand the Company's merchant base. Total purchase consideration was \$98,887, including \$89,191 in revolving credit facility proceeds and \$9,696 of contingent cash consideration.

For some of these businesses acquired, the goodwill associated with the acquisitions is deductible for tax purposes, and goodwill associated with the acquisitions of others of the businesses is not deductible for tax purposes. The acquired merchant relationships intangible assets have estimated amortization periods of between thirteen and twenty years. The non-compete agreement and trade names have weighted-average amortization periods of three and five years, respectively. The weighted-average amortization period for all intangibles acquired is sixteen years. The acquired capitalized software has an estimated amortization period of six years.

Acquisition-related costs for the other businesses amounted to approximately \$1,299 and were expensed as incurred.

Certain provisions in the purchase agreements provide for additional consideration of up to \$34,900, in the aggregate, to be paid based upon the achievement of specified financial performance targets, as defined in the purchase agreements, through no later than September 2021. 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 13.

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Summary of 2019 Business Combinations

The fair values assigned to certain assets and liabilities assumed, as of the acquisition dates, during the year ended September 30, 2019 were as follows:

	Pace	Other	Total
Cash and cash equivalents	\$ 108	\$ 4,453	\$ 4,561
Accounts receivable	545	4,907	5,452
Settlement assets	—	18	18
Inventories	45	61	106
Prepaid expenses and other current assets	59	483	542
Property and equipment	527	1,929	2,456
Capitalized software	3,400	9,440	12,840
Acquired merchant relationships	13,400	34,480	47,880
Exclusivity Agreements	—	—	—
Non-compete agreements	60	150	210
Trade name	500	1,540	2,040
Goodwill	35,589	47,483	83,072
Other assets	2,622	2	2,624
Total assets acquired	56,855	104,946	161,801
Accounts payable	722	369	1,091
Accrued expenses and other current liabilities	56	2,284	2,340
Settlement obligations	—	18	18
Deferred revenue, current	24	2,698	2,722
Other long-term liabilities	—	690	690
Net assets acquired	\$ 56,053	\$ 98,887	\$ 154,940

2020 Business Combinations

During the year ended September 30, 2020, the Company completed the acquisitions of three unrelated businesses. Two expanded the Company's geographic reach and software capabilities in the public sector vertical. The other adds text-to-pay capabilities and other software solutions in the Company's non-profit vertical. Total purchase consideration was \$32,633, including \$27,885 in revolving credit facility proceeds and \$4,748 of contingent consideration. Certain of the purchase price allocations assigned for these acquisitions are preliminary.

For some of these business acquired, the goodwill associated with the acquisitions is deductible for tax purposes, and goodwill associated with the acquisitions of others of the businesses is not deductible for tax purposes. The acquired merchant relationships intangible assets have estimated amortization periods of between fifteen and eighteen years. The non-compete agreement and trade names both have weighted-average amortization periods three years. The weighted-average amortization period for all intangibles acquired is sixteen years. The acquired capitalized software has an estimated amortization period of seven years.

Acquisition-related costs for these businesses amounted to approximately \$547 and were expensed as incurred.

Certain provisions in the purchase agreements provide for additional consideration of up to \$18,600, in the aggregate, to be paid based upon the achievement of specified financial performance targets, as defined in the

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purchase agreements, through no later than September 2022. 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 13.

Summary of 2020 Business Combinations

The fair values assigned to certain assets and liabilities assumed, as of the acquisition dates, during the year ended September 30, 2020 were as follows:

Cash and cash equivalents	\$	313
Accounts receivable		846
Prepaid expenses and other current assets		54
Property and equipment		122
Capitalized software		1,970
Acquired merchant relationships		11,900
Non-compete agreements		90
Trade name		300
Goodwill		20,213
Other assets		17
Total assets acquired		35,825
Accounts payable		168
Accrued expenses and other current liabilities		635
Deferred revenue, current		200
Other long-term liabilities		2,194
Net assets acquired	\$	32,628

During the year ended September 30, 2021, the Company finalized the purchase price allocations for the 2020 business combinations, which resulted in additional adjustments to increase current assets by \$137, increase goodwill by \$265 and decrease liabilities by \$407. The table above reflects the adjusted amounts.

2021 Business Combinations

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, Inc.

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

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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 merger 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 13.

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 merger 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 13.

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 three years. The weighted-average amortization period for all intangibles acquired is eighteen years. The acquired capitalized software has a weighted-average amortization period of seven years.

Acquisition-related costs for these businesses amounted to approximately \$1,083 and were expensed as incurred.

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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 13.

Summary of 2021 Business Combinations

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	\$ 3,216	\$ 9,780
Settlement assets	6,889	120	—	7,009
Inventories	458	—	161	619
Prepaid expenses and other current assets	10	2,897	2,036	4,943
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	35,906	104,974
Operating lease right-of-use assets	—	332	472	804
Other assets	—	6	32	38
Total assets acquired	104,090	54,403	71,505	229,998
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	5,505	13,821
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.

Pro Forma Results of Operations for 2021 Business Combinations

The following unaudited supplemental pro forma results of operations have been prepared as though each of the acquired businesses in the year ended September 30, 2021 had occurred on October 1, 2019. Pro forma adjustments were made to reflect the impact of depreciation and amortization, changes to executive compensation and the revised debt load, all in accordance with ASC 805. This supplemental pro forma

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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.

	Year ended September 30,	
	2021	2020
Revenue	\$ 249,333	\$ 227,190
Net loss	\$ (7,595)	\$ (2,042)

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

A summary of the Company's prepaid expenses and other current assets as of September 30, 2021 and 2020 is as follows:

	2021	2020
Inventory	\$ 2,220	\$ 1,309
Prepaid licenses	4,646	157
Prepaid insurance	1,074	1,466
Other current assets	3,274	1,937
Prepaid expenses and other current assets	<u>\$ 11,214</u>	<u>\$ 4,869</u>

6. PROPERTY AND EQUIPMENT, NET

A summary of the Company's property and equipment as of September 30, 2021 and 2020 is as follows:

	Estimated Useful Life	2021	2020
Computer equipment and software ⁽¹⁾	2 to 7 years	\$ 2,982	\$ 2,382
Furniture and fixtures	2 to 7 years	2,125	1,867
Terminals	2 to 3 years	945	584
Office equipment	2 to 5 years	1,173	942
Automobiles	3 years	481	366
Leasehold improvements	2 to 7 years	2,788	2,194
Accumulated depreciation		<u>(4,592)</u>	<u>(2,996)</u>
Property and equipment, net		<u>\$ 5,902</u>	<u>\$ 5,339</u>

1. Includes computer software of \$707 and \$694 as of September 30, 2021 and 2020, respectively.

Depreciation expense for the years ended September 30, 2021, 2020 and 2019 amounted to \$2,312, \$1,825 and \$1,195, respectively.

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7. CAPITALIZED SOFTWARE, NET

A summary of the Company's capitalized software as of September 30, 2021 and 2020 is as follows:

	Estimated Useful Life	2021	2020
Software development costs	1 to 7 years	\$ 46,417	\$ 21,485
Development in progress		6,612	2,638
Accumulated amortization		(11,658)	(7,134)
Capitalized software, net		\$ 41,371	\$ 16,989

The Company capitalized software development costs (including acquisitions) totaling \$30,659 and \$5,756 during the years ended September 30, 2021 and 2020, respectively. Amortization expense for capitalized software development costs amounted to \$6,276, \$3,978 and \$2,977 during the years ended September 30, 2021, 2020 and 2019, respectively. There were no amounts written down to net realizable value during the years ended September 30, 2021, 2020 and 2019, respectively.

