

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2020  
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)

**(615) 465-4497**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 10, 2020, there were 15,094,329 outstanding shares of Class A common stock, \$0.0001 par value per share, and 12,391,621 outstanding shares of Class B common stock, \$0.0001 par value per share.

## TABLE OF CONTENTS

	<u>Page</u>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<u>3</u>
<u>Item 1. Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>5</u>
<u>Condensed Consolidated Statements of Changes in Equity</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	<u>11</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>45</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>63</u>
<u>Item 4. Controls and Procedures</u>	<u>63</u>
<b><u>PART II. OTHER INFORMATION</u></b>	<u>64</u>
<u>Item 1. Legal Proceedings</u>	<u>64</u>
<u>Item 1A. Risk Factors</u>	<u>64</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>66</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>66</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>66</u>
<u>Item 5. Other Information</u>	<u>66</u>
<u>Item 6. Exhibits</u>	<u>66</u>
<b><u>SIGNATURES</u></b>	<u>68</u>

**PART I. - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2020 (unaudited)	September 30, 2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 9,136	\$ 1,119
Accounts receivable, net	16,350	15,335
Prepaid expenses and other current assets	5,789	4,117
Total current assets	31,275	20,571
Property and equipment, net	5,506	5,026
Restricted cash	1,550	2,081
Capitalized software, net	14,340	15,454
Goodwill	167,054	168,284
Intangible assets, net	99,884	107,419
Deferred tax asset	35,671	28,138
Other assets	5,193	2,329
Total assets	\$ 360,473	\$ 349,302
<b>Liabilities and equity</b>		
Liabilities		
Current liabilities		
Accounts payable	\$ 4,559	\$ 3,438
Accrued expenses and other current liabilities	15,465	21,560
Deferred revenue	9,714	10,237
Total current liabilities	29,738	35,235
Long-term debt, less current portion and debt issuance costs, net	134,114	139,298
Long-term tax receivable agreement obligations	25,933	23,204
Other long-term liabilities	3,260	9,124
Total liabilities	193,045	206,861
Commitments and contingencies (see Note 9)		
Stockholders' equity		
Preferred stock, par value \$0.0001 per share, 10,000,000 shares authorized; 0 shares issued and outstanding as of June 30, 2020 and September 30, 2019	—	—
Class A common stock, par value \$0.0001 per share, 150,000,000 shares authorized; 15,085,813 and 14,444,115 shares issued and outstanding as of June 30, 2020 and September 30, 2019, respectively	1	1
Class B common stock, par value \$0.0001 per share, 40,000,000 shares authorized; 12,391,621 and 12,921,637 shares issued and outstanding as of June 30, 2020 and September 30, 2019, respectively	1	1
Additional paid-in capital	107,654	82,380
Accumulated (deficit) earnings	(1,372)	(2,309)
Total stockholders' equity	106,284	80,073
Non-controlling interest	61,144	62,368
Total equity	167,428	142,441
Total liabilities and stockholders' equity	\$ 360,473	\$ 349,302

See Notes to the Interim Condensed Consolidated Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share amounts)

	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Revenue	\$ 31,573	\$ 97,483	\$ 111,862	\$ 267,745
Operating expenses				
Interchange and network fees <sup>(1)</sup>		63,263		173,777
Other costs of services	10,001	11,431	34,874	31,414
Selling, general and administrative	18,133	17,587	58,206	44,422
Depreciation and amortization	4,475	4,425	13,668	11,875
Change in fair value of contingent consideration	(1,473)	(417)	(1,461)	1,736
Total operating expenses	31,136	96,289	105,287	263,224
Income from operations	437	1,194	6,575	4,521
Other expenses				
Interest expense, net	2,423	1,918	6,621	3,987
Other expense	829	—	829	—
Total other expenses	3,252	1,918	7,450	3,987
(Loss) income before income taxes	(2,815)	(724)	(875)	534
Benefit from income taxes	(5)	(131)	(1,918)	(2)
Net (loss) income	(2,810)	(593)	1,043	536
Net (loss) income attributable to non-controlling interest	(2,454)	598	811	2,651
Net (loss) income attributable to i3 Verticals, Inc.	\$ (356)	\$ (1,191)	\$ 232	\$ (2,115)
Net (loss) income per share attributable to Class A common stockholders:				
Basic	\$ (0.02)	\$ (0.12)	\$ 0.02	\$ (0.23)
Diluted	\$ (0.02)	\$ (0.12)	\$ 0.01	\$ (0.23)
Weighted average shares of Class A common stock outstanding:				
Basic	14,858,858	10,064,785	14,515,506	9,254,549
Diluted	14,858,858	10,064,785	15,919,364	9,254,549

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 condensed consolidated financial statements for a description of the recently adopted accounting pronouncement.

See Notes to the Interim Condensed Consolidated Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(In thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated 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
Cumulative effect of adoption of new accounting standard	—	—	—	—	—	705	640	1,345
Equity-based compensation	—	—	—	—	2,124	—	—	2,124
Net (loss) income	—	—	—	—	—	(149)	2,083	1,934
Exercise of equity-based awards	53,662	—	—	—	351	—	—	351
Balance at December 31, 2019	14,497,777	1	12,921,637	1	84,855	(1,753)	65,091	148,195
Equity-based compensation	—	—	—	—	2,510	—	—	2,510
Net income	—	—	—	—	—	737	1,182	1,919
Distributions to non-controlling interest holders	—	—	—	—	—	—	(3)	(3)
Redemption of common units in i3 Verticals, LLC	510,016	—	(510,016)	—	2,597	—	(2,597)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	596	—	—	596
Exercise of equity-based awards	31,125	—	—	—	2	—	—	2
Equity component of exchangeable notes, net of issuance costs and deferred taxes	—	—	—	—	27,569	—	—	27,569
Purchases of exchangeable note hedges	—	—	—	—	(28,676)	—	—	(28,676)
Issuance of warrants	—	—	—	—	14,669	—	—	14,669
Balance at March 31, 2020	15,038,918	1	12,411,621	1	104,122	(1,016)	63,673	166,781
Equity-based compensation	—	—	—	—	2,816	—	—	2,816
Net loss	—	—	—	—	—	(356)	(2,454)	(2,810)
Distributions to non-controlling interest holders	—	—	—	—	—	—	—	—
Redemption of common units in i3 Verticals, LLC	20,000	—	(20,000)	—	75	—	(75)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	61	—	—	61
Exercise of equity-based awards	26,895	—	—	—	—	—	—	—
Equity component of exchangeable notes, net of issuance costs and deferred taxes	—	—	—	—	9	—	—	9
Repurchases of exchangeable note hedges	—	—	—	—	571	—	—	571
Balance at June 30, 2020	15,085,813	\$ 1	12,391,621	\$ 1	\$ 107,654	\$ (1,372)	\$ 61,144	\$ 167,428

See Notes to the Interim Condensed Consolidated Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

(In thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated 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	—	—	—	—	951	—	—	951
Forfeitures of restricted Class A common stock	(4,010)	—	—	—	—	—	—	—
Net (loss) income	—	—	—	—	—	178	2,173	2,351
Distributions to non-controlling interest holders	—	—	—	—	—	—	(934)	(934)
Balance at December 31, 2018	9,108,032	1	17,213,806	2	39,513	914	74,136	114,566
Equity-based compensation	—	—	—	—	1,363	—	—	1,363
Forfeitures of restricted Class A common stock	(17,644)	—	—	—	—	—	—	—
Net (loss) income	—	—	—	—	—	(1,102)	(120)	(1,222)
Distributions to non-controlling interest holders	—	—	—	—	—	—	(89)	(89)
Redemption of common units in i3 Verticals, LLC	101,642	—	(101,642)	—	291	—	(291)	—
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	117	—	—	117
Balance at March 31, 2019	9,192,030	1	17,112,164	2	41,284	(188)	73,636	114,735
Equity-based compensation	—	—	—	—	1,808	—	—	1,808
Forfeitures of restricted Class A common stock	(1,124)	—	—	—	—	—	—	—
Net (loss) income	—	—	—	—	—	(1,191)	598	(593)
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,037)	(1,037)
Redemption of common units in i3 Verticals, LLC	4,190,527	—	(4,190,527)	(1)	11,786	—	(11,786)	(1)
Sale of Class A common stock in public offering, net	1,000,000	—	—	—	21,660	—	—	21,660
Capitalization of public offering costs	—	—	—	—	(771)	—	—	(771)
Establishment of liabilities under a tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	3,962	—	—	3,962
Issuance of restricted Class A common stock under Equity Plan	8,799	—	—	—	225	—	—	225
Exercise of equity-based awards	29,967	—	—	—	390	—	—	390
Balance at June 30, 2019	14,420,199	\$ 1	12,921,637	\$ 1	\$ 80,344	\$ (1,379)	\$ 61,411	\$ 140,378

See Notes to the Interim Condensed Consolidated Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Nine months ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ 1,043	\$ 536
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,668	11,875
Equity-based compensation	7,450	4,122
Provision for doubtful accounts	105	43
Amortization of debt discount and issuance costs	2,274	619
Debt issuance costs write offs	141	152
Loss on repurchase of exchangeable notes	828	—
Amortization of capitalized client acquisition costs	288	—
Loss on disposal of assets	1	8
(Benefit from) provision for deferred income taxes	(2,802)	(36)
(Decrease) increase in non-cash contingent consideration expense from original estimate	(1,461)	1,736
Changes in operating assets:		
Accounts receivable	(789)	3,758
Prepaid expenses and other current assets	(1,848)	(1,779)
Other assets	(1,399)	(2,369)
Changes in operating liabilities:		
Accounts payable	989	2,489
Accrued expenses and other current liabilities	(2,896)	(616)
Deferred revenue	(454)	(2,633)
Other long-term liabilities	(12)	(48)
Contingent consideration paid in excess of original estimates	(5,039)	(1,560)
Net cash provided by operating activities	10,087	16,297
Cash flows from investing activities:		
Expenditures for property and equipment	(1,883)	(585)
Expenditures for capitalized software	(2,048)	(1,478)
Purchases of merchant portfolios and residual buyouts	(1,677)	(2,708)
Acquisitions of businesses, net of cash acquired	—	(126,862)
Acquisition of other intangibles	(136)	(72)
Net cash used in investing activities	(5,744)	(131,705)

See Notes to the Interim Condensed Consolidated Financial Statements



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

(In thousands)

	Nine months ended June 30,	
	2020	2019
Cash flows from financing activities:		
Proceeds from revolving credit facility	125,024	149,919
Payments of revolving credit facility	(231,214)	(14,862)
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	(6,807)	—
Payments of notes payable to banks	—	(35,000)
Payments of debt issuance costs	(5,215)	(152)
Proceeds from issuance of Class A common stock sold in public offering, net of underwriting discounts and offering costs	—	21,660
Cash paid for contingent consideration	(2,988)	(2,634)
Payments for required distributions to members for tax obligations	(3)	(2,025)
Proceeds from stock option exercises	474	390
Payments for employee's tax withholdings from net settled stock option exercises	(121)	—
Net cash provided by financing activities	3,143	117,296
Net increase (decrease) in cash, cash equivalents, and restricted cash	7,486	1,888
Cash, cash equivalents, and restricted cash at beginning of period	3,200	1,237
Cash, cash equivalents, and restricted cash at end of period	\$ 10,686	\$ 3,125
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,955	\$ 2,980
Cash paid for income taxes <sup>(1)</sup>	\$ 404	\$ 1,323

1. After the issuance of the Form 10-Q for the nine months ended June 30, 2019, Management identified there was a mathematical mistake in the calculation of the cash paid for income taxes for the nine months ended June 30, 2019. The Company has restated the cash paid for income taxes for the nine months ended June 30, 2019 to the correct amount of \$1,323 from the originally reported amount of \$24,611. There was no impact on any other disclosures.

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

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

(In thousands)

	Nine months ended June 30,	
	2020	2019
Beginning balance		
Cash and cash equivalents	\$ 1,119	\$ 572
Restricted cash	2,081	665
Total cash, cash equivalents, and restricted cash	\$ 3,200	\$ 1,237
Ending balance		
Cash and cash equivalents	\$ 9,136	\$ 1,509
Restricted cash	1,550	1,616
Total cash, cash equivalents, and restricted cash	\$ 10,686	\$ 3,125

See Notes to the Interim Condensed Consolidated Financial Statements

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

**1. ORGANIZATION AND OPERATIONS**

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

**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 \$92.5 million 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 by certain related and unrelated creditors of i3 Verticals, LLC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**(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 Offering**

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 our 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.

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 June 30, 2020, i3 Verticals, Inc. owned 54.9% of the economic interest in i3 Verticals, LLC. As of June 30, 2020, the Continuing Equity Owners owned Common Units in i3 Verticals, LLC representing approximately 45.1% of the economic interest in i3 Verticals, LLC, shares of Class A common stock in the Company representing approximately 0.5% of the economic interest and voting power in the Company, and shares of Class B common stock in i3 Verticals, Inc., representing approximately 45.1% of the voting power in the Company. Combining the Class A common stock and Class B common stock, the Continuing Equity Owners hold approximately 45.6% of the economic interest and voting power in i3 Verticals, Inc.