8. 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, 2019	\$ 117,334	\$ 50,950	\$ —	\$ 168,284
Goodwill reassigned in segment realignment ⁽¹⁾	(419)	419	—	—
Goodwill attributable to preliminary purchase price adjustments and acquisition activity during the year ended September 30, 2020	(933)	19,654	—	18,721
Balance at September 30, 2020	115,982	71,023	—	187,005
Goodwill attributable to preliminary purchase price adjustments and acquisition activity during the year ended September 30, 2021	3,104	102,134	—	105,238
Balance at September 30, 2021	\$ 119,086	\$ 173,157	\$ —	\$ 292,243

1. Represents the reallocation of goodwill related to a component which was realigned from the Proprietary Software and Payments segment to the Merchant Services segment as of July 1, 2020. See Note 17 for additional information.

Intangible assets consisted of the following as of September 30, 2021:

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	Cost	Accumulated Amortization	Carrying Value	Amortization Life and Method
Finite-lived intangible assets:				
Merchant relationships	\$ 227,211	\$ (65,815)	\$ 161,396	10 to 25 years – accelerated or straight-line
Non-compete agreements	2,878	(1,907)	971	3 to 6 years – straight-line
Website and brand development costs	240	(133)	107	3 to 4 years – straight-line
Trade names	6,320	(2,668)	3,652	3 to 7 years – straight-line
Residual buyouts	6,718	(1,407)	5,311	8 years – straight-line
Referral and exclusivity agreements	800	(573)	227	5 years – straight-line
Total finite-lived intangible assets	244,167	(72,503)	171,664	
Indefinite-lived intangible assets:				
Trademarks	42	—	42	
Total identifiable intangible assets	\$ 244,209	\$ (72,503)	\$ 171,706	

Intangible assets consisted of the following as of September 30, 2020:

	Cost	Accumulated Amortization	Carrying Value	Amortization Life and Method
Finite-lived intangible assets:				
Merchant relationships	\$ 154,571	\$ (53,388)	\$ 101,183	12 to 20 years – accelerated or straight-line
Non-compete agreements	1,700	(851)	849	2 to 5 years – straight-line
Website development costs	215	(65)	150	3 to 4 years – straight-line
Trade names	3,880	(1,538)	2,342	3 to 7 years – straight-line
Residual buyouts	5,373	(1,172)	4,201	2 to 8 years – straight-line
Referral and exclusivity agreements	900	(434)	466	5 to 10 years – straight-line
Total finite-lived intangible assets	166,639	(57,448)	109,191	
Indefinite-lived intangible assets:				
Trademarks	42	—	42	
Total identifiable intangible assets	166,681	(57,448)	109,233	

Amortization expense for intangible assets amounted to \$15,830, \$12,414 and \$12,394 during the years ended September 30, 2021, 2020 and 2019, respectively.

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Based on gross carrying amounts at September 30, 2021, the Company's estimate of future amortization expense for intangible assets are presented in this table as follows for each fiscal year ending September 30:

2022	\$	15,360
2023		14,501
2024		13,519
2025		13,237
2026		12,842
Thereafter		102,205
	<u>\$</u>	<u>171,664</u>

9. ACCRUED EXPENSES AND OTHER LIABILITIES

A summary of the Company's accrued expenses and other current liabilities as of September 30, 2021 and 2020 is as follows:

	2021	2020
Accrued wages, bonuses, commissions and vacation	\$ 6,649	\$ 3,867
Accrued interest	271	141
Accrued contingent consideration — current portion	25,768	10,062
Escrow liabilities	9,067	4,363
Customer deposits	1,913	1,828
Employee health self-insurance liability	1,032	—
Other current liabilities	6,115	3,803
Accrued expenses and other current liabilities	<u>\$ 50,815</u>	<u>\$ 24,064</u>

A summary of the Company's long-term liabilities as of September 30, 2021 and 2020 is as follows:

	2021	2020
Accrued contingent consideration — long-term portion	\$ 10,461	\$ 2,972
Deferred tax liability — long-term	3,280	2,212
Other long-term liabilities	270	956
Total other long-term liabilities	<u>\$ 14,011</u>	<u>\$ 6,140</u>

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10. LONG-TERM DEBT, NET

A summary of long-term debt, net as of September 30, 2021 and September 30, 2020 is as follows:

	Maturity	2021	2020
Revolving lines of credit to banks under the Senior Secured Credit Facility	May 9, 2024	\$ 104,396	\$ —
1.0% Exchangeable Senior Notes due 2025	February 15, 2025	99,808	95,325
Debt issuance costs, net		(3,599)	(4,567)
Total long-term debt, net of issuance costs		<u>\$ 200,605</u>	<u>\$ 90,758</u>

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 September 30, 2021, 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.

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The Exchangeable Notes are general senior unsecured obligations of i3 Verticals, LLC and 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 for the year ended September 30, 2020. 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 during the year ended September 30, 2020. Non-cash interest expense for amortization of debt issuance costs related to the Exchangeable Notes for the years ended September 30, 2021 and 2020 was \$588 and \$365, 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 \$2,605 as of September 30, 2021.

The estimated fair value of the Exchangeable Notes was \$119,633 as of September 30, 2021. 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 13.

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

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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 2017 Senior Secured Credit Facility (defined below) with a new credit agreement (the "Senior Secured Credit Facility"). The Company concluded that the replacement of the 2017 Senior Secured Credit Facility should be accounted for as a debt modification based on the guidance in ASC 470-50. In connection with the replacement of the 2017 Senior Secured Credit Facility, the Company recorded a debt extinguishment charge of \$152 for the write-off of deferred financing costs, which was recorded in interest expense in the consolidated statements of operations. The Senior Secured Credit Facility, as amended on February 18, 2020 in connection with our offering of Exchangeable Notes, 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 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 September 30, 2021), 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 September 30, 2021), 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 September 30, 2021) on any undrawn amounts under the revolving credit facility and letter of credit fees of up to 3.25% on the maximum amount

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available to be drawn under each letter of credit issued under the agreement. 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. The maturity date of the Senior Secured Credit Facility is May 9, 2024. As of September 30, 2021, there was \$170,604 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 September 30, 2021. 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, 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.

2017 Senior Secured Credit Facility

On October 30, 2017, the Company replaced its then-existing credit facility with the 2017 Senior Secured Credit Facility (the "2017 Senior Secured Credit Facility"). The 2017 Senior Secured Credit Facility consisted of term loans in the original principal amount of \$40,000 and a \$110,000 revolving line of credit. The 2017 Senior Secured Credit Facility accrued interest, payable monthly, at the prime rate plus a margin of 0.50% to 2.00% or at the 30-day LIBOR rate plus a margin of 2.75% to 4.00%, in each case depending on the ratio of consolidated debt-to-EBITDA, as defined in the agreement. Additionally, the 2017 Senior Secured Credit Facility required the Company to pay unused commitment fees of up to 0.15% to 0.30% on any undrawn amounts under the revolving line of credit. The maturity date of the 2017 Senior Secured Credit Facility is October 30, 2022. Principal payments of \$1,250 were due on the last day of each calendar quarter until the maturity date, when all outstanding principal and accrued and unpaid interest were due.