**COVID-19**

On March 11, 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 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 decline in the U.S. Some areas are re-imposing closures and other restrictions due to increased rates of COVID-19 cases.

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

As a result, the COVID-19 pandemic is significantly affecting overall economic conditions in the United States. The economic impact of these conditions is materially impacting the Company's business and is expected to continue to adversely impact its strategic verticals and its business in general. For example, the Company and its 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 the Company's 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. For that reason, the Company is unable to predict the long-term impact of the pandemic on its business at this time. Given these conditions, there could be material changes to recorded balances and estimates in the future.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the reporting and disclosure rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for fair presentation of the unaudited condensed consolidated financial statements of the Company and its subsidiaries as of June 30, 2020 and for the three and nine months ended June 30, 2020 and 2019. The results of operations for the three and nine months ended June 30, 2020 and 2019 are not necessarily indicative of the operating results for the full year. It is recommended that these interim condensed consolidated financial statements be read in conjunction with the Company's consolidated financial statements and related footnotes for the years ended September 30, 2019 and 2018, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018.

**Principles of Consolidation**

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

**Restricted Cash**

Restricted cash represents funds held-on-deposit with processing banks pursuant to agreements to cover potential merchant losses. It is presented as long-term assets on the accompanying condensed consolidated balance sheets since the related agreements extend beyond the next twelve months. Following the adoption of Accounting Standards Update ("ASU") No. 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 condensed consolidated statements of cash flows.

**Inventories**

Inventories consist of point-of-sale equipment to be sold to clients and are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Inventories were \$1,527 and \$1,294 at June 30, 2020 and September 30, 2019, respectively, and are included within prepaid expenses and other current assets on the accompanying condensed consolidated balance sheets.

**Notes Receivable**

Notes receivable consist of loans made to unrelated entities. Notes receivable were \$1,195 and \$195 at June 30, 2020 and September 30, 2019, respectively, and are included within other assets on the accompanying condensed consolidated balance sheets.

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

**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. When relevant, the fair value of contingent consideration included in an acquisition is calculated using a Monte Carlo simulation. The fair value of merchant relationships and non-compete assets acquired is identified using the Income Approach. The fair values of trade names and internally-developed software acquired are identified using the Relief from Royalty Method. The fair value of deferred revenue is identified using the Adjusted Fulfillment Cost Method. After the purchase price has been allocated, goodwill is recorded to the extent the total consideration paid for the acquisition, including the acquisition date fair value of contingent consideration, if any, exceeds the sum of the fair values of the separately identifiable acquired assets and assumed liabilities. Acquisition costs for business combinations are expensed when incurred and recorded in selling general and administrative expenses in the accompanying condensed consolidated statements of operations.

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

The operating results of an acquisition are included in the Company’s condensed consolidated statements of operations from the date of such acquisition. No acquisitions were completed during the nine months ended June 30, 2020.

**Revenue Recognition and Deferred Revenue**

For the nine months ended June 30, 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 nine months ended June 30, 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.

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

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

The Company follows the requirements of ASC 606-10-55 *Revenue from Contracts with Customers—Principal versus Agent Considerations*, which states that the determination of whether a company should recognize revenue based on the gross amount billed to a client or the net amount retained is a matter of judgment that depends on the facts and circumstances of the arrangement. The determination of gross versus net recognition of revenue requires judgment that depends on whether the Company controls the good or service before it is transferred to the merchant or whether the Company is acting as an agent of a third party. The assessment is provided separately for each performance obligation identified. Under its agreements, the Company incurs interchange and network pass-through charges from the third-party card issuers and card networks, respectively, related to the provision of payment authorization services. The Company has determined that it is acting as an agent with respect to these payment authorization services, based on the following factors: (1) the Company has no discretion over which card issuing bank will be used to process a transaction and is unable to direct the activity of the merchant to another card issuing bank, and (2) interchange and card network rates are pre-established by the card issuers or card networks, and the Company has no latitude in determining these fees. Therefore, revenue allocated to the payment authorization performance obligation is presented net of interchange and card network fees paid to the card issuing banks and card networks, respectively, for the nine months ended June 30, 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

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

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 our revenue recognition.

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



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

The tables below present a disaggregation of the Company's revenue from contracts with clients by product by segment. Refer to Note 11 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.
- Other — Includes sales of software, sales of equipment, professional services and other revenues.

	For the Three Months Ended June 30, 2020			
	Merchant Services	Proprietary Software and Payments	Other	Total
Payments revenue	\$ 18,060	\$ 2,999	\$ (412)	\$ 20,647
Other revenue	3,471	7,459	(4)	10,926
Total revenue	\$ 21,531	\$ 10,458	\$ (416)	\$ 31,573

	For the Three Months Ended June 30, 2019			
	Merchant Services	Proprietary Software and Payments	Other	Total
Payments revenue	\$ 82,027	\$ 5,379	\$ —	\$ 87,406
Other revenue	5,237	4,840	—	10,077
Total revenue	\$ 87,264	\$ 10,219	\$ —	\$ 97,483

	For the Nine Months Ended June 30, 2020			
	Merchant Services	Proprietary Software and Payments	Other	Total
Payments revenue	\$ 61,376	\$ 15,375	\$ (1,347)	\$ 75,404
Other revenue	12,638	23,830	(10)	36,458
Total revenue	\$ 74,014	\$ 39,205	\$ (1,357)	\$ 111,862

	For the Nine Months Ended June 30, 2019			
	Merchant Services	Proprietary Software and Payments	Other	Total
Payments revenue	\$ 225,488	\$ 16,389	\$ —	\$ 241,877
Other revenue	16,353	9,515	—	25,868
Total revenue	\$ 241,841	\$ 25,904	\$ —	\$ 267,745

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

The tables below present a disaggregation of the Company's revenue from contracts with clients by 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.

**For the Three Months Ended June 30, 2020**

	<b>Merchant Services</b>	<b>Proprietary Software and Payments</b>	<b>Other</b>	<b>Total</b>
Revenue earned over time	\$ 15,972	\$ 7,319	\$ (402)	\$ 22,889
Revenue earned at a point in time	5,559	3,139	(14)	8,684
<b>Total revenue</b>	<b>\$ 21,531</b>	<b>\$ 10,458</b>	<b>\$ (416)</b>	<b>\$ 31,573</b>

**For the Three Months Ended June 30, 2019**

	<b>Merchant Services</b>	<b>Proprietary Software and Payments</b>	<b>Other</b>	<b>Total</b>
Revenue earned over time	\$ 79,682	\$ 7,559	\$ —	\$ 87,241
Revenue earned at a point in time	7,582	2,660	—	10,242
<b>Total revenue</b>	<b>\$ 87,264</b>	<b>\$ 10,219</b>	<b>\$ —</b>	<b>\$ 97,483</b>

**For the Nine Months Ended June 30, 2020**

	<b>Merchant Services</b>	<b>Proprietary Software and Payments</b>	<b>Other</b>	<b>Total</b>
Revenue earned over time	\$ 52,639	\$ 27,702	\$ (1,336)	\$ 79,005
Revenue earned at a point in time	21,375	11,503	(21)	32,857
<b>Total revenue</b>	<b>\$ 74,014</b>	<b>\$ 39,205</b>	<b>\$ (1,357)</b>	<b>\$ 111,862</b>

**For the Nine Months Ended June 30, 2019**

	<b>Merchant Services</b>	<b>Proprietary Software and Payments</b>	<b>Other</b>	<b>Total</b>
Revenue earned over time	\$ 217,232	\$ 20,557	\$ —	\$ 237,789
Revenue earned at a point in time	24,609	5,347	—	29,956
<b>Total revenue</b>	<b>\$ 241,841</b>	<b>\$ 25,904</b>	<b>\$ —</b>	<b>\$ 267,745</b>

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

**Contract Liabilities**

Deferred revenue represents amounts billed to clients by the Company for services contracts. Payment is typically collected at the start of the contract term. The initial prepaid contract agreement balance is deferred. The balance is then recognized as the services are provided over the contract term. Deferred revenue that is expected to be recognized as revenue within one year is recorded as short-term deferred revenue and the remaining portion is recorded as other long-term liabilities in the condensed consolidated balance sheets. The terms for most of our contracts with a deferred revenue component are one year. Substantially all 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 nine months ended June 30, 2020:

Balance at September 30, 2019	\$	10,237
Deferral of revenue		5,389
Recognition of unearned revenue		<u>(5,211)</u>
Balance at December 31, 2019		10,415
Deferral of revenue		5,004
Recognition of unearned revenue		<u>(5,753)</u>
Balance at March 31, 2020		9,666
Deferral of revenue	\$	5,630
Recognition of unearned revenue	\$	<u>(5,512)</u>
Balance at June 30, 2020	\$	<u><u>9,784</u></u>

**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 June 30, 2020, the Company had \$2,958, of capitalized contract costs, which relates to commissions paid to obtain new sales, included within "Prepaid expenses and other current assets" and "Other assets" on the condensed consolidated balance sheets. The Company recorded commissions expense related to these costs for the three and nine months ended June 30, 2020 of \$104 and \$288, 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 and Other Cost of Services**

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 networks, which are a percentage of the processing volume the Company generates from Visa and Mastercard, as well as fees charged by card-issuing banks. 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.

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

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

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

**Use of Estimates**

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, the value of purchase consideration paid and identifiable assets acquired and assumed in acquisitions, goodwill and intangible asset impairment review, determination of performance obligations for revenue recognition, loss reserves, assumptions used in the calculation of equity-based compensation and in the calculation of income taxes, and certain tax assets and liabilities as well as the related valuation allowances. The uncertainty surrounding estimates is increased due to the development of the COVID-19 pandemic, which is further described in Note 1. During the third quarter of fiscal 2020, in response to the COVID-19 pandemic, the Company conducted an interim goodwill impairment analysis using the quantitative test for certain reporting units. The testing date was May 1, 2020. The Company determined that none of the reporting units were impaired and fair values of all of its reporting units substantially exceeded their carrying values at the assessment date. There could be material changes to these estimates as a result of ongoing COVID-19 developments in future periods. Actual results could differ from those estimates.

During the nine months ended June 30, 2020, the Company has 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 nine months ended June 30, 2020. Management has 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.

During the three months ended June 30, 2020, the Company has elected to make a policy change to allocate stock compensation expense to the Class B shareholders of i3 Verticals, LLC. This change resulted in a \$557 reduction in the benefit from income taxes and a corresponding reduction in the Company's net loss, a \$2,439 increase to the net loss attributable to non-controlling interest and a \$1,882 decrease to the net loss attributable to i3 Verticals, Inc. for the three and nine months ended June 30, 2020.

**Recent 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

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

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 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 \$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 \$63,263 and \$173,777 were classified in "Operating Expenses" on the Condensed Consolidated Statement of Operations for the three and nine months ended June 30, 2019, respectively. The Company's interchange and network fees of \$49,294 and \$181,595 were included as a reduction to revenue on the Condensed Consolidated Statement of Operations for the three and nine months ended June 30, 2020, respectively. Under the modified retrospective basis, the Company has not restated its comparative unaudited condensed consolidated financial statements for these effects. The adoption of the new revenue standard did not have a material impact on net income. The following table presents the material impacts of adopting ASC 606 on the Company's unaudited condensed consolidated statement of operations for the three months ended June 30, 2020:

	Three months ended June 30, 2020		
	As reported	Adjustment	Presentation without adoption of ASC 606
Revenue	\$ 31,573	\$ 49,294	\$ 80,867
Operating expenses			
Interchange and network fees	\$ —	\$ 49,294	\$ 49,294

The following table presents the material impacts of adopting ASC 606 on the Company's unaudited condensed consolidated statement of operations for the nine months ended June 30, 2020:

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

	Nine months ended June 30, 2020		
	As reported	Adjustment	Presentation without adoption of ASC 606
Revenue	\$ 111,862	\$ 181,595	\$ 293,457
Operating expenses			
Interchange and network fees	\$ —	\$ 181,595	\$ 181,595

The following table presents the impacts of adoption of ASC 606 on the Company's unaudited condensed consolidated balance sheet as of June 30, 2020:

	As of June 30, 2020		
	As reported	Adjustment	Presentation without adoption of ASC 606
<b>Assets</b>			
Current assets			
Prepaid expenses and other current assets	\$ 5,789	\$ 255	\$ 6,044
Deferred tax asset	\$ 35,671	\$ 12	\$ 35,683
Other assets	\$ 5,193	\$ (1,802)	\$ 3,391
Liabilities and equity			
Stockholders' equity			
Accumulated deficit	\$ (1,372)	\$ (810)	\$ (2,182)
Non-controlling interest	\$ 61,144	\$ (725)	\$ 60,419

The adoption of ASC 606 did not have a material impact on the Company's unaudited condensed consolidated statement of cash flows for the nine months ended June 30, 2020. The Company has expanded its unaudited condensed consolidated financial statement disclosures as required by this new standard. See above for additional disclosures provided as a result of the adoption of ASC 606.

#### Recently Issued Accounting Pronouncements Not Yet Adopted

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) ("ASU 2018-13"). The amendments in ASU 2018-13 provide clarification and modify the disclosure requirements on fair value measurement in Topic 820, Fair Value Measurement. The amendments in ASU 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 result, the Company will not be required to adopt ASU 2018-13 until October 1, 2021. The Company is currently evaluating the impact of the adoption of this principle on the Company's condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326) ("ASU 2016-13"). The amendments in ASU 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 ASU 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. In November 2019, the FASB issued ASU No. 2019-10 ("ASU 2019-10"), which extends the effective date for adoption of ASU 2016-13 for certain entities. As a result of the provisions in ASU 2019-10, and as the Company was a smaller reporting company as of November 15, 2019, 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.

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 amends the existing guidance by recognizing all leases, including operating leases, with a term longer than twelve months on the balance sheet and disclosing key information about the lease arrangements. The update requires modified retrospective transition, with the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment and elect various practical expedients. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which narrows aspects of the guidance issued in the amendments in ASU 2016-02, and ASU 2018-11, Leases—Targeted Improvements (Topic 842), by allowing lessees and lessors to recognize and measure existing leases at the beginning of the period of adoption without modifying the comparative period financial statements (which therefore will remain under prior GAAP, Topic 840, Leases). In December 2018, the FASB issued ASU 2018-20, Narrow-Scope Improvements for Lessors, which clarifies or simplifies certain aspects of the guidance issued in the amendments in ASU 2016-02 for lessors. Since the Company has not yet adopted ASU 2016-02, the effective date and transition requirements will be the same as the effective date and transition requirements in ASU 2016-02. In March 2019, the FASB issued ASU 2019-01, Codification Improvements, which clarifies certain aspects of the guidance issued in the amendments in ASU 2016-02. The amendments in this ASU No. 2016-02 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 ASU 2016-02 for certain entities. As a result of the provisions in ASU No. 2019-10, and 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 2016-02 until October 1, 2021. The Company is currently evaluating the impact of the adoption of these principles on the Company’s condensed consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848) (“ASU 2020-04”). The amendments in ASU 2020-04 provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning an interim period that includes or is subsequent to March 12, 2020, or prospectively from the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic, the amendments must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. The Company may elect to apply ASU 2020-04 as its contracts referenced in London Interbank Offered Rate (“LIBOR”) are impacted by reference rate reform. 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 condensed consolidated financial statements.

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

### 3. ACQUISITIONS

During the nine months ended June 30, 2020, the Company acquired the following intangible assets:

#### **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 nine months ended June 30, 2020, the Company purchased \$1,677 in residual buyouts using a combination of cash on hand and borrowings on the Company's revolving line of credit. The acquired residual buyout intangible assets have a weighted-average amortization period of eight years.

#### **2019 Business Combinations**

During the year ended September 30, 2019, the Company completed the acquisitions of unrelated businesses, including Pace Payment Systems, Inc. Certain of the purchase price allocations assigned for these acquisitions were considered preliminary as of September 30, 2019, and are considered preliminary as of June 30, 2020.

##### ***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 June 30, 2020.

Acquisition-related costs for Pace amounted to approximately \$507 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 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 7.

##### ***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



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

facility proceeds and \$9,696 of contingent consideration. Certain of the purchase price allocations assigned for these acquisitions are preliminary.

For some of these businesses acquired, the goodwill associated with the acquisition is deductible for tax purposes, and for others, the goodwill associated with the acquisition 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 these 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 7.

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

**Summary of 2019 Business Combinations**

The fair values assigned to certain assets and liabilities assumed, as of the acquisition dates, as adjusted for any purchase price allocation adjustments subsequent to 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
Related party receivable	—	—	—
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	47,480	83,069
Other assets	2,622	2	2,624
<b>Total assets acquired</b>	<b>56,855</b>	<b>104,943</b>	<b>161,798</b>
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	—	687	687
<b>Net assets acquired</b>	<b>\$ 56,053</b>	<b>\$ 98,887</b>	<b>\$ 154,940</b>

**4. 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 (net of accumulated impairment losses of \$11,458, \$0 and \$0, respectively)	\$ 108,472	\$ 59,812	\$ —	\$ 168,284
Goodwill attributable to acquisition preliminary purchase price adjustments during the nine months ended June 30, 2020	(933)	(297)	—	(1,230)
<b>Balance at June 30, 2020</b>	<b>\$ 107,539</b>	<b>\$ 59,515</b>	<b>\$ —</b>	<b>\$ 167,054</b>

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

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

	Cost	Accumulated Amortization	Carrying Value	Amortization Life and Method
<b>Finite-lived intangible assets:</b>				
Merchant relationships	\$ 142,671	\$ (50,919)	\$ 91,752	12 to 20 years – accelerated or straight-line
Non-compete agreements	1,720	(866)	854	2 to 5 years – straight-line
Website and brand development costs	202	(52)	150	3 to 4 years – straight-line
Trade names	4,292	(2,028)	2,264	2 to 7 years – straight-line
Residual buyouts	5,621	(1,307)	4,314	2 to 8 years – straight-line
Referral and exclusivity agreements	900	(392)	508	5 to 10 years – straight-line
<b>Total finite-lived intangible assets</b>	<b>155,406</b>	<b>(55,564)</b>	<b>99,842</b>	
<b>Indefinite-lived intangible assets:</b>				
Trademarks	42	—	42	
<b>Total identifiable intangible assets</b>	<b>\$ 155,448</b>	<b>\$ (55,564)</b>	<b>\$ 99,884</b>	

Amortization expense for intangible assets amounted to \$3,066 and \$9,348 during the three and nine months ended June 30, 2020, respectively, and \$3,233 and \$9,054 during the three and nine months ended June 30, 2019, respectively.

Based on net carrying amounts at June 30, 2020, the Company's estimate of future amortization expense for intangible assets are presented in the table below for fiscal years ending September 30:

2020 (three months remaining)	\$ 2,905
2021	10,790
2022	9,645
2023	8,595
2024	7,983
Thereafter	59,924
	<u>\$ 99,842</u>

#### 5. LONG-TERM DEBT, NET

A summary of long-term debt, net as of June 30, 2020 and September 30, 2019 is as follows:

	Maturity	June 30, 2020	September 30, 2019
Revolving lines of credit to banks under the Senior Secured Credit Facility	May 9, 2024	\$ 34,954	\$ 141,144
1% Exchangeable Senior Notes due 2025	February 15, 2025	104,313	—
Debt issuance costs, net		(5,153)	(1,846)
<b>Total long-term debt, net of issuance costs</b>		<b>\$ 134,114</b>	<b>\$ 139,298</b>

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

**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 are senior secured notes and are guaranteed solely by the Company. 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 June 30, 2020, none of the conditions permitting the holders of the Exchangeable Notes to early convert have been met.

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

The Exchangeable Notes are general senior unsecured obligations of i3 Verticals, LLC 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 TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**(in thousands, except unit, share and per share amounts)**

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 unaudited condensed 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 unaudited condensed 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 condensed consolidated balance sheet and are amortized to interest expense using the effective interest method over the term of the Exchangeable Notes, and transaction costs attributable to the equity component were netted with the equity component in stockholders' equity.

The Company incurred third-party issuance costs totaling \$5,238, in connection with the issuance of the Exchangeable Notes. The Company capitalized \$4,150 of debt issuance costs in connection with the Exchangeable Notes and allocated \$1,088 of the third-party issuance costs to equity. Non-cash interest expense, including amortization of debt issuance costs, related to the Exchangeable Notes for the three and nine months ended June 30, 2020 was \$146 and \$216, respectively. The Company also wrote off a portion of the debt issuance costs in connection with the repurchase transactions in April 2020, as described below. Total unamortized debt issuance costs related to the Exchangeable Notes were \$3,684 as of June 30, 2020.

The estimated fair value of the Exchangeable Notes was \$124,168 as of June 30, 2020. 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 7.

The Company can choose to purchase its Exchangeable Notes on the open market. In April 2020, the Company paid \$6,807 in aggregate to repurchase \$8,500 in aggregate principal amount of the Exchangeable Notes and to repay approximately \$15 in accrued interest on the repurchased portion of the Exchangeable Notes. The Company recorded a loss on retirement of debt of \$828 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 \$250 of debt issuance costs in connection with the repurchase transactions. The effect of the repurchase was a decrease in the Company's total leverage ratio.

#### **Exchangeable Note Hedge Transactions**

On February 12, 2020, concurrently with the pricing of the Exchangeable Notes, and on February 13, 2020, concurrently with the exercise by the initial purchasers of their right to purchase additional Exchangeable Notes, i3 Verticals, LLC entered into exchangeable note hedge transactions with respect to Class A common stock (the "Note Hedge Transactions") with certain financial institutions (collectively, the "Counterparties"). The Note Hedge Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Exchangeable Notes, the same number of shares of Class A common stock that initially underlie the Exchangeable Notes in the aggregate and are exercisable upon exchange of the Exchangeable Notes. The Note Hedge Transactions are intended to reduce potential dilution to the Class A common stock upon any exchange of the Exchangeable Notes. The Note Hedge Transactions will expire upon the maturity of the Exchangeable Notes, if not earlier exercised. The Note Hedge Transactions are separate transactions, entered into by i3 Verticals, LLC

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

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 amended and restated its existing 2017 Senior Secured Credit Facility with a new credit agreement (the "Senior Secured Credit Facility") by and among i3 Verticals, LLC, as the borrower, the Company and certain subsidiaries of the Company, as guarantors, the lenders party thereto, and Bank of America, N.A., as administrative agent for the lenders, as theretofore amended. 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 condensed consolidated statements of operations. On February 18, 2020, the Company entered into the second amendment to the Senior Secured Credit Facility in connection with the offering of the Company's Exchangeable Notes. The second amendment reduced the Company's borrowing capacity under the Senior Secured Credit Facility. During the nine months ended June 30, 2020, the Company wrote off \$141 of unamortized debt issuance costs, which was recorded in interest expense in the condensed consolidated statements of operations, due to the decrease in borrowing capacity. The Senior Secured Credit Facility consists of a \$275,000 revolving credit facility, together with an option to increase the revolving credit facility and/or obtain incremental term loans in an additional principal amount of up to \$50,000 in the aggregate.

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 June 30, 2020), 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 June 30, 2020), 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 June 30, 2020) on any undrawn amounts under the revolving credit facility and letter of credit fees of up to 3.25% on the maximum amount available to be drawn under each letter of credit issued under the agreement. The maturity date of the Senior Secured Credit Facility is May 9, 2024. The Senior

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

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 June 30, 2020, the Company was in compliance with these covenants, and there was \$240,046 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, dividends and distributions, changes in the nature of the Company's business, transactions with affiliates and prepayment of other indebtedness; 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 June 30, 2020. 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) repurchase equity from employees, directors, officers or consultants in an aggregate amount not to exceed \$3,000 per year, (iii) make certain payments in connection with the Tax Receivable Agreement, and (iv) 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 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 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 was 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 a new credit agreement.

**Debt issuance costs**

During the nine months ended June 30, 2020, the Company capitalized debt issuance costs totaling \$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 Company's debt issuance costs are being amortized over the related term of the debt using the effective interest method. Debt

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

issuance costs are presented net against long-term debt in the condensed consolidated balance sheets. The amortization of debt issuance costs is included in interest expense and amounted to approximately \$242 and \$514 during the three and nine months ended June 30, 2020, respectively, and \$154 and \$619 during the three and nine months ended June 30, 2019, respectively.

## **6. INCOME TAXES**

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

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the Company updates its estimate of the annual effective tax rate, and if the Company's estimated tax rate changes, it makes a cumulative adjustment in that period. The Company's provision for income taxes was a benefit of \$5 and a benefit of \$1,918 for the three and nine months ended June 30, 2020, respectively, and a benefit of \$131 and an expense of \$2 for the three and nine months ended June 30, 2019, respectively.