The 2017 Senior Secured Credit Facility was secured by substantially all assets of the Company. The lenders under the 2017 Senior Secured Credit Facility held senior rights to collateral and principal repayment over all other creditors.

As previously mentioned, on May 9, 2019, the Company replaced its existing 2017 Senior Secured Credit Facility with the Senior Secured Credit Facility.

Debt issuance costs

During the year ended September 30, 2020, the Company capitalized \$4,212 in connection with the issuance of the Exchangeable Notes, the Note Hedge Transactions and the Warrants and in connection with entering into the second amendment to the Senior Secured Credit Facility. The debt issuance costs are being amortized over

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the related term of the debt using the effective interest rate method, and are presented net against long-term debt in the consolidated balance sheets. During the year ended September 30, 2021, the Company did not incur any additional issuance costs. The amortization of debt issuance costs is included in interest expense and amounted to approximately \$968, \$758 and \$721 during the years ended September 30, 2021, 2020 and 2019, respectively.

11. 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.

	Year ended September 30,		
	2021	2020	2019
Current:			
Federal tax (benefit) expense	\$ (35)	\$ (34)	\$ 220
State tax expense	945	446	189
Deferred:			
Federal tax benefit	(285)	(3,018)	(487)
State tax benefit	(2)	(189)	(99)
Income tax expense (benefit)	<u>\$ 623</u>	<u>\$ (2,795)</u>	<u>\$ (177)</u>

A reconciliation of income tax expense from operations computed at the U.S. federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year ended September 30,					
	2021		2020		2019	
Expected U.S. federal income taxes at statutory rate	\$ (1,519)	21.1 %	\$ (792)	21.0 %	\$ 81	21.0 %
Partnership income not taxed at federal level	29	(0.4)%	85	(2.3)%	(1,007)	(260.9)%
Valuation allowance	712	(9.9)%	(2,694)	71.4 %	251	65.0 %
State and local income taxes, net of federal benefit	552	(7.6)%	244	(6.5)%	104	26.9 %
Nondeductible expenses and other permanent items	85	(1.2)%	496	(13.1)%	582	150.8 %
Revaluation of debt and other debt transaction differences	609	(8.4)%	222	(5.9)%	(189)	(49.0)%
Change in liability for uncertain tax positions	(83)	1.2 %	108	(2.9)%	—	— %
Federal tax credits	240	(3.3)%	(431)	11.4 %	—	— %
Other	(2)	— %	(33)	0.9 %	1	0.3 %
Income tax expense (benefit)	<u>\$ 623</u>	(8.6)%	<u>\$ (2,795)</u>	74.1 %	<u>\$ (177)</u>	(45.9)%

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Deferred income taxes are provided for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. Net deferred taxes spanning multiple jurisdictions as of September 30, 2021 and 2020 were as follows:

	September 30,	
	2021	2020
Deferred tax assets:		
Investment in partnership	\$ 57,080	\$ 47,897
Stock-based compensation	1,714	1,187
Deferred revenue	561	525
Accrued expenses	232	181
Net operating loss carryforwards	13,441	10,969
Section 163j carryforward	1,828	2,498
Federal tax credits	661	901
Operating lease liabilities	638	—
Other	75	73
Gross deferred tax assets	76,230	64,231
Valuation allowance	(20,269)	(20,230)
Deferred tax liabilities:		
Intangible assets	\$ (8,308)	\$ (9,167)
Operating lease right of use assets	(620)	—
Other	(321)	(291)
Net deferred tax asset	<u>\$ 46,712</u>	<u>\$ 34,543</u>

Federal net operating loss carryforwards as of September 30, 2021 and 2020 were \$35,312 and \$26,984, respectively. Federal tax credits were \$661, resulting in a deferred tax benefit of \$8,077 as of September 30, 2021 compared to \$901 of federal tax credits, resulting in a deferred tax benefit of \$6,568 as of September 30, 2020. The federal net operating loss carryforwards will begin to expire in 2035 and the federal tax credits will begin to expire in 2033. The use of federal net operating losses and credits are limited to the future taxable income of separate legal entities. As a result, a valuation allowance of \$793 has been provided for certain federal deferred tax assets, an increase of \$405 during the year ended September 30, 2021. State net operating loss carryforwards as of September 30, 2021 totaled \$95,060, resulting in a deferred tax benefit of \$6,026. The state net operating loss carryforwards will begin to expire in 2026. The use of certain state net operating losses are limited to future taxable earnings of separate legal entities. As a result, a valuation allowance of \$4,029 has been provided for state loss carryforwards, an increase of \$458 during the year ended September 30, 2021. The Company also considered a valuation allowance on its \$57,080 outside basis of investment in i3 Verticals, LLC deferred tax benefit as of September 30, 2021. The Company has recorded a valuation allowance of \$15,447 against the portion of the deferred tax benefit that is capital in nature, resulting in a decrease in valuation allowance of \$824 during the year ended September 30, 2021. Management believes that it is more likely than not that the results of operations will generate sufficient taxable income to realize the deferred tax assets after giving consideration to the valuation allowance.

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The components of the Company's liability for uncertain tax benefits are as follows:

Gross unrecognized tax benefits as of September 30, 2019	\$	—
Increase in current year tax positions		108
Increase in prior year tax positions		76
Settlements and other reductions		—
Gross unrecognized tax benefits as of September 30, 2020		184
Increase in current year tax positions		—
Increase in prior year tax positions		—
Settlements and other reductions	\$	76
Gross unrecognized tax benefits as of September 30, 2021	\$	108

As of September 30, 2021 and 2020, the Company had accrued interest of \$0 and \$7, respectively, and no accrued penalties in either period related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The Company is no longer subject to U.S. federal, state, or local examinations by tax authorities for years before 2017. As of September 30, 2021 and 2020, there were unrecognized tax benefits of \$108 and \$184 that if recognized would affect the annual effective tax rate.

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.

When Class B common stock is exchanged for Class A common stock, this triggers an increase in the tax basis of the Company's Common Units in i3 Verticals, LLC subject to the provisions of the Tax Receivable Agreement. During the year ended September 30, 2019, the Company acquired an aggregate of 4,292,169 common units of i3 Verticals, LLC in connection with the redemption of common units, 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. Primarily as a result of these exchanges, during the year ended September 30, 2019, the Company recognized an increase to its net deferred tax assets in the amount of \$25,776, and corresponding Tax Receivable Agreement liabilities of \$22,413, representing 85% of the tax benefits due to the Continuing Equity Owners. The results of these transactions brought the deferred tax asset and corresponding Tax Receivable Agreement liability balances to \$26,736 and \$23,229, respectively, as of September 30, 2019.

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During the year ended September 30, 2020, the Company acquired an aggregate of 1,021,016 common units of i3 Verticals, LLC in connection with the redemption of common units, 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 these exchanges, during the year ended September 30, 2020, the Company recognized an increase to its net deferred tax assets in the amount of \$6,307, and corresponding Tax Receivable Agreement liabilities of \$5,361, representing 85% of the tax benefits due to the Continuing Equity Owners.