### **Tax Receivable Agreement**

On June 25, 2018, the Company entered into a Tax Receivable Agreement with i3 Verticals, LLC and each of the Continuing Equity Owners (the "Tax Receivable Agreement") that provides for the payment by the Company to the Continuing Equity Owners of 85% of the amount of certain tax benefits, if any, that it actually realizes, or in some circumstances, is deemed to realize in its tax reporting, as a result of (i) future redemptions funded by the Company or exchanges, or deemed exchanges in certain circumstances, of Common Units of i3 Verticals, LLC for Class A common stock of i3 Verticals, Inc. or cash, and (ii) certain additional tax benefits attributable to payments made under the Tax Receivable Agreement. These tax benefit payments are not conditioned upon one or more of the Continuing Equity Owners maintaining a continued ownership interest in i3 Verticals, LLC. If a Continuing Equity Owner transfers Common Units but does not assign to the transferee of such units the rights of the Continuing Equity Owner under the Tax Receivable Agreement, such Continuing Equity Owner generally will continue to be entitled to receive payments under the Tax Receivable Agreement arising in respect of a subsequent exchange of such Common Units. In general, the Continuing Equity Owners' rights under the Tax Receivable Agreement may not be assigned, sold, pledged or otherwise alienated to any person, other than certain permitted transferees, without (a) the Company's prior written consent, which should not be unreasonably withheld, conditioned or delayed, and (b) such persons becoming a party to the Tax Receivable Agreement and agreeing to succeed to the applicable Continuing Equity Owner's interest therein. The Company expects to benefit from the remaining 15% of the tax benefits, if any, that the Company may realize.

During the nine months ended June 30, 2020, the Company acquired an aggregate of 530,016 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 nine months ended June 30, 2020, the Company recognized an increase to its net deferred tax assets in the amount of \$3,251, and corresponding Tax Receivable Agreement liabilities of \$2,764, representing 85% of the tax benefits due to the Continuing Equity Owners.

The deferred tax asset and corresponding Tax Receivable Agreement liability balances were \$30,064 and \$25,940, respectively, as of June 30, 2020.

Payments to the Continuing Equity Owners related to exchanges through June 30, 2020 will range from \$0 to \$2,321 per year and are expected to be paid over the next 25 years. The amounts recorded as of June 30, 2020,



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

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.

**7. FAIR VALUE MEASUREMENTS**

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

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

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

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

The carrying value of the Company's financial instruments, including cash and cash equivalents, restricted cash, settlement assets and obligations, accounts receivable, other assets, accounts payable, and accrued expenses, approximated their fair values as of June 30, 2020 and 2019, because of the relatively short maturity dates on these instruments. The carrying amount of debt approximates fair value as of June 30, 2020 and 2019, 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.

	<b>Accrued Contingent Consideration</b>	
Balance at September 30, 2019	\$	18,226
Contingent consideration accrued at time of business combination		—
Change in fair value of contingent consideration included in Operating expenses		(1,461)
Contingent consideration paid		(8,027)
Balance at June 30, 2020	\$	8,738

	<b>Accrued Contingent Consideration</b>	
Balance at September 30, 2018	\$	5,999
Contingent consideration accrued at time of business combination		10,315
Change in fair value of contingent consideration included in Operating expenses		1,736
Contingent consideration paid		(4,194)
Balance at June 30, 2019	\$	13,856

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

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

Approximately \$6,655 and \$10,223 of contingent consideration was recorded in accrued expenses and other current liabilities as of June 30, 2020 and September 30, 2019, respectively. Approximately \$2,083 and \$8,003 of contingent consideration was recorded in other long-term liabilities as of June 30, 2020 and September 30, 2019, respectively.

**Disclosure of Fair Values**

The Company's financial instruments that are not remeasured at fair value include the Exchangeable Notes (see Note 5). 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 \$124,168 as of June 30, 2020.

The carrying value of other financial instruments, including cash, accounts receivable, accounts payable, funds receivable and seller accounts, and funds payable and amounts due to sellers approximate fair value due to the immediate or short-term maturity associated with these instruments.

**8. EQUITY-BASED COMPENSATION**

A summary of equity-based compensation expense recognized during the three and nine months ended June 30, 2020 and 2019 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Stock options	\$ 2,816	\$ 1,808	\$ 7,450	\$ 4,122

Amounts are included in general and administrative expense on the condensed consolidated statements of operations. Income tax expense of \$164 and benefits of \$177 were recognized related to equity-based compensation during the three and nine months ended June 30, 2020, respectively. Income tax benefits of \$30 were recognized related to equity-based compensation during the three and nine months ended June 30, 2019.

**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 4.0%. As of June 30, 2020, there are 384,600 equity awards available for grant under the 2018 Plan.

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

The fair value of the stock option awards during the nine months ended June 30, 2020 and from June 20, 2018 through September 30, 2019 was determined on the grant date using the Black-Scholes valuation model based on the following weighted-average assumptions:

	June 30, 2020	September 30, 2019
Expected volatility <sup>(1)</sup>	26.0 %	26.7 %
Expected dividend yield <sup>(2)</sup>	— %	— %
Expected term <sup>(3)</sup>	6 years	6 years
Risk-free interest rate <sup>(4)</sup>	1.4 %	2.5 %

1. Expected volatility is based on the historical volatility of a selected peer group over a period equivalent to the expected term.

2. The Company has assumed a dividend yield of zero as management has no plans to declare dividends in the foreseeable future.

3. Expected term represents the estimated period of time until an award is exercised and was determined using the simplified method as details of employee exercise behavior are limited due to limited historical data.

4. The risk-free rate is an interpolation of yields on U.S. Treasury securities with maturities equivalent to the expected term.

A summary of stock option activity for the nine months ended June 30, 2020 is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period	4,240,695	\$ 18.33
Granted	1,164,000	30.83
Exercised	(248,579)	16.47
Forfeited	(81,494)	23.13
Outstanding at end of period	<u>5,074,622</u>	<u>\$ 21.22</u>

The weighted-average grant date fair value of stock options granted during the nine months ended June 30, 2020 was \$8.71. As of June 30, 2020, there were 5,074,622 stock options outstanding, of which 1,696,850 were exercisable. As of June 30, 2020, total unrecognized compensation expense related to unvested stock options, including an estimate for pre-vesting forfeitures, was \$19,170, which is expected to be recognized over a weighted-average period of 2.0 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 was \$4,451 and \$7,679 during the three and nine months ended June 30, 2020, respectively.

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

**9. COMMITMENTS AND CONTINGENCIES****Leases**

The Company utilizes office space and equipment under operating leases. Rent expense under these leases amounted to \$657 and \$2,073 during the three and nine months ended June 30, 2020, respectively, and \$615 and \$1,640 three and nine months ended June 30, 2019, respectively.

A summary of approximate future minimum payments under these leases as of June 30, 2020 is as follows:

Years ending September 30:	
2020 (three months remaining)	\$ 669
2021	2,605
2022	2,347
2023	2,168
2024	1,662
Thereafter	3,778
<b>Total</b>	<b>\$ 13,229</b>

**Minimum Processing Commitments**

The Company has agreements with several processors to provide 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 the Company had submitted the required minimum number of transactions. As of June 30, 2020, such minimum fee commitments were as follows:

Years ending September 30:	
2020 (three months remaining)	\$ 812
2021	3,213
2022	2,780
2023	2,645
2024	450
Thereafter	—
<b>Total</b>	<b>\$ 9,900</b>

**Loan to Third Party Sales Organization**

The Company has committed to providing a secured loan to a third party sales organization of up to \$2,500 in the future, dependent on their achievement of certain financial metrics. Additionally, 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 the third anniversary of March 1, 2020. 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.

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

As of June 30, 2020, such knowable loan commitments, dependent on the third party sales organization's achievement of certain financial metrics, were \$1,000 for the remainder of fiscal year 2020 and \$1,500 for fiscal year 2021.

**Litigation**

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

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

**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.

**10. 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 Company agreed to provide processing services for certain merchants as designated by AxiaMed from time to time. In accordance with ASC 606, revenue from the processing services is recognized net of interchange, residual expense and other fees. The Company earned net revenues related to the AxiaMed Agreement of \$25 and \$69 during the three and nine months ended June 30, 2020, respectively, and \$21 and \$59 during the three and nine months ended June 30, 2019, respectively. i3 Verticals, LLC, Greg Daily, the Company's CEO and Clay Whitson, the Company's CFO, own 2.0%, 10.5% and 0.4%, respectively, of the outstanding equity of AxiaMed.

In connection with the Company's IPO, the Company and i3 Verticals, LLC entered into a Tax Receivable Agreement with the Continuing Equity Owners that provides for the payment by the Company to the Continuing Equity Owners of 85% of the amount of certain tax benefits, if any, that it actually realizes, or in some circumstances, is deemed to realize in its tax reporting, as a result of (i) future redemptions funded by the

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

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 6 for further information. As of June 30, 2020, the total amount due under the Tax Receivable Agreement was \$25,940.

**11. SEGMENTS**

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

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

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

The Proprietary Software and Payments segment delivers embedded payment solutions 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 Company's Proprietary Software and Payments clients are primarily in the education, property management and public sector markets.

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

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

The Company primarily uses processing margin to measure operating performance. The following is a summary of reportable segment operating performance for the three and nine months ended June 30, 2020 and 2019.

	As of and for the Three Months Ended June 30, 2020			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 21,531	\$ 10,458	\$ (416)	\$ 31,573
<b>Operating expenses</b>				
Other costs of services	9,394	1,023	(416)	10,001
Selling general and administrative	5,630	6,878	5,625	18,133
Depreciation and amortization	2,821	1,476	178	4,475
Change in fair value of contingent consideration	(1,345)	(128)	—	(1,473)
Income (loss) from operations	\$ 5,031	\$ 1,209	\$ (5,803)	\$ 437
Processing margin <sup>(1)</sup>	\$ 16,811	\$ 9,554	\$ (413)	\$ 25,952
Total assets	\$ 198,048	\$ 112,387	\$ 50,038	\$ 360,473
Goodwill	\$ 107,539	\$ 59,515	\$ —	\$ 167,054

1. Processing margin is equal to revenue less interchange and network fees, less other costs of services. \$4,674, \$119 and \$(413) of residual expense, a component of other costs of services, are added back to the Merchant Services segment, Proprietary Software and Payments segment, and Other category, respectively.

	As of and for the Nine Months Ended June 30, 2020			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 74,014	\$ 39,205	\$ (1,357)	\$ 111,862
<b>Operating expenses</b>				
Other costs of services	32,804	3,426	(1,356)	34,874
Selling general and administrative	18,421	22,531	17,254	58,206
Depreciation and amortization	8,629	4,513	526	13,668
Change in fair value of contingent consideration	(2,951)	1,490	—	(1,461)
Income (loss) from operations	\$ 17,111	\$ 7,245	\$ (17,781)	\$ 6,575
Processing margin <sup>(1)</sup>	\$ 56,952	\$ 36,238	\$ (1,348)	\$ 91,842
Total assets	\$ 198,048	\$ 112,387	\$ 50,038	\$ 360,473
Goodwill	\$ 107,539	\$ 59,515	\$ —	\$ 167,054

1. Processing margin is equal to revenue less interchange and network fees, less other costs of services. \$15,742, \$459 and \$(1,347) of residual expense, a component of other costs of services, are added back to the Merchant Services segment, Proprietary Software and Payments segment, and Other category, respectively.

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

	As of and for the Three Months Ended June 30, 2019			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 87,264	\$ 10,219	\$ —	\$ 97,483
<b>Operating expenses</b>				
Interchange and network fees	61,744	1,519	—	63,263
Other costs of services	10,527	904	—	11,431
Selling general and administrative	6,244	6,066	5,277	17,587
Depreciation and amortization	2,972	1,308	145	4,425
Change in fair value of contingent consideration	155	(572)	—	(417)
Income (loss) from operations	\$ 5,622	\$ 994	\$ (5,422)	\$ 1,194
Processing margin <sup>(1)</sup>	\$ 19,442	\$ 7,946	\$ —	\$ 27,388
Total assets	\$ 212,315	\$ 97,043	\$ 33,887	\$ 343,245
Goodwill	\$ 114,655	\$ 51,210	\$ —	\$ 165,865

1. Processing margin is equal to revenue less interchange and network fees, less other costs of services. \$4,449, \$150 and \$0 of residual expense, a component of other costs of services, are added back to the Merchant Services segment, Proprietary Software and Payments segment, and Other category, respectively.

	As of and for the Nine Months Ended June 30, 2019			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 241,841	\$ 25,904	\$ —	\$ 267,745
<b>Operating expenses</b>				
Interchange and network fees	169,229	4,548	—	173,777
Other costs of services	29,648	1,766	—	31,414
Selling general and administrative	18,561	12,728	13,133	44,422
Depreciation and amortization	8,671	2,811	393	11,875
Change in fair value of contingent consideration	(554)	2,290	—	1,736
Income (loss) from operations	\$ 16,286	\$ 1,761	\$ (13,526)	\$ 4,521
Processing margin <sup>(1)</sup>	\$ 54,653	\$ 20,082	\$ —	\$ 74,735
Total assets	\$ 212,315	\$ 97,043	\$ 33,887	\$ 343,245
Goodwill	\$ 114,655	\$ 51,210	\$ —	\$ 165,865

1. Processing margin is equal to revenue less interchange and network fees, less other costs of services. \$11,689, \$492 and \$0 of residual expense, a component of other costs of services, are added back to the Merchant Services segment, Proprietary Software and Payments segment, and Other category, respectively.



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

**12. 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 June 30, 2020, i3 Verticals, Inc. owned 15,085,813 of i3 Verticals, LLC's Common Units, representing a 54.9% economic ownership interest in i3 Verticals, LLC.

**13. 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.

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

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock for the three and nine months ended June 30, 2020 and 2019:

	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
<b>Basic net (loss) income per share:</b>				
<i>Numerator</i>				
Net (loss) income	\$ (2,810)	\$ (593)	\$ 1,043	\$ 536
Less: Net (loss) income attributable to non-controlling interests	(2,454)	598	811	2,651
Net (loss) income attributable to Class A common stockholders	\$ (356)	\$ (1,191)	\$ 232	\$ (2,115)
<i>Denominator</i>				
Weighted average shares of Class A common stock outstanding <sup>(1)</sup>	14,858,858	10,064,785	14,515,506	9,254,549
Basic net (loss) income per share <sup>(2)</sup>	\$ (0.02)	\$ (0.12)	\$ 0.02	\$ (0.23)
<b>Dilutive net income per share<sup>(2):</sup></b>				
<i>Numerator</i>				
Net income attributable to Class A common stockholders - diluted <sup>(3)</sup>			\$ 232	
<i>Denominator</i>				
Weighted average shares of Class A common stock outstanding <sup>(1)</sup>			14,515,506	
Weighted average effect of dilutive securities <sup>(3)</sup>			1,403,858	
Weighted average shares of Class A common stock outstanding - diluted			15,919,364	
Diluted net income per share			\$ 0.01	

- Excludes 193,709 and 225,985 restricted Class A common stock units for the three and nine months ended June 30, 2020, respectively, and 285,433 restricted Class A common stock units for both the three and nine months ended June 30, 2019.
- For the three months ended June 30, 2020 and for the three and nine months ended June 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 net loss per share of Class A common stock:
  - 12,404,368 shares of weighted average Class B common stock for the three months ended June 30, 2020, and 16,184,026 and 16,846,012 shares of weighted average Class B common stock for the three and nine months ended June 30, 2019, respectively, along with the reallocation of net income assuming conversion of these shares, were excluded because the effect would have been anti-dilutive,
  - 1,498,000 stock options for the three months ended June 30, 2020, and 443,000 and 620,500 stock options for the three and nine months ended June 30, 2019, respectively, were excluded because the exercise price of these stock options exceeded the average market price of our Class A common stock during the period ("out-of-the-money") and the effect of including them would have been anti-dilutive, and
  - 1,127,509 shares for the three months ended June 30, 2020, and 1,188,987 and 974,402 shares for the three and nine months ended June 30, 2019, respectively, resulting from estimated stock option exercises as calculated by the treasury stock method, and 193,709 restricted Class A common units for the three months ended June 30, 2020, and 285,433 restricted Class A common units

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

for both the three and nine months ended June 30, 2019, were excluded because the effect of including them would have been anti-dilutive.

3. For the nine months ended June 30, 2020, the following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted net loss per share of Class A common stock:
- 12,699,339 shares of weighted average Class B common stock for the nine months ended June 30, 2020, along with the reallocation of net income assuming conversion of these shares, were excluded because the effect would have been anti-dilutive, and
  - 1,105,000 stock options for the nine months ended June 30, 2020, were excluded because the exercise price of these stock options exceeded the average market price of our Class A common stock during the period ("out-of-the-money") and the effect of including them would have been anti-dilutive.

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 5 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.

#### 14. SIGNIFICANT NON-CASH TRANSACTIONS

The Company engaged in the following significant non-cash investing and financing activities during the nine months ended June 30, 2020 and 2019:

	Nine months ended June 30,	
	2020	2019
Restricted Class A common stock issued as part of acquisitions' purchase consideration (Note 3)	\$ —	\$ 225
Acquisition date fair value of contingent consideration in connection with business combinations	\$ —	\$ 10,315
Replacement of the 2017 Senior Secured Credit Facility with the Senior Secured Credit Facility	\$ —	\$ 100,229
Issuance of Exchangeable Notes and related Note Hedge Transactions and Warrants	\$ 85	\$ —
Debt issuance costs financed with proceeds from the Senior Secured Credit Facility	\$ —	\$ 1,271

## **15. SUBSEQUENT EVENTS**

### **Recent Acquisitions**

Subsequent to June 30, 2020, the Company completed the acquisition of two businesses. One expands 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 included \$16,438 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 \$13,200, 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 2022. 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 acquisitions will be included in the consolidated statements of operations beginning July 1, 2020.

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

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2019 ("Form 10-K"), filed with the SEC on November 22, 2019. The terms "i3 Verticals," "we," "us" and "our" and similar references refer (1) before the completion of our IPO or the reorganization transactions entered into in connection therewith (the "Reorganization Transactions"), which are described in the notes to the condensed consolidated financial statements, to i3 Verticals, LLC and, when appropriate, its subsidiaries, and (2) after the Reorganization Transactions to i3 Verticals, Inc. and, when appropriate, its subsidiaries.

### Note Regarding Forward-looking Statements

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

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

- the anticipated impact to our business operations, payment volume and volume attrition due to the global pandemic of a novel strain of the coronavirus (COVID-19), 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) in light of the impacts of the COVID-19 pandemic;
- our ability to meet our liquidity needs 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 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;
- our ability to generate revenue sufficient to maintain profitability and positive cash flow;
- competition in our industry and our ability to compete effectively;
- 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;

- *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 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;*
- *operating and financial restrictions imposed by our Senior Secured Credit Facility (as defined below);*
- *risks related to the accounting method for 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; and*
- *the risk factors included in our Form 10-K and included in Part II, Item 1A of this Quarterly Report on Form 10-Q, if any.*

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

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

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

## **Executive Overview**

Recognizing the convergence of software and payments, i3 Verticals was founded in 2012 with the purpose of delivering seamlessly integrated 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, property management and healthcare.

### **COVID-19 Recent Developments**

On March 11, 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 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 decline in the U.S. Some areas are re-imposing closures and other restrictions due to increased rates of COVID-19 cases.

As a result, the COVID-19 pandemic is significantly affecting overall economic conditions in the United States. 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, beginning in the second half of March 2020 and continuing into the third quarter of fiscal 2020, 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. Our payment volume was \$0.8 billion, \$1.0 billion and \$1.2 billion for the months of April, May and June 2020, respectively. Further, for the three months ended June 30, 2020, a significant portion of our revenue and payment volume within our Merchant Services segment and our Proprietary Software and Payments segment was derived from our education and public sector strategic verticals. Due to the temporary closure of schools and many local government facilities throughout the nation, we expect the combined revenue and payment volume from multiple of these and other strategic verticals will be adversely impacted for the duration of the closure. 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. For that reason, we are unable to predict the long-term impact of the pandemic on our business at this time.

As previously disclosed, on April 3, 2020, we announced certain proactive actions in response to the significant uncertainty around the severity and duration of the COVID-19 pandemic, which included temporarily furloughing a portion of our employees and a workforce reduction program that included the elimination of certain positions as well as a general reduction in headcount. The total number of employees impacted by the furlough and workforce reduction represented approximately 12% of our workforce.

At June 30, 2020, we had \$9.1 million of cash and cash equivalents and \$240.0 million of available capacity under our Senior Secured Credit Facility (as defined in the “Senior Secured Credit Facility” subsection within the “Liquidity and Capital Resources” section below), subject to our financial covenants. Our liquidity profile reflects our completed offering in February 2020 of an aggregate principal amount of \$138.0 million in 1.0% Exchangeable Senior Notes due 2025, with substantially all the proceeds being used to pay down outstanding borrowings under our Senior Secured Credit Facility. As of June 30, 2020, we were in compliance with these covenants with a consolidated interest coverage ratio, total leverage ratio and consolidated senior leverage ratio of 7.00x, 3.69x and 0.61x, respectively. For additional information about our Senior Secured Credit Facility and Exchangeable Notes, see the section entitled “Liquidity and Capital Resources” below.

The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore, we cannot currently predict with certainty the extent to which our business, results of operations, financial condition or liquidity will ultimately be impacted. Our top priority is to protect our employees and their families, as well as our vendors and clients. We continue to take precautionary measures as directed by health authorities and local and national governments. Given the dynamic nature of these circumstances, the duration of business disruption and reduced revenues and payment volume, the related financial effect cannot be reasonably estimated at this time but is expected to materially adversely impact our business for the remainder of the 2020 fiscal year.

During the third quarter of fiscal 2020, in response to the COVID-19 pandemic, the Company conducted an interim goodwill impairment analysis using the quantitative test for certain reporting units. The testing date was May 1, 2020. The Company determined that none of the reporting units were impaired and fair values of all of its reporting units substantially exceeded their carrying values at the assessment date. There could be material changes to these estimates as a result of ongoing COVID-19 developments in future periods. Actual results could differ from those estimates. See “Item 1A. Risk Factors—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”.

### **Public Equity Offerings**

On June 25, 2018, we completed the initial public offering (“IPO”) of 7,647,500 shares of our Class A common stock at a public offering price of \$13.00 per share. We received approximately \$92.5 million of net proceeds, after deducting underwriting discounts and commissions, which we used to purchase 7,264,083 newly issued common

units from i3 Verticals, LLC (“Common Units”) for approximately \$87.8 million, and 383,417 Common Units from a selling Common Unit holder for approximately \$4.6 million, 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 IPO.

On June 10, 2019, we completed a secondary public offering (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 holders, other than i3 Verticals, Inc., of Common Units in i3 Verticals, LLC (“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 the Company, which it 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.

### **Exchangeable Notes Offering**

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”). 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. 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.

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. For additional information, see Note 5. “Long-Term Debt, Net” to our condensed consolidated financial statements.

### **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.

#### ***Recent acquisitions***

During the nine months ended June 30, 2020, we were active in executing our acquisition strategy, though we did not complete any acquisitions during this period. This was primarily the result of our decision to defer the projected closing of certain acquisitions as a result of the uncertainty from the COVID-19 pandemic and our desire to maintain liquidity as a result.



Subsequent to June 30, 2020, we completed the acquisition of two businesses. One expands our geographic reach and software capabilities in the public sector vertical. The other adds text-to-pay capabilities and other software solutions in our non-profit vertical. Total purchase consideration included \$16.4 million in cash and revolving line of credit proceeds, and an amount of contingent consideration, which is still being valued.

#### **Acquisitions during the nine months ended June 30, 2019**

On May 31, 2019, we acquired all the outstanding stock of Pace Payment Systems, Inc. ("Pace"). We acquired Pace to expand our software offerings, primarily in the public sector and education verticals. The total net purchase consideration was \$56.1 million, including \$52.5 million in cash consideration, funded by proceeds from our revolving line of credit, \$3.3 million of contingent consideration, \$0.2 million of restricted Class A common stock in i3 Verticals and potential additional consideration of up to \$20.0 million to be paid based upon the achievement of certain growth metrics related to the financial performance of Pace in the 24 months from January 1, 2020 through December 31, 2021.

We also completed the acquisitions of additional unrelated businesses. These acquisitions expanded our software offerings in the public sector vertical market, provided technology that enhances our Burton Platform and expanded our merchant base. Total net purchase consideration for these businesses was \$85.7 million, which included \$78.7 million of cash consideration funded with proceeds from our revolving line of credit and \$7.0 million of contingent consideration.

### **Our Revenue and Expenses**

#### **Revenues**

We generate revenue primarily from 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 ASC 606 on October 1, 2019, these fees are presented net of revenue.

#### **Expenses**

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

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

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

*Interest expense, net.* Our interest expense consists of interest on our outstanding indebtedness under our Senior Secured Credit Facility and amortization of debt issuance costs.

## How We Assess Our Business

### **Merchant Services**

Our Merchant Services segment provides comprehensive payment solutions to businesses and organizations. Our Merchant Services segment provides third-party integrated payment solutions as well as traditional 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 company-owned software. Payments are delivered through both the payment facilitator model and the traditional merchant processing model. Our Proprietary Software and Payments clients are primarily in the education, property management and public sector markets.

### **Other**

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

For additional information on our segments, see Note 11 to our condensed 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 three months ended June 30, 2020 and 2019 was \$3.0 billion and \$3.4 billion, respectively, representing a period-to-period contraction of 12.6%. Our payment volume for the nine months ended June 30, 2020 and 2019 was \$10.4 billion and \$9.3 billion, respectively, representing a period-to-period growth rate of 11.9%. Our payment volume for the three months ended June 30, 2020 was adversely impacted by deteriorating economic conditions as a result of the impacts of the COVID-19 pandemic. Our payment volume was \$0.8 billion, \$1.0 billion and \$1.2 billion for the months of April, May and June 2020, respectively. We focus on payment volume because it is a reflection of the scale and economic activity of our client base and because a significant part of our revenue is derived as a percentage of our clients' dollar volume receipts. Payment volume reflects the addition of new clients and same store payment volume growth of existing clients, partially offset by client attrition during the period.