During the year ended September 30, 2021, the Company acquired an aggregate of 1,671,479 common units of i3 Verticals, LLC in connection with the redemption of common units, 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 these exchanges, during the year ended September 30, 2021, the Company recognized an increase to its net deferred tax assets in the amount of \$13,990, and corresponding Tax Receivable Agreement liabilities of \$11,892, representing 85% of the tax benefits due to the Continuing Equity Owners.

The deferred tax asset and corresponding Tax Receivable Agreement liability balances were \$41,633 and \$39,122, respectively, as of September 30, 2021.

Payments to the Continuing Equity Owners related to exchanges through September 30, 2021 will range from \$0 to \$3,174 per year and are expected to be paid over the next 25 years. The amounts recorded as of September 30, 2021, 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.

12. LEASES

As discussed in Note 2, the Company adopted ASC 842 effective October 1, 2020, using the modified retrospective transition method, under which the prior period financial statements were not restated for the new guidance.

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 September 30, 2021. 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 September 30, 2021 was six years. The Company had no significant short-term leases during the year ended September 30, 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% as of September 30, 2021.

Operating lease cost is recognized on a straight-line basis over the lease term. Operating lease costs for the year ended September 30, 2021 were \$4,096 which are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

Total operating lease costs for the year ended September 30, 2021 include variable lease costs of approximately \$6, which are primarily comprised of costs of maintenance and utilities and changes in rates, and

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are determined based on the actual costs incurred during the period. Variable payments are expensed in the period incurred and not included in the measurement of lease assets and liabilities.

Short-term rent expense for the year ended September 30, 2021 was \$304 and are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

As of September 30, 2021, maturities of lease liabilities are as follows:

Years ending September 30:

2022	\$	4,014
2023		3,451
2024		2,840
2025		2,405
2026		1,737
Thereafter		3,469
Total future minimum lease payments (undiscounted) ⁽¹⁾		17,916
Less: present value discount		(2,755)
Present value of lease liability	\$	<u>15,161</u>

1. Total future minimum lease payments excludes payments of \$9 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.

A summary of approximate future minimum payments for leases under ASC 840 as of September 30, 2020, was as follows:

Years ending September 30:

2021	\$	2,726
2022		2,397
2023		2,096
2024		1,469
2025		968
Thereafter		1,221
Total	\$	<u>10,877</u>

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13. 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, accounts receivable, other assets, accounts payable, and accrued expenses, approximated their fair values as of September 30, 2021 and 2020, because of the relatively short maturity dates on these instruments. The carrying amount of debt approximates fair value as of September 30, 2021 and 2020, because interest rates on these instruments approximate market interest rates.

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, 2019	\$	18,226
Contingent consideration accrued at time of business combination		4,748
Change in fair value of contingent consideration included in Operating expenses		(1,409)
Contingent consideration paid		(8,531)
Balance at September 30, 2020	\$	13,034
Contingent consideration accrued at time of business combination		22,577
Change in fair value of contingent consideration included in Operating expenses		7,140
Contingent consideration paid		(6,522)
Balance at September 30, 2021	\$	36,229

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.

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Approximately \$25,768 and \$10,062 of contingent consideration was recorded in accrued expenses and other current liabilities as of September 30, 2021 and 2020, respectively. Approximately \$10,461 and \$2,972 of contingent consideration was recorded in other long-term liabilities as of September 30, 2021 and 2020, respectively.

Disclosure of Fair Values

The Company's financial instruments that are not remeasured at fair value include the Exchangeable Notes (see Note 10). 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 \$119,633 as of September 30, 2021.

14. EQUITY-BASED COMPENSATION

A summary of equity-based compensation expense recognized during the years ended September 30, 2021, 2020 and 2019 is as follows:

	Year ended September 30,		
	2021	2020	2019
Stock options	\$ 20,860	\$ 10,452	\$ 6,124

Amounts are included in general and administrative expense on the consolidated statements of operations. Income tax benefits of \$1,083, \$604 and \$160 were recognized related to equity-based compensation during the years ended September 30, 2021, 2020, and 2019, respectively.

Stock Options

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%. As of September 30, 2021, there were 323,159 options available to 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 September 30, 2021, there were 1,441,420 equity awards available for grant under the 2020 Inducement Plan.

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The fair value of stock option awards during the years ended September 30, 2021 and 2020 was determined on the grant date using the Black-Scholes valuation model based on the following weighted-average assumptions:

	September 30, 2021	September 30, 2020
Expected volatility ⁽¹⁾	59.7 %	28.5 %
Expected dividend yield ⁽²⁾	— %	— %
Expected term ⁽³⁾	6 years	6 years
Risk-free interest rate ⁽⁴⁾	0.7 %	1.2 %

- For the year ended September 30, 2021, expected volatility is based on the volatility of the Company's own share price. For the year ended September 30, 2020, expected volatility is based on the historical volatility of a selected peer group over a period equivalent to the expected term.
- The Company has assumed a dividend yield of zero as management has no plans to declare dividends in the foreseeable future.
- Expected term represents the estimated period of time until an award is exercised and was determined using the simplified method as details of employee exercise behavior are limited due to limited historical data.
- The risk-free rate is an interpolation of yields on U.S. Treasury securities with maturities equivalent to the expected term.

A summary of stock option activity for the year ended September 30, 2021 is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period	5,210,566	\$ 21.73
Granted	3,179,472	29.88
Exercised	(548,277)	17.04
Forfeited	(294,139)	28.00
Outstanding at end of period	<u>7,547,622</u>	<u>\$ 25.26</u>

The weighted-average grant date fair value of stock options granted during the year ended September 30, 2021 was \$16.27. As of September 30, 2021, there were 7,547,622 stock options outstanding, of which 2,914,691 were exercisable. As of September 30, 2021, total unrecognized compensation expense related to unvested stock options, including an estimate for pre-vesting forfeitures, was \$43,248, which is expected to be recognized over a weighted-average period of 2.2 years. The Company's policy is to account for forfeitures of stock-based compensation awards as they occur. The total fair value of stock options that vested during the year ended September 30, 2021 was \$11,763.

15. COMMITMENTS AND CONTINGENCIES

Leases

The Company utilizes office space and equipment under operating leases. Rent expense under these leases amounted to \$4,400, \$2,820 and \$2,302 during the years ended September 30, 2021, 2020 and 2019, respectively. Refer to Note 12 for further discussion and a table of the future minimum payments under these leases.

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Minimum Processing Commitments

The Company has non-exclusive agreements with several processors to provide its 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 it would have received if it had submitted the required minimum number of transactions. As of September 30, 2021, such minimum fee commitments were as follows:

Years ending September 30:

2022	\$	3,912
2023		2,690
2024		450
2025		—
2026		—
Thereafter		—
Total	\$	<u>7,052</u>

Loan to Third Party Sales Organization

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 the 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.

In addition, 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 and otherwise not described below. The Company has considered all such ordinary course legal proceedings in formulating its disclosures and assessments. After taking into consideration the evaluation of such legal matters by the Company's legal counsel, the Company's management believes at this time such matters will not have a material impact on the Company's consolidated balance sheet, results of operations or cash flows.

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S&S Litigation

On June 2, 2021, the State of Louisiana, Division of Administration (the "State") and a putative class of Louisiana 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. See *State of Louisiana, by and through its Division of Administration, East Baton Rouge Parish Law Enforcement District, by and through the duly elected East Baton Rouge Parish Sheriff, Sid J. Gautreaux, III, et. al., individually and as class representatives vs. i3-Software & Services, LLC; 1120 South Pointe Properties, LLC, formerly known as Software and Services of Louisiana, L.L.C.; i3 Verticals, Inc.; i3 Verticals, LLC; Gregory R. Teeters; and Scott Carrington*. The Petition 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 \$17,000, including upfront cash consideration and subsequent cash 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.

The Company is also aware of a related investigation led by the U.S. Department of Justice ("DOJ"). The Company produced documents in response to subpoenas and made employees available for interviews by the government and otherwise cooperated fully with this investigation. The Company believes that the investigation was focused on unauthorized access to certain S&S customers' internal networks by unknown third parties. On September 10, 2021, the DOJ informed the Company that the investigation was concluded with respect to the Company and that no criminal charges would be brought against the Company.

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.

16. RELATED PARTY TRANSACTIONS

In April 2016, the Company entered into a purchase agreement to purchase certain assets of Axia, LLC. On April 29, 2016, the Company entered into a Processing Services Agreement (the "AxiaMed Agreement") with Axia Technologies, LLC (which has since been incorporated as Axia Technologies, Inc., doing business as AxiaMed ("AxiaMed")), an entity controlled by the previous owner of Axia, LLC. Under the AxiaMed Agreement, the

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Company agreed to provide processing services for certain merchants as designated by AxiaMed from time to time. In accordance with ASC 606-10-55, revenue from the processing services is recognized net of interchange, residual expense and other fees.

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 \$2,353 to the fair value of the AxiaMed investment at March 31, 2021, which the Company recognized in other income. On April 1, 2021, AxiaMed was sold to a third party and the Company received \$2,453 for its investment in AxiaMed. Greg Daily, the Company's chief executive officer; Clay Whitson, the Company's chief financial officer; and the Company no longer have ownership interest in AxiaMed following the sale. The Company earned net revenues related to the AxiaMed Agreement of \$117, \$95 and \$81 during the years ended September 30, 2021, 2020 and 2019 respectively.

In connection with our IPO, we entered into a Tax Receivable Agreement with certain non-controlling interest holders 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 11 for further information. As of September 30, 2021, the total amount due under the Tax Receivable Agreement was \$39,122.

17. 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 seamless 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 company-owned 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.

Effective July 1, 2020, the Company reassigned a component from the Proprietary Software and Payments segment to the Merchant Services segment to better align the Company's segments with its business operations.

The prior period comparatives reflected in the tables below have been retroactively adjusted to reflect the Company's current segment presentation.

The Company primarily uses processing margin to measure operating performance. The following is a summary of reportable segment operating performance for the years ended September 30, 2021, 2020 and 2019.

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	As of and for the Year ended September 30, 2021			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 111,870	\$ 114,433	\$ (2,179)	\$ 224,124
Other costs of services	(51,234)	(8,610)	2,138	(57,706)
Residuals	29,842	1,147	(2,071)	28,918
Processing margin	\$ 90,478	\$ 106,970	\$ (2,112)	\$ 195,336
Residuals				28,918
Selling general and administrative				134,872
Depreciation and amortization				24,418
Change in fair value of contingent consideration				7,140
Loss from operations				\$ (12)
Total assets	\$ 208,560	\$ 382,014	\$ 61,226	\$ 651,800
Goodwill	\$ 119,086	\$ 173,157	\$ —	\$ 292,243

	As of and for the Year ended September 30, 2020			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 100,949	\$ 50,953	\$ (1,768)	\$ 150,134
Other costs of services	(43,940)	(5,057)	1,767	(47,230)
Residuals	21,618	587	(1,757)	20,448
Processing margin	\$ 78,627	\$ 46,483	\$ (1,758)	\$ 123,352
Residuals				20,448
Selling general and administrative				78,323
Depreciation and amortization				18,217
Change in fair value of contingent consideration				(1,409)
Income from operations				\$ 7,773
Total assets	\$ 206,769	\$ 139,107	\$ 57,650	\$ 403,526
Goodwill	\$ 115,982	\$ 71,023	\$ —	\$ 187,005

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	As of and for the Year ended September 30, 2019			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 338,968	\$ 37,339	\$ —	\$ 376,307
Interchange and network fees	(236,170)	(6,697)	—	(242,867)
Other costs of services	(41,487)	(2,750)	—	(44,237)
Residuals	17,058	605	—	17,663
Processing margin	\$ 78,369	\$ 28,497	\$ —	\$ 106,866
Residuals				17,663
Selling general and administrative				62,860
Depreciation and amortization				16,564
Change in fair value of contingent consideration				3,389
Income from operations				\$ 6,390

18. 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 September 30, 2021, and 2020, respectively, i3 Verticals, Inc. owned 22,026,098 and 18,864,143 of i3 Verticals, LLC's Common Units, representing a 68.3% and 61.3% 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:

	Year ended September 30,		
	2021	2020	2019
Net (loss) income attributable to non-controlling interest	\$ (3,382)	\$ (560)	\$ 3,608
Transfers to (from) non-controlling interests:			
Distributions to non-controlling interest holders	—	(3)	(2,060)
Redemption of common units in i3 Verticals, LLC	(11,714)	(5,080)	(12,077)
Adjustment related to prior periods	—	2,730	—
Cumulative effect of adoption of new accounting standard	—	640	—
Allocation of equity to non-controlling interests	15,337	24,495	—
Net transfers to (from) non-controlling interests	3,623	22,782	(14,137)
Change from net income attributable to non-controlling interests and transfers to (from) non-controlling interests	\$ 241	\$ 22,222	\$ (10,529)

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During the year ended September 30, 2020, the Company corrected for immaterial misstatements of equity between the Company and non-controlling interest related to its June 2019 Secondary Public Offering by increasing non-controlling interest and reducing additional paid-in capital. This adjustment related to immaterial errors associated with the ownership percentage change used in the underlying calculation giving effect to the offering.

19. 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.

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:

	Year ended September 30,		
	2021	2020	2019
Basic net loss per share:			
<i>Numerator</i>			
Net (loss) income	\$ (7,839)	\$ (979)	\$ 563
Less: Net (loss) income attributable to non-controlling interests	(3,382)	(560)	3,608
Net loss attributable to Class A common stockholders	<u>\$ (4,457)</u>	<u>\$ (419)</u>	<u>\$ (3,045)</u>
<i>Denominator</i>			
Weighted average shares of Class A common stock outstanding ⁽¹⁾	20,994,598	14,833,378	10,490,981
Basic net loss per share ⁽²⁾	<u>\$ (0.21)</u>	<u>\$ (0.03)</u>	<u>\$ (0.29)</u>
Dilutive net loss per share⁽²⁾:			
<i>Numerator</i>			
Net loss attributable to Class A common stockholders	\$ (4,457)	\$ (419)	
Reallocation of net loss assuming conversion of common units ⁽⁵⁾	(2,556)	(422)	
Net loss attributable to Class A common stockholders - diluted	<u>\$ (7,013)</u>	<u>\$ (841)</u>	
<i>Denominator</i>			
Weighted average shares of Class A common stock outstanding ⁽¹⁾	20,994,598	14,833,378	
Weighted average effect of dilutive securities ⁽³⁾⁽⁴⁾	10,719,593	12,596,423	
Weighted average shares of Class A common stock outstanding - diluted	<u>31,714,191</u>	<u>27,429,801</u>	
Diluted net loss per share	<u>\$ (0.22)</u>	<u>\$ (0.03)</u>	

1. Excludes 6,706, 204,969 and 282,801 shares of restricted Class A common stock for the years ended September 30, 2021, 2020 and 2019, respectively.