Integrated payments represent payment transactions that are generated in situations in which 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 were 51% of our payment volume for both the three months ended June 30, 2020 and 2019 and were 54% and 49% of our payment volume for the nine months ended June 30, 2020 and 2019, respectively.

We measure period-to-period payment volume attrition as the change in card-based payment volume for all clients that were processing with us for the same period in the prior year. We exclude from our calculations payment volume from new clients added during the period. We experience attrition in payment volume as a result of several factors, including business closures, transfers of clients' accounts to our competitors and account closures that we initiate due to heightened credit risks. Volume attrition provides us useful information regarding our ability to retain clients and volume. We use this metric to evaluate various operating decisions and initiatives. During the nine months ended June 30, 2020, our average net volume attrition per month remained below 1.6%.

## Results of Operations

### Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

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

(in thousands)	Three months ended June 30,		Change	
	2020	2019	Amount	%
Revenue	\$ 31,573	\$ 97,483	\$ (65,910)	(67.6) %
<b>Operating expenses</b>				
Interchange and network fees <sup>(1)</sup>		63,263	(63,263)	n/m
Other costs of services	10,001	11,431	(1,430)	(12.5) %
Selling, general and administrative	18,133	17,587	546	3.1 %
Depreciation and amortization	4,475	4,425	50	1.1 %
Change in fair value of contingent consideration	(1,473)	(417)	(1,056)	n/m
Total operating expenses	31,136	96,289	(65,153)	(67.7) %
Income from operations	437	1,194	(757)	n/m
<b>Other expenses</b>				
Interest expense, net	2,423	1,918	505	26.3 %
Other expense	829	—	829	n/m
Total other expenses	3,252	1,918	1,334	69.6 %
Loss before income taxes	(2,815)	(724)	(2,091)	288.8 %
Benefit from income taxes	(5)	(131)	126	(96.2) %
Net loss	(2,810)	(593)	(2,217)	n/m
Net (loss) income attributable to non-controlling interest	(2,454)	598	(3,052)	n/m
Net loss attributable to i3 Verticals, Inc.	\$ (356)	\$ (1,191)	\$ 835	n/m

n/m = not meaningful

1. Effective October 1, 2019, our 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 condensed consolidated financial statements for a description of the recently adopted accounting pronouncement.

#### Revenue

Revenue decreased \$65.9 million, or 67.6%, to \$31.6 million for the three months ended June 30, 2020 from \$97.5 million for the three months ended June 30, 2019. This decrease was driven by the adoption of ASC 606 effective October 1, 2019, which resulted in our revenues being presented net of interchange and network fees prospectively. This change in presentation affected our reported revenues and operating expenses for the three months ended June 30, 2020 by the same amount and had no effect on our income from operations. Our revenue was also negatively impacted by an overall reduction in consumer spending as a result of the COVID-19 pandemic.

Revenue without the effect of the adoption of ASC 606 decreased \$16.6 million, or 17.0%, to \$80.9 million for the three months ended June 30, 2020 from \$97.5 million for the three months ended June 30, 2019. This decrease was principally driven by the impacts of the COVID-19 pandemic. Payment volume decreased \$0.4 billion, or 12.6%, to \$3.0 billion for the three months ended June 30, 2020 from \$3.4 billion for the three months ended June 30, 2019, principally driven by the result of the COVID-19 pandemic.

Acquisitions completed during the 2019 fiscal year partially offset the impacts of the COVID-19 pandemic on our revenue. Without the effect of the adoption of ASC 606, these acquisitions contributed an incremental \$6.2 million, net of inter-segment eliminations, to our revenue for the three months ended June 30, 2020.

Without the effect of the adoption of ASC 606, revenue related to a subset of merchant contracts purchased in 2014 and 2017 (the "Purchased Portfolios"), which have a higher rate of revenue attrition and payment volume attrition than the rest of our business, decreased \$1.1 million, or 36.8%, to \$1.8 million for the three months ended June 30, 2020 from \$2.9 million for the three months ended June 30, 2019. Excluding revenues from the Purchased Portfolios and the effect of the adoption of ASC 606, revenue decreased \$15.6 million, or 16.4%, to \$79.0 million for the three months ended June 30, 2020 from \$94.6 million for the three months ended June 30, 2019.

Without the effect of the adoption of ASC 606, revenue within Merchant Services decreased \$16.9 million, or 19.4%, to \$70.3 million for the three months ended June 30, 2020 from \$87.3 million for the three months ended June 30, 2019. This decrease was principally driven by a decrease in payments revenue of \$15.2 million for the three months ended June 30, 2020, driven by a decrease in payment volume due to the COVID-19 pandemic. In addition, other revenue decreased \$1.8 million for the three months ended June 30, 2020.

Without the effect of the adoption of ASC 606, revenue within Proprietary Software and Payments increased \$0.7 million, or 7.3%, to \$11.0 million for the three months ended June 30, 2020 from \$10.2 million for the three months ended June 30, 2019. This increase was principally driven by an increase in other revenue of \$2.6 million for the three months ended June 30, 2020, driven by software and related services, which increased due to the incremental impact of acquisitions completed during the 2019 fiscal year, despite overall decreases in other revenue related to the COVID-19 pandemic. The increase in revenue within Proprietary Software and Payments was partially offset by a decrease in payments revenue of \$1.9 million for the three months ended June 30, 2020, driven by payment volume decreases related to the COVID-19 pandemic.

#### ***Interchange and Network Fees***

Interchange and network fees decreased \$63.3 million, or 100.0%, to \$0.0 million for the three months ended June 30, 2020 from \$63.3 million for the three months ended June 30, 2019. This decrease was driven by the adoption of ASC 606 effective October 1, 2019, which resulted in our revenues being presented net of interchange and network fees prospectively. This change in presentation affected our reported revenues and operating expenses for the three months ended June 30, 2020 by the same amount and had no effect on our income from operations.

Interchange and network fees without the effect of the adoption of ASC 606 decreased \$14.0 million, or 22.1%, to \$49.3 million for the three months ended June 30, 2020 from \$63.3 million for the three months ended June 30, 2019. This decrease was principally driven by the impacts of the COVID-19 pandemic.

Acquisitions completed during the 2019 fiscal year partially offset the impacts of the COVID-19 pandemic on our interchange and network fees. Without the effect of the adoption of ASC 606, these acquisitions contributed an incremental \$2.6 million to our interchange and network fees for the three months ended June 30, 2020.

Without the effect of the adoption of ASC 606, interchange and network fees related to the Purchased Portfolios decreased \$0.5 million, or 35.3%, to \$1.0 million for the three months ended June 30, 2020 from \$1.5 million for the three months ended June 30, 2019. Excluding interchange and network fees from these Purchased Portfolios and the effect of the adoption of ASC 606, interchange and network fees decreased \$13.4 million, or 21.8%, to \$48.3 million for the three months ended June 30, 2020 from \$61.8 million for the three months ended June 30, 2019.

Without the effect of the adoption of ASC 606, interchange and network fees within Merchant Services decreased \$13.0 million, or 21.0%, to \$48.8 million for the three months ended June 30, 2020 from \$61.7 million for the three months ended June 30, 2019. Without the effect of the adoption of ASC 606, interchange and network fees within Proprietary Software and Payments decreased \$1.0 million, or 66.4%, to \$0.5 million for the three months ended June 30, 2020 from \$1.5 million for the three months ended June 30, 2019. These decreases in interchange and network fees for the three months ended June 30, 2020 were driven by payment volume decreases related to the COVID-19 pandemic.

#### ***Other Costs of Services***

Other costs of services decreased \$1.4 million, or 12.5%, to \$10.0 million for the three months ended June 30, 2020 from \$11.4 million for the three months ended June 30, 2019. Our other costs of services decreased due to an overall reduction in consumer spending as a result of the COVID-19 pandemic.

Acquisitions completed during the 2019 fiscal year partially offset the impacts of the COVID-19 pandemic on our other costs of services. These acquisitions contributed an incremental \$0.9 million, net of inter-segment eliminations, to our other costs of services for the three months ended June 30, 2020.

Other costs of services within Merchant Services decreased \$1.1 million, or 10.8%, to \$9.4 million for the three months ended June 30, 2020 from \$10.5 million for the three months ended June 30, 2019.

Other costs of services within Proprietary Software and Payments increased \$0.1 million, or 13.2%, to \$1.0 million for the three months ended June 30, 2020 from \$0.9 million for the three months ended June 30, 2019, due to the incremental impact of acquisitions completed during the 2019 fiscal year, despite overall decreases in other costs of services related to the COVID-19 pandemic.

#### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased \$0.5 million, or 3.1%, to \$18.1 million for the three months ended June 30, 2020 from \$17.6 million for the three months ended June 30, 2019. This increase was primarily driven by a \$1.2 million increase in employment expenses, primarily resulting from an increase in headcount that resulted from acquisitions and an increase in stock compensation expense. The majority of the remaining increase was comprised of COVID-19 related expenses of \$0.2 million and increases in software and technological services of \$0.2 million, partially offset by decreases in travel expenses of \$0.5 million, decreases in insurance and professional services of \$0.4 million and decreases in advertising and promotion of \$0.3 million.

#### ***Depreciation and Amortization***

Depreciation and amortization increased \$0.1 million, or 1.1%, to \$4.5 million for the three months ended June 30, 2020 from \$4.4 million for the three months ended June 30, 2019. Amortization expense decreased \$0.1 million to \$4.0 million for the three months ended June 30, 2020 from \$4.1 million for the three months ended June 30, 2019 primarily due to accelerated amortization on certain merchant relationships resulting in decreased amortization in future periods. Depreciation expense increased \$0.2 million to \$0.5 million for the three months ended June 30, 2020 from \$0.3 million for the three months ended June 30, 2019.

#### ***Change in Fair Value of Contingent Consideration***

Change in fair value of contingent consideration to be paid in connection with acquisitions was a benefit of \$1.5 million for the three months ended June 30, 2020 primarily due to some of our acquisitions achieving lower performance as a direct result of the COVID-19 pandemic. The change in fair value of contingent consideration for the three months ended June 30, 2019 was a benefit of \$0.4 million.

#### ***Interest Expense, net***

Interest expense, net, increased \$0.5 million, or 26.3%, to \$2.4 million for the three months ended June 30, 2020 from \$1.9 million for the three months ended June 30, 2019. The increase is driven by the amortization of the debt discount, which was the difference between the principal amount of the Exchangeable Notes and the liability component, recorded in connection with the issuance of the Exchangeable Notes. We recorded \$1.2 million in interest expense related to the amortization of the debt discount during the three months ended June 30, 2020. The increase is partially offset by a lower weighted average interest rate for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019.

### Other expense

Other expense was \$0.8 million for the three months ended June 30, 2020, primarily 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. There was no other expense for the three months ended June 30, 2019.

### Benefit from Income Taxes

The benefit from income taxes decreased to a benefit of \$0.0 million for the three months ended June 30, 2020 from a benefit of \$0.1 million for the three months ended June 30, 2019. The decrease is driven by the policy change to allocate stock compensation expense to the Class B shareholders of i3 Verticals, LLC, which resulted in a \$0.6 million reduction in the benefit from income taxes during the three months ended June 30, 2020. Our effective tax rate was 0% for the three months ended June 30, 2020. Our effective tax rate differs from the federal statutory rate of 21% primarily due to the tax structure of the Company. The income of minority owned i3 Verticals, LLC is not taxed and the separate loss of the Company has minimal tax effect due to the allocations from i3 Verticals, LLC.

### Nine Months Ended June 30, 2020 Compared to Nine Months Ended June 30, 2019

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

(in thousands)	Nine months ended June 30,		Change	
	2020	2019	Amount	%
Revenue	\$ 111,862	\$ 267,745	\$ (155,883)	(58.2) %
Operating expenses				
Interchange and network fees <sup>(1)</sup>		173,777	(173,777)	n/m
Other costs of services	34,874	31,414	3,460	11.0 %
Selling, general and administrative	58,206	44,422	13,784	31.0 %
Depreciation and amortization	13,668	11,875	1,793	15.1 %
Change in fair value of contingent consideration	(1,461)	1,736	(3,197)	(184.2) %
Total operating expenses	105,287	263,224	(157,937)	(60.0) %
Income from operations	6,575	4,521	2,054	45.4 %
Other expenses				
Interest expense, net	6,621	3,987	2,634	66.1 %
Other expense	829	—	829	n/m
Total other expenses	7,450	3,987	3,463	86.9 %
Income before income taxes	(875)	534	(1,409)	(263.9) %
Benefit from income taxes	(1,918)	(2)	(1,916)	n/m
Net income	1,043	536	507	94.6 %
Net income attributable to non-controlling interest	811	2,651	(1,840)	(69.4) %
Net income (loss) attributable to i3 Verticals, Inc.	\$ 232	\$ (2,115)	\$ 2,347	n/m

n/m = not meaningful

- 
1. Effective October 1, 2019, our 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 condensed consolidated financial statements for a description of the recently adopted accounting pronouncement.