2. For the year ended September 30, 2019, 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 earnings per share of Class A common stock:

a. 15,856,855 shares of weighted average Class B common stock for the year ended September 30, 2019, along with the reallocation of net income assuming conversion of these shares, were excluded because the effect would have been anti-dilutive,

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- b. 626,500 options to purchase shares of Class A common stock for the year ended September 30, 2019, were excluded because the exercise price of these options exceeded the average market price of our Class A common stock during the period ("out-of-the-money") and the effect of including them would have been anti-dilutive, and
 - c. 1,009,858 shares of Class A common stock for the year ended September 30, 2019, resulting from estimated stock option exercises as calculated by the treasury stock method, and 282,801 shares of restricted Class A common stock for the year ended September 30, 2019 were excluded because the effect of including them would have been anti-dilutive.
3. For the year ended September 30, 2020, the following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted earnings per share of Class A common stock:
- a. 1,327,500 options to purchase shares of Class A common stock for the year ended September 30, 2020, were excluded because the exercise price of these 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. 1,179,538 shares of Class A common stock for the year ended September 30, 2020, resulting from estimated stock option exercises as calculated by the treasury stock method, and 204,969 shares of restricted Class A common stock for the year ended September 30, 2020 were excluded because the effect of including them would have been anti-dilutive.
4. For the year ended September 30, 2021, the following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted earnings per share of Class A common stock:
- a. 2,495,922 options to purchase shares of Class A common stock for the year ended September 30, 2021, were excluded because the exercise price of these 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. 1,471,027 shares of Class A common stock for the year ended September 30, 2021, resulting from estimated stock option exercises as calculated by the treasury stock method, and 6,706 shares of restricted Class A common stock for the year ended September 30, 2021 were excluded because the effect of including them would have been anti-dilutive.
5. The reallocation of net income assuming conversion of common units represents the tax effected net income attributable to non-controlling interest using the effective income tax rates described in Note 11 above and assuming all common units of i3 Verticals, LLC were exchanged for Class A common stock at the beginning of the year. The common units of i3 Verticals, LLC held by the Continuing Equity Owners are potentially dilutive securities, and the computations of pro forma diluted net income per share assume that all common units of i3 Verticals, LLC were exchanged for shares of Class A common stock at the beginning of the year.

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 10 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.

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20. SIGNIFICANT NON-CASH TRANSACTIONS

The Company engaged in the following significant non-cash investing and financing activities during the years ended September 30, 2021, 2020, and 2019:

	Year ended September 30,		
	2021	2020	2019
Restricted Class A common stock issued as part of acquisition purchase consideration (Note 4)	\$ 35,245	\$ —	\$ 225
Acquisition date fair value of contingent consideration in connection with business combinations	\$ 22,577	\$ 4,748	\$ 13,032
Replacement of the 2017 Senior Secured Credit Facility with the Senior Secured Credit Facility	\$ —	\$ —	\$ 100,229
Debt issuance costs and accrued interest financed with proceeds from the 2019 Senior Secured Credit Facility	\$ —	\$ —	\$ 1,271
Right-of-use assets obtained in exchange for operating lease obligations	\$ 16,879	\$ —	\$ —

21. QUARTERLY INFORMATION (UNAUDITED)

The tables below present summarized unaudited quarterly results of operations for the year ended September 30, 2021. Management believes that all necessary adjustments have been included in the amounts stated below for a fair presentation of the results of operations for the periods presented when read in conjunction with the consolidated financial statements for the year ended September 30, 2021. As described in Note 2, the Company early adopted ASU 2021-08 effective October 1, 2020, and applied the amendments retrospectively to all business combinations for which the acquisition date occurred on or October 1, 2020. Results of operations for the quarterly periods within the year ended September 30, 2021 reflect the adoption of ASU 2021-08. Results of operations for quarterly periods prior to October 1, 2020 remain unchanged as a result of the adoption of ASU 2021-08 and are therefore not included in the table below. Results of operations for a particular quarter are not necessarily indicative of results of operations for an annual period and are not predictive of future periods.

	Quarter ended			
	December 31,	March 31,	June 30,	September 30,
Fiscal Year 2021:				
Revenue	\$ 44,621	\$ 49,197	\$ 63,129	\$ 67,177
(Loss) income from operations	\$ (1,003)	\$ 1,199	\$ (835)	\$ 627
(Loss) income before income taxes	\$ (3,032)	\$ 1,194	\$ (3,539)	\$ (1,839)
Net (loss) income attributable to i3 Verticals, Inc.	\$ (1,998)	\$ 1,303	\$ (3,280)	\$ (482)
Basic net (loss) income per share attributable to i3 Verticals, Inc. ⁽¹⁾	\$ (0.10)	\$ 0.06	\$ (0.15)	\$ (0.02)
Diluted net loss per share attributable to i3 Verticals, Inc. ⁽²⁾⁽³⁾	\$ (0.10)	\$ 0.04	\$ (0.15)	\$ (0.05)

1. Basic net (loss) income per share excludes 18,869, 4,925 and 2,949 shares of restricted Class A common stock from the calculation for the quarters ended December 31, 2020, March 31, 2021, and June 30, 2021, respectively.
2. For the quarters ended December 31, 2020, and March 31, June 30, and September 30, 2021, the following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted earnings per share of Class A common stock:
 - a. 11,668,199 and 10,229,142 shares of weighted average Class B common stock for the quarters ended December 31, 2020, and June 30, 2021, respectively, along with the reallocation of net income assuming conversion of these shares, were excluded from the calculation of diluted earnings per share of Class A common stock because the effect would have been anti-dilutive.
 - b. 1,251,600, 1,760,997, 2,100,833 and 3,129,422 options to purchase shares of Class A common stock for the quarters ended December 31, 2020, and March 31, June 30, and September 30, 2021, respectively, were excluded because the exercise price

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of these options exceeded the average market price of our Class A common stock during the period ("out-of-the-money") and the effect of including them would have been anti-dilutive, and

- c. 1,212,584, 1,678,774 and 1,296,584 shares of Class A common stock for the quarters ended December 31, 2020, June 30, and September 30, 2021, respectively, resulting from estimated stock option exercises as calculated by the treasury stock method, and 18,869 and 2,949 shares of restricted Class A common stock for the quarters ended December 31, 2020, and June 30, 2021, respectively, were excluded because the effect of including them would have been anti-dilutive.
3. The reallocation of net income assuming conversion of common units represents the tax effected net income attributable to non-controlling interest using the effective income tax rates described in Note 11 above and assuming all common units of i3 Verticals, LLC were exchanged for Class A common stock at the beginning of the year. The common units of i3 Verticals, LLC held by the Continuing Equity Owners are potentially dilutive securities, and the computations of pro forma diluted net income per share assume that all common units of i3 Verticals, LLC were exchanged for shares of Class A common stock at the beginning of the year.

The following tables present the material impacts of adoption of ASU 2021-08 on the Company's consolidated statements of operations for each quarterly period:

	Three months ended June 30, 2021		
	As reported	Adjustment	Presentation with adoption of ASU 2021-08
Revenue	\$ 61,964	\$ 1,165	\$ 63,129
(Benefit from) provision for income taxes	\$ (110)	\$ 772	\$ 662
Net loss	\$ (4,594)	\$ 393	\$ (4,201)
Net loss attributable to non-controlling interest	\$ (1,286)	\$ 365	\$ (921)
Net loss attributable to i3 Verticals, Inc.	\$ (3,308)	\$ 28	\$ (3,280)
Net loss per share attributable to Class A common stockholders:			
Basic	\$ (0.15)	\$ 0.00	\$ (0.15)
Diluted	\$ (0.15)	\$ 0.00	\$ (0.15)

	Three months ended March 31, 2021		
	As reported	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 (loss) per share attributable to Class A common stockholders:			
Basic	\$ 0.02	\$ 0.04	\$ 0.06
Diluted	\$ 0.00	\$ 0.04	\$ 0.04

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	Three months ended December 31, 2020		
	As reported	Adjustment	Presentation with adoption of ASU 2021-08
Revenue	\$ 43,313	\$ 1,308	\$ 44,621
Benefit from income taxes	\$ (219)	\$ 209	\$ (10)
Net loss	\$ (4,121)	\$ 1,099	\$ (3,022)
Net loss attributable to non-controlling interest	\$ (1,549)	\$ 525	\$ (1,024)
Net loss attributable to i3 Verticals, Inc.	\$ (2,572)	\$ 574	\$ (1,998)
Net loss per share attributable to Class A common stockholders:			
Basic	\$ (0.13)	\$ 0.03	\$ (0.10)
Diluted	\$ (0.13)	\$ 0.03	\$ (0.10)

22. SUBSEQUENT EVENTS

Recent Acquisitions

Subsequent to September 30, 2021, the Company completed the acquisition of a business within the Company's Healthcare vertical which provides comprehensive revenue cycle management and related administrative and consulting services for hospitals, including academic teaching institutions with residents, practice groups and healthcare providers primarily in the southeast. Total purchase consideration for the business included \$60,000 in cash and revolving line of credit proceeds, and an amount of contingent consideration, which is still being valued.

Certain provisions in the purchase agreements provide for additional consideration of up to \$8,000, in the aggregate, to be paid based upon the achievement of specified financial performance targets, as defined in the purchase agreements, through no later than September 2023. The Company is in process of determining the acquisition date fair values of the liabilities for the contingent consideration based on discounted cash flow analyses. In each subsequent reporting period, the Company will reassess its current estimates of performance relative to the targets and adjust the contingent liabilities to their fair values through earnings.

The effect of the acquisition will be included in the consolidated statements of operations beginning October 1, 2021.

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. 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 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 included in this report 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2021. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework (2013)*. Based on such assessment our management has concluded that, as of September 30, 2021, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report from our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit emerging growth companies, which we are, to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal year ended September 30, 2021 that materially affected, or which are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the Proxy Statement for the 2022 annual meeting of the stockholders, which will be filed with the SEC within 120 days after the end of the fiscal year ended September 30, 2021.

We have adopted a Corporate Code of Conduct that applies to all of our directors, officers and employees. Our Board of Directors expects its members, as well as our officers and employees, to act in accordance with the highest standards of ethical business conduct. The Corporate Code of Conduct, as well as the charters of the, Audit Committee and the Compensation Committee, are available on the Investor Relations section of our website at www.i3Verticals.com under the captions "Investors" and "Corporate Governance." Upon the written request of any person, we will furnish, without charge, a copy of any of these documents. Requests should be directed to i3 Verticals, Inc., 40 Burton Hills Blvd., Suite 415, Nashville, Tennessee 37215, Attention: Paul Maple, General Counsel. We intend to disclose any amendments to our Corporate Code of Conduct and any waiver from a provision of our code, as required by the SEC, on our website.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the Proxy Statement for the 2022 annual meeting of the stockholders, which will be filed with the SEC within 120 days after the end of the fiscal year ended September 30, 2021.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the Proxy Statement for the 2022 annual meeting of the stockholders, which will be filed with the SEC within 120 days after the end of the fiscal year ended September 30, 2021.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the Proxy Statement for the 2022 annual meeting of the stockholders, which will be filed with the SEC within 120 days after the end of the fiscal year ended September 30, 2021.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the Proxy Statement for the 2022 annual meeting of the stockholders, which will be filed with the SEC within 120 days after the end of the fiscal year ended September 30, 2021.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Consolidated Financial Statements

See Index to Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable or because the information required is already included in the financial statements or the notes to those financial statements.

(a)(3) Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1#	Membership Interest Purchase Agreement, dated April 3, 2019, by and among, i3 Verticals, LLC, i3-Bearcat, LLC, NTD Holdings, Inc., GH Holdco, Inc. and David Graves and Tory Humphries	8-K	001-38532	2.1	4/8/19
2.2#	Agreement and Plan of Merger, dated May 31, 2019, by and among i3-SDCR, Inc., as buyer, i3 Merger Sub, Inc., i3 Verticals, LLC, as guarantor, Pace Payment Systems, Inc. and 3S Advisors, LLC, as representative	8-K	001-38532	2.1	6/3/19
3.1	Amended and Restated Certificate of Incorporation of i3 Verticals, Inc.	8-K	001-38532	3.1	6/25/18
3.2	Amended and Restated Bylaws of i3 Verticals, Inc.	8-K	001-38532	3.2	6/25/18
4.1	Specimen Stock Certificate evidencing the shares of Class A common stock	S-1	333-225214	4.1	5/25/18
4.2	Description of Securities	10-K	001-38532	4.2	11/22/19
4.3	Indenture, dated February 18, 2020, among i3 Verticals, LLC, i3 Verticals, Inc. as guarantor and U.S. Bank National Association	8-K	001-38532	4.1	2/19/20
4.4	Form of 1.00% Exchangeable Senior Notes due 2025 (included in Exhibit 4.3 above)	8-K	001-38532	4.2	2/19/20
10.1	Form of Tax Receivable Agreement	S-1	333-225214	10.2	5/25/18
10.2	Form of Registration Rights Agreement	S-1	333-225214	10.3	5/25/18
10.3	Limited Liability Company Agreement of i3 Verticals, LLC	8-K	001-38532	10.3	6/25/18
10.4	Plan Administration Agreement, dated June 25, 2018, by and between i3 Verticals, Inc. and i3 Verticals, LLC	8-K	001-38532	10.4	6/25/18