### **Revenue**

Revenue decreased \$155.9 million, or 58.2%, to \$111.9 million for the nine months ended June 30, 2020 from \$267.7 million for the nine months ended June 30, 2019. This decrease was driven by the adoption of ASC 606 effective October 1, 2019, which resulted in our revenues being presented net of interchange and network fees prospectively. This change in presentation affected our reported revenues and operating expenses for the nine months ended June 30, 2020 by the same amount and had no effect on our income from operations. Our revenue in the month of March 2020 and in the three months ended June 30, 2020 was also negatively impacted an overall reduction in consumer spending as a result of the COVID-19 pandemic.

Revenue without the effect of the adoption of ASC 606 increased \$25.7 million, or 9.6%, to \$293.5 million for the nine months ended June 30, 2020 from \$267.7 million for the nine months ended June 30, 2019. This increase was principally driven by acquisitions completed during the 2019 fiscal year. These acquisitions contributed an incremental \$37.5 million, net of inter-segment eliminations, to our revenue for the nine months ended June 30, 2020. Excluding revenues from these acquisitions, revenue without the adoption of ASC 606 decreased \$11.8 million principally driven by the impact of the COVID-19 pandemic.

Without the effect of the adoption of ASC 606, revenue includes revenue from the Purchased Portfolios, which have a higher rate of revenue attrition and payment volume attrition than the rest of our business. Revenues from the Purchased Portfolios decreased \$3.2 million, or 32.3%, to \$6.6 million for the nine months ended June 30, 2020 from \$9.8 million for the nine months ended June 30, 2019. Excluding revenues from the Purchased Portfolios and the effect of the adoption of ASC 606, revenue grew \$28.9 million, or 11.2%, to \$286.9 million for the nine months ended June 30, 2020 from \$258.0 million for the nine months ended June 30, 2019.

Without the effect of the adoption of ASC 606, revenue within Merchant Services increased \$8.6 million, or 3.6%, to \$250.4 million for the nine months ended June 30, 2020 from \$241.8 million for the nine months ended June 30, 2019. This increase was principally driven by an increase in payments revenue of \$12.3 million, partially offset by a decrease in other revenue of \$3.7 million for the nine months ended June 30, 2020. The increase in payments revenue was primarily due to the incremental impact of acquisitions completed during the 2019 fiscal year, despite overall decreases in other revenue related to the COVID-19 pandemic.

Without the effect of the adoption of ASC 606, revenue within Proprietary Software and Payments increased \$18.5 million, or 71.3%, to \$44.4 million for the nine months ended June 30, 2020 from \$25.9 million for the nine months ended June 30, 2019. This increase was principally driven by an increase in other revenue of \$14.3 million for the three months ended June 30, 2020, driven by software and related services. In addition, payments revenue increased \$4.2 million for the nine months ended June 30, 2020, driven by increases in payment volume. These increases in Proprietary Software and Payments revenue were primarily due to the incremental impact of acquisitions completed during the 2019 fiscal year, despite overall decreases in other revenue related to the COVID-19 pandemic.

Payment volume increased \$1.1 billion, or 11.9%, to \$10.4 billion for the nine months ended June 30, 2020 from \$9.3 billion for the nine months ended June 30, 2019. This increase was principally driven by acquisitions completed during the 2019 fiscal year and organic growth prior to the COVID-19 pandemic.

### **Interchange and Network Fees**

Interchange and network fees decreased \$173.8 million, or 100.0%, to \$0.0 million for the nine months ended June 30, 2020 from \$173.8 million for the nine months ended June 30, 2019. This decrease was driven by the adoption of ASC 606 effective October 1, 2019, which resulted in our revenues being presented net of interchange and network fees prospectively. This change in presentation affected our reported revenues and operating expenses for the nine months ended June 30, 2020 by the same amount and had no effect on our income from operations.

Interchange and network fees without the effect of the adoption of ASC 606 increased \$7.8 million, or 4.5%, to \$181.6 million for the nine months ended June 30, 2020 from \$173.8 million for the nine months ended June 30, 2019. Acquisitions completed during the 2019 fiscal year contributed an incremental \$13.8 million to our interchange and network fees for the nine months ended June 30, 2020. Excluding interchange and network fees from these acquisitions, interchange and network fees without the adoption of ASC 606 decreased \$5.9 million principally driven by the impact of the COVID-19 pandemic.

Without the effect of the adoption of ASC 606, interchange and network fees related to the Purchased Portfolios decreased \$1.4 million, or 29.4%, to \$3.4 million for the nine months ended June 30, 2020 from \$4.8 million for the nine months ended June 30, 2019. Excluding interchange and network fees from the Purchased Portfolios and the effect of the adoption of ASC 606, interchange and network fees grew \$9.2 million, or 5.5%, to \$178.2 million for the nine months ended June 30, 2020 from \$169.0 million for the nine months ended June 30, 2019.

Without the effect of the adoption of ASC 606, interchange and network fees within Merchant Services increased \$7.2 million, or 4.3%, to \$176.4 million for the nine months ended June 30, 2020 from \$169.2 million for the nine months ended June 30, 2019. Without the effect of the adoption of ASC 606, interchange and network fees within Proprietary Software and Payments increased \$0.6 million, or 13.5%, to \$5.2 million for the nine months ended June 30, 2020 from \$4.5 million for the nine months ended June 30, 2019.

#### ***Other Costs of Services***

Other costs of services increased \$3.5 million, or 11.0%, to \$34.9 million for the nine months ended June 30, 2020 from \$31.4 million for the nine months ended June 30, 2019. Acquisitions completed during the 2019 fiscal year contributed an incremental \$4.8 million, net of inter-segment eliminations, to our other costs of services for the nine months ended June 30, 2020.

Other costs of services within Merchant Services increased \$3.2 million, or 10.6%, to \$32.8 million for the nine months ended June 30, 2020 from \$29.6 million for the nine months ended June 30, 2019.

Other costs of services within Proprietary Software and Payments was increased \$1.7 million, or 94.0%, to \$3.4 million for the nine months ended June 30, 2020 from \$1.8 million for the nine months ended June 30, 2019.

#### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased \$13.8 million, or 31.0%, to \$58.2 million for the nine months ended June 30, 2020 from \$44.4 million for the nine months ended June 30, 2019. The majority of the remaining increase was comprised of increases in software and technological services of \$0.8 million, partially offset by decreases in travel expenses of \$0.4 million.

#### ***Depreciation and Amortization***

Depreciation and amortization increased \$1.8 million, or 15.1%, to \$13.7 million for the nine months ended June 30, 2020 from \$11.9 million for the nine months ended June 30, 2019. Amortization expense increased \$1.2 million to \$12.3 million for the nine months ended June 30, 2020 from \$11.0 million for the nine months ended June 30, 2019 primarily due to acquisitions completed during the prior fiscal year. Depreciation expense increased \$0.6 million to \$1.4 million for the nine months ended June 30, 2020 from \$0.8 million for the nine months ended June 30, 2019.

#### ***Change in Fair Value of Contingent Consideration***

Change in fair value of contingent consideration to be paid in connection with acquisitions was a benefit of \$1.5 million for the nine months ended June 30, 2020 due to some of our acquisitions achieving lower performance as a direct result of the COVID-19 pandemic. The change in fair value of contingent consideration for the nine months ended June 30, 2019 was a charge of \$1.7 million.

#### ***Interest Expense, net***

Interest expense, net, increased \$2.6 million, or 66.1%, to \$6.6 million for the nine months ended June 30, 2020 from \$4.0 million for the nine months ended June 30, 2019. The increase is driven by the amortization of the debt discount, which was the difference between the principal amount of the Exchangeable Notes and the liability



component, recorded in connection with the issuance of the Exchangeable Notes. We recorded \$1.8 million in interest expense related to the amortization of the debt discount during the nine months ended June 30, 2020. The increase also reflects a higher average outstanding debt balance, but offset by a lower weighted average interest rate for the nine months ended June 30, 2020 as compared to the nine months ended June 30, 2019.

#### ***Other expense***

Other expense was \$0.8 million for the nine months ended June 30, 2020, primarily 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. There was no other expense for the nine months ended June 30, 2019.

#### ***Benefit from Income Taxes***

The benefit from income taxes increased to a benefit of \$1.9 million for the nine months ended June 30, 2020 from a benefit of \$0.0 million for the nine months ended June 30, 2019. As described in Note 2 to our condensed consolidated financial statements, we had a reduction in the valuation allowance recorded on a deferred tax asset, which resulted in 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, partially offset by the policy change to allocate stock compensation expense to the Class B shareholders of i3 Verticals, LLC, which resulted in a \$0.6 million reduction in the benefit from income taxes in the nine months ended June 30, 2020. Our effective tax rate was 219% for the nine months ended June 30, 2020. Our effective tax rate differs from the federal statutory rate of 21% primarily due to the tax structure of the Company. The income of minority owned i3 Verticals, LLC is not taxed and the separate loss of the Company has minimal tax effect due to the allocations from i3 Verticals, LLC.

#### **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, which respectively are the third, fourth and first quarters of our fiscal 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 clients 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. We expect the COVID-19 pandemic to have an adverse impact on our results of operations relative to the prior year and the normal seasonality of our business.

#### **Liquidity and Capital Resources**

We have historically financed our operations (not including investments and acquisitions) and working capital through net cash from operating activities. As of June 30, 2020, we had \$9.1 million of cash and cash equivalents and available borrowing capacity of \$240.0 million under our Senior Secured Credit Facility, subject to the financial covenants. We usually minimize cash balances by making payments on our revolving line of credit to minimize borrowings and interest expense.

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. Our plan for capital expenditures and future acquisitions for this fiscal year are being re-evaluated as we navigate through the economic impact related to the COVID-19 pandemic. We will assess our plans for acquisition opportunities against our cash availability during the crisis to make the most strategic decisions for our business. We have the ability to pause or terminate much of our anticipated acquisition program should our financial position require it. 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.

As previously disclosed, on April 3, 2020, we announced certain proactive actions in response to the significant uncertainty around the severity and duration of the COVID-19 pandemic, which included temporarily furloughing a portion of our employees and a workforce reduction program that included the elimination of certain positions as well as a general reduction in headcount. The total number of employees impacted by the furlough and workforce reduction represented approximately 12% of our workforce.

Our liquidity profile reflects our completed offering in February 2020 of an aggregate principal amount of \$138.0 million in 1.0% Exchangeable Senior Notes due 2025, with substantially all the proceeds being used to pay down outstanding borrowings under our Senior Secured Credit Facility. During the three months ended June 30, 2020, we repurchased \$8.5 million in aggregate principal amount of the Exchangeable Notes for an aggregate purchase price of approximately \$6.8 million. We recorded a loss on retirement of debt of \$0.8 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 June 30, 2020, we were in compliance with these covenants with a consolidated interest coverage ratio, total leverage ratio and consolidated senior leverage ratio of 7.00x, 3.69x and 0.61x, 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 and in our Form 10-K for the fiscal year ended September 30, 2019 and subsequent filings 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.

### Nine Months Ended June 30, 2020 and 2019

	Nine months ended June 30,	
	2020	2019
	(in thousands)	
Net cash provided by operating activities	\$ 10,087	\$ 16,297
Net cash used in investing activities	\$ (5,744)	\$ (131,705)
Net cash provided by financing activities	\$ 3,143	\$ 117,296

#### Cash Flow from Operating Activities

Net cash provided by operating activities decreased \$6.2 million to \$10.1 million for the nine months ended June 30, 2020 from \$16.3 million for the nine months ended June 30, 2019. The decrease in net cash provided by operating activities was partially offset by an increase in net income of \$0.5 million. The decrease in net cash provided by operating activities was further offset by adjustments to net income including increases in equity-based compensation of \$3.3 million, depreciation and amortization expense of \$1.8 million, amortization of debt discount and issuance costs expense of \$1.7 million and loss on the repurchase of Exchangeable Notes of \$0.8 million. The decrease in net cash provided by operating activities was driven by a decrease in increases in non-cash contingent consideration from original estimates of \$3.2 million, an increase in the benefit from deferred taxes of \$2.8 million and a decrease in operating assets and liabilities of \$8.7 million. The decrease in operating assets and liabilities was primarily driven by a \$4.5 million increase in accounts receivable, a \$3.5 million decrease in contingent consideration paid in excess of original estimates, a \$2.3 million decrease in accrued liabilities and a \$1.5 million decrease in accounts payable, partially offset by a \$2.2 million increase in deferred revenue and a \$1.0 million decrease in other assets for the nine months ended June 30, 2020 compared to the nine months ended June 30, 2019.