10.5#	Amended and Restated Credit Agreement, dated as of May 9, 2019, among i3 Verticals, LLC, the guarantor and lender parties thereto and Bank of America, N.A., as administrative agent	8-K	001-38532	10.1	5/13/19
10.6#	Amended and Restated Security and Pledge Agreement, dated as of May 9, 2019, among i3 Verticals, LLC, as borrower, the Obligors thereto, and Bank of America, N.A., as administrative agent	8-K	001-38532	10.2	5/13/19
10.7	First Amendment to the Amended and Restated Credit Agreement, dated as of June 26, 2019, among i3 Verticals, LLC, the guarantor and lender parties thereto and Bank of America, N.A., as administrative agent	10-Q	001-38532	10.3	8/13/19
10.8+	i3 Verticals, LLC Amended & Restated Equity Incentive Plan, dated November 29, 2016	S-1	333-225214	10.21	5/25/18
10.9+	First Amendment to i3 Verticals, LLC Amended & Restated Equity Incentive Plan, dated October 31, 2017	S-1	333-225214	10.22	5/25/18
10.10+	Second Amendment to i3 Verticals, LLC Amended & Restated Equity Incentive Plan, dated May 7, 2018	S-1	333-225214	10.23	5/25/18
10.11+	2018 Equity Incentive Plan	S-1	333-225214	10.24	5/25/18
10.12+	Form of Restricted Stock Award Agreement under 2018 Equity Incentive Plan	S-1	333-225214	10.25	5/25/18
10.13+	Form of Stock Option Award Agreement under 2018 Equity Incentive Plan	S-1	333-225214	10.26	5/25/18
10.14+	Employment Agreement, effective as of May 5, 2014, by and between Charge Payment, LLC and Clay M. Whitson	S-1	333-225214	10.27	5/25/18
10.15+	Change in Control Agreement, dated as of May 10, 2017, by and between i3 Verticals, LLC and Paul Maple	S-1	333-225214	10.28	5/25/18
10.16+	Form of Indemnification Agreement	S-1	333-225214	10.29	5/25/18
10.17#	Second Amendment to the Amended and Restated Credit Agreement, dated as of May 9, 2019, by and among i3 Verticals, LLC, as the borrower, i3 Verticals, Inc. and certain Subsidiaries of i3 Verticals, Inc., as guarantors, the lenders party thereto, and Bank of America, N.A., as administrative agent for the lenders	8-K	001-38532	10.1	2/19/20
10.18	Registration Rights Agreement, dated February 18, 2020, among i3 Verticals, Inc. and BofA Securities, Inc.	8-K	001-38532	10.2	2/19/20
10.19	Form of Exchangeable Note Hedge Transaction Confirmation.	8-K	001-38532	10.3	2/19/20
10.20	Form of Warrant Transaction Confirmation	8-K	001-38532	10.4	2/19/20
10.21	i3 Verticals, Inc. 2020 Acquisition Equity Incentive Plan	8-K	001-38532	10.1	9/9/20

10.22	Form of Restricted Stock Award Agreement under i3 Verticals, Inc. 2020 Acquisition Equity Incentive Plan	8-K	001-38532	10.2	9/9/20
10.23	Form of Stock Option Award Agreement under 2020 Acquisition Equity Incentive Plan	8-K	001-38532	10.3	9/9/20
10.24	First Amendment to the i3 Verticals, Inc. 2020 Acquisition Equity Incentive Plan	8-K	001-38532	10.1	5/10/21
10.25	Sales Agreement by an among i3 Verticals, Inc., i3 Verticals, LLC and Raymond James & Associates, Inc., Morgan Stanley & Co. LLC and BTIG, LLC, dated as of August 20, 2021	S-3	333-258950	1.2	8/20/21
21.1*	List of subsidiaries of i3 Verticals, Inc.				
23.1*	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm				
23.2*	Consent of BDO USA LLP, Independent Registered Public Accounting Firm				
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14a 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 (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF*	Inline XBRL Taxonomy Definition Linkbase Document.				
101.LAB*	Inline XBRL Taxonomy Label Linkbase Document.				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				

Schedules and exhibits have been omitted pursuant to Item 601 of Regulation S-K. i3 Verticals, Inc. hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

+ Denotes a management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith.

Item 16. Form 10-K Summary

None.

i3 Verticals, Inc.
LIST OF SUBSIDIARIES

<u>Name of Subsidiary</u> <i>(Including d/b/a name, if applicable)</i>	<u>Jurisdiction of Incorporation</u>	<u>Doing Business As Name</u>
ACS-Medical Business Solutions, LLC	Delaware	ACS
Ad Valorem Records, Inc.	Texas	AVR, Inc.
CP-DBS, LLC	Delaware	PaySchools
CP-PS, LLC	Delaware	
DuxWare, LLC	Delaware	DuxWare
Fairway Payments, LLC	Virginia	Fairway Payments
H-Pac Computer Systems, LLC	Delaware	HealthPac
i3-Aero, LLC	Delaware	
i3-Axia, LLC	Delaware	Axia Payments
i3-Bearcat, LLC	Delaware	NETData; GHS
i3-BIS, LLC	Delaware	Business Information Systems
i3-BIS Indiana, LLC	Indiana	
i3-CSC, LLC	Delaware	
i3-EMS, LLC	Delaware	EMS
i3 Holdings Sub, Inc.	Delaware	
i3-ImageSoft, LLC	Delaware	ImageSoft
i3-Infin, LLC	Delaware	Infintech
i3-Milestone, LLC	Delaware	Milestone
i3-MPN, LLC	Delaware	SchoolPay
i3 MSI Consulting, LLC	Arkansas	MSI
i3-One, LLC	Delaware	onePOS
i3-PBS, LLC	Delaware	Practical Business Solutions; RU Practical
i3-Randall, LLC	Delaware	Randall Data Systems
i3-Software & Services, LLC	Delaware	Software & Services
i3-Splash, LLC	Delaware	iGov Solutions
i3-SSI, LLC	Delaware	SSI
i3 Verticals, LLC	Delaware	
i3 Verticals Management Services, Inc.	Delaware	
Kiriworks, LLC	Delaware	Kiriworks
Mentis Technology, Inc.	Delaware	Mentis
mobileAxept North America, Inc.	Minnesota	mobileAxept
Monetra Technologies, LLC	Delaware	Monetra
Pace Payment Systems, Inc.	Delaware	Pace
Pace Payments, Inc.	Delaware	Pace
San Diego Cash Register Company, Inc.	California	SDCR

Pursuant to Item 601(b)(21)(ii) of Regulation S-K, certain subsidiaries have been omitted because, when considered in the aggregate, they do not constitute a significant subsidiary.

Consent of Independent Registered Public Accounting Firm

i3 Verticals, Inc.
Nashville, Tennessee

We consent to the incorporation by reference in Registration Statement Nos. 333-233126, 333-251386 and 333-258950 on Form S-3 and Registration Statement Nos. 333-225812, 333-229678, 333-236118, 333-249317, and 333-252845 on Form S-8 of our report dated November 22, 2021, relating to the consolidated financial statements of i3 Verticals, Inc. and subsidiaries appearing in this Annual Report on Form 10-K for the year ended September 30, 2021.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
November 22, 2021

Consent of Independent Registered Public Accounting Firm

i3 Verticals, Inc.
Nashville, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-225812, 333-229678, 333-236118, 333-249317 and 333-252845) and Form S-3 (Nos. 333-233126, 333-251386 and 333-258950) of i3 Verticals, Inc. of our report dated November 22, 2019, except for Notes 8 and 17 to which the date is November 23, 2020, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP

Nashville, Tennessee
November 22, 2021

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

I, Gregory S. Daily, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: November 22, 2021

By:

Gregory S. Daily
Chief Executive Officer (Principal Executive Officer)

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

I, Clay Whitson, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: November 22, 2021

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

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

In connection with the Annual Report of i3 Verticals, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2021, 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: November 22, 2021

By:

Gregory S. Daily

Chief Executive Officer (Principal Executive Officer)

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

In connection with the Annual Report of i3 Verticals, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2021, 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: November 22, 2021

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