#### Cash Flow from Investing Activities

Net cash used in investing activities decreased \$126.0 million to \$5.7 million for the nine months ended June 30, 2020 from \$131.7 million for the nine months ended June 30, 2019. The largest driver of cash used in investing activities for the nine months ended June 30, 2019 was cash used in acquisitions, net of cash acquired. For the nine months ended June 30, 2019, we used \$126.9 million of cash for acquisitions, net of cash acquired. The decrease in cash used in investing activities was further driven by a decrease in purchases of merchant portfolios and residual buyouts of \$1.0 million, partially offset by an increase in expenditures for property and equipment of \$1.3 million and an increase in expenditures for capitalized software of \$0.6 million.

#### Cash Flow from Financing Activities

Net cash provided by financing activities decreased \$114.2 million to \$3.1 million for the nine months ended June 30, 2020 from \$117.3 million for the nine months ended June 30, 2019. The decrease in net cash provided by financing activities was primarily the result of an increase in payments on the revolving credit facility of \$216.4 million, payments for purchases of exchangeable senior note hedges of \$28.7 million during the nine months ended June 30, 2020, a decrease in proceeds from the revolving credit facility of \$24.9 million, a decrease in proceeds from issuance of Class A common stock sold in the offering in June 2019 of \$21.7 million, an increase in payments for the repurchase of Exchangeable Notes of \$6.8 million and an increase in payments of debt issuance costs of \$5.1 million for the nine months ended June 30, 2020 compared to the nine months ended June 30, 2019. The decrease in cash provided by financing activities is partially offset by proceeds from borrowings on exchangeable notes of \$138.0 million and proceeds from the issuance of warrants of \$14.7 million during the nine months ended June 30, 2020, as well as a decrease in payments of notes payable to banks of \$35.0 million and a decrease in payments for required distributions to members for tax obligations of \$2.0 million for the three months ended June 30, 2020 from the three months ended June 30, 2019.

### **Senior Secured Credit Facility**

On October 30, 2017, we entered into a new credit facility (the "2017 Senior Secured Credit Facility"). Bank of America Corporation served as administrative agent with Bank of America Corporation, Wells Fargo & Co. and Fifth Third Bank served as joint lead arrangers and joint bookrunners. The 2017 Senior Secured Credit Facility consisted of \$40.0 million in term loans and a \$110.0 million revolving line of credit. For a summary of the 2017 Senior Secured Credit Facility, please refer to Note 5 to the accompanying condensed consolidated financial statements and to "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" of Part II, Item 7 of our Form 10-K.

On May 9, 2019, we amended and restated our existing 2017 Senior Secured Credit Facility with a new credit agreement, which we amended on February 18, 2020, in connection with our offering of Exchangeable Notes (the "Senior Secured Credit Facility"). The Senior Secured Credit Facility consists of a \$275.0 million revolving credit facility, together with an option to increase the revolving credit facility and/or obtain incremental term loans in an additional principal amount of up to \$50.0 million in the aggregate.

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 June 30, 2020), 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 June 30, 2020), in each case depending upon the consolidated total leverage ratio, as defined in the agreement. Interest is payable at the end of the selected interest period, but no less frequently than quarterly. Additionally, the Senior Secured Credit Facility requires us to pay unused commitment fees of 0.15% to 0.30% (0.30% as of June 30, 2020) on any undrawn amounts under the revolving credit facility and letter of credit fees of up to 3.25% on the maximum amount available to be drawn under each letter of credit issued under the agreement. The maturity date of the Senior Secured Credit Facility is May 9, 2024. The Senior Secured Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 to 1.00, (ii) a maximum total leverage ratio of 5.00 to 1.00, provided, that for each of the four fiscal quarters immediately following a qualified acquisition (each a "Leverage Increase Period"), the required ratio set forth above may be increased by up to 0.25, subject to certain limitations and (iii) a maximum consolidated senior secured leverage ratio of 3.25 to 1.00, provided, that for each Leverage Increase Period, the consolidated senior leverage ratio may be increased by up to 0.25, subject to certain limitations. As of June 30, 2020, we were in compliance with these covenants, and there was \$240.0 million available for borrowing under the revolving credit facility, subject to the financial covenants.

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

The provisions of the Senior Secured Credit Facility place certain restrictions and limitations upon us. These include, among others, restrictions on liens, investments, indebtedness, fundamental changes and dispositions, dividends and distributions, changes in the nature of our business, transactions with affiliates and prepayment of other indebtedness; maintenance of certain financial ratios; and certain non-financial covenants pertaining to our activities during the period covered.

As a holding company, we depend on distributions or loans from i3 Verticals, LLC to access funds earned by our operations. The covenants contained in the Senior Secured Credit Facility may restrict i3 Verticals, LLC's ability to provide funds to i3 Verticals, Inc.

### **Follow-on Offering**

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 the Company, which it 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.

### Exchangeable Notes

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

### Contractual Obligations

The following table summarizes our contractual obligations and commitments as of June 30, 2020 related to leases and borrowings:

Contractual Obligations (in thousands)	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Processing minimums <sup>(1)</sup>	\$ 9,900	\$ 3,455	\$ 5,320	\$ 1,125	\$ —
Facility leases	13,229	2,647	4,597	3,248	2,737
Loan to third party sales organization <sup>(2)</sup>	2,500	2,500	—	—	—
Senior Secured Credit Facility and related interest <sup>(3)</sup>	42,779	1,982	3,964	36,833	—
Exchangeable Notes and related interest <sup>(4)</sup>	135,489	1,295	2,590	131,604	—
Contingent consideration <sup>(5)</sup>	8,738	6,655	2,083	—	—
<b>Total</b>	<b>\$ 212,635</b>	<b>\$ 18,534</b>	<b>\$ 18,554</b>	<b>\$ 172,810</b>	<b>\$ 2,737</b>

1. We have 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 have committed to a loan to a third party sales organization in multiple increments, contingent upon the third party sales organization's achievement of certain financial metrics. The amount reflected in this table includes the maximum commitment for the loan.
3. We estimated interest payments through the maturity of our Senior Secured Credit Facility by applying the interest rate of 3.61% in effect on the outstanding balance as of June 30, 2020, plus the unused fee rate of 0.30% in effect as of June 30, 2020.
4. We calculated interest payments through the maturity of our Exchangeable Notes by applying the coupon interest rate of 1.00% on the principal balance as of June 30, 2020 of \$138.0 million.
5. 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 material 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 6 of our condensed consolidated financial statements. As a result of the Tax Receivable Agreement, we have been required to establish a liability in our condensed consolidated financial statements. That liability, which will increase upon the redemptions or exchanges of Common Units for our Class A common stock, generally represents 85% of the estimated future tax benefits, if any, relating to the increase in tax basis associated with the Common Units we received as a result of the Reorganization Transactions and other redemptions or exchanges by holders of Common Units. If this election is made, the accelerated payment will be based on the present value of 100% of the estimated future tax benefits and, as a result, the associated liability reported on our condensed consolidated financial statements may be increased. We expect that the payments required under the Tax Receivable Agreement will be substantial. The actual increase in tax basis, as well as the amount and timing of any payments under the Tax Receivable Agreement, will vary depending upon a number of factors, including the timing of redemptions or exchanges by the holders of Common Units, the price of our Class A common stock at the time of the redemption or exchange, whether such redemptions or exchanges are taxable, the amount and timing of the taxable income we generate in the future and the tax rate then applicable as well as the portion of our payments under the Tax Receivable Agreement constituting imputed interest. We intend to fund the payment of the amounts due under the Tax Receivable Agreement out of the cash savings that we actually realize in respect of the attributes to which Tax Receivable Agreement relates.

As of June 30, 2020, the total amount due under the Tax Receivable Agreement was \$25.9 million, and payments to the Continuing Equity Owners related to exchanges through June 30, 2020 will range from approximately \$0 to \$2.3 million per year and are expected to be paid over the next 25 years. The amounts recorded as of June 30, 2020, approximate the current estimate of expected tax savings and are subject to change after the filing of the Company's U.S. federal and state income tax returns. Future payments under the Tax Receivable Agreement with respect to subsequent exchanges would be in addition to these amounts.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, goodwill and intangible assets, contingent consideration, and equity-based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The impact of the COVID-19 pandemic on certain of our estimates, including goodwill and intangible assets, is uncertain at this time. If general economic conditions continue to deteriorate or remain uncertain for an extended period of time, the trading price of our common stock, which has already declined in recent weeks, could decline further. If the stock price continues to be depressed or decreases further, it may cause a triggering event for impairment testing of fair-valued assets, including goodwill and intangible assets.

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

As of June 30, 2020, there have been no significant changes to our critical accounting estimates disclosed in the Form 10-K filed with the SEC on November 22, 2019, except regarding the adoption of ASC 606 on October 1, 2019, the reduction in the valuation allowance on the deferred tax asset related to our investment in partnership and the policy change to allocate stock compensation expense to the Class B shareholders of i3 Verticals, LLC, as described in Note 2 to our condensed consolidated financial statements.

### **Recently Issued Accounting Pronouncements**

As of June 30, 2020, there have been no significant changes to our recently issued accounting pronouncements disclosed in the Form 10-K filed with the SEC on November 22, 2019, except as described in Note 2 to our condensed consolidated financial statements.

### **Off-Balance Sheet Arrangements**

As of June 30, 2020, we did not have any off-balance sheet financing arrangements.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

### ***Interest Rate Risk***

As of June 30, 2020, the Senior Secured Credit Facility consists of a \$275.0 million revolving credit facility, together with an option to increase the revolving credit facility and/or obtain incremental term loans in an additional principal amount of up to \$50.0 million in the aggregate.

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 June 30, 2020), 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 June 30, 2020), in each case depending upon the consolidated total leverage ratio, as defined in the agreement. Interest is payable at the end of the selected interest period, but no less frequently than quarterly. Additionally, the Senior Secured Credit Facility requires us to pay unused commitment fees of 0.15% to 0.30% (0.30% as of June 30, 2020) on any undrawn amounts under the revolving credit facility and letter of credit fees of up to 3.25% on the maximum amount available to be drawn under each letter of credit issued under the agreement. The maturity date of the Senior Secured Credit Facility is May 9, 2024. The Senior Secured Credit Facility requires maintenance of certain financial ratios on a quarterly basis as follows: (i) a minimum consolidated interest coverage ratio of 3.00 to 1.00, (ii) a maximum total leverage ratio of 5.00 to 1.00, provided, that for each 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 June 30, 2020, we were in compliance with these covenants, and there was \$240.0 million available for borrowing under the revolving credit facility, subject to the financial covenants.

As of June 30, 2020, we had borrowings outstanding of \$35.0 million 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 \$0.3 million 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 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

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

in this report was accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2020 that materially affected, or which are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information required with respect to this item can be found in Note 9 to the accompanying unaudited condensed consolidated financial statements contained in this report and is incorporated by reference into this Part II, Item 1.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed under the heading "Risk Factors" in our Form 10-K for the fiscal year ended September 30, 2019 filed with the SEC on November 22, 2019, except as described below.

***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.***

On March 11, 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 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 decline in the U.S. Some areas are re-imposing 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 its 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;
- continued unemployment, which has 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 and in our Form 10-K.

***The accounting method for convertible debt securities that may be settled in cash, such as the Exchangeable Notes, may have a material effect on our reported financial results.***

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 470-20, *Debt with Conversion and Other Options* (“ASC 470-20”), an entity must separately account for the liability and equity components of the convertible or exchangeable debt instruments (such as the Exchangeable Notes) that may be settled entirely or partially in cash upon exchange in a manner that reflects the issuer’s economic interest cost. An effect of ASC 470-20 on the accounting for the Exchangeable Notes is that the equity component is included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component of the Exchangeable Notes. As a result, we are required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Exchangeable Notes to their face amount over the term of the Exchangeable Notes. Accordingly, we will report lower net income (or greater net loss) in our financial results because ASC 470-20 requires interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results, the market price of the Class A common stock and the ordinary shares and the trading price of the Exchangeable Notes.

In accordance with FASB ASC 260-10, *Earnings per Share* (“ASC 260-10”), an entity that may elect to settle a contract in cash or stock should assume that the contract will be settled in stock for diluted earnings per share purposes; however, that presumption may be overcome on the basis of a stated policy (demonstrating intent and ability). We believe we have a reasonable basis for concluding that we would settle the accreted value of the debt obligation in cash, which would enable us to apply the treasury stock method to calculate the diluted effect of the conversion spread. If we are unable to use the treasury stock method in accounting for the shares deliverable upon exchange of the Exchangeable Notes, then our diluted earnings per share would be adversely affected.

***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.

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

In May and June 2020, we issued an aggregate of 10,000 and 10,000 shares, respectively, of Class A common stock in exchange for an equivalent number of shares of Class B common stock and Common Units pursuant to the terms of the i3 Verticals, LLC Limited Liability Company Agreement. These shares were issued in reliance on an exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibit Index**

<a href="#"><u>3.1</u></a>	<a href="#"><u>Amended and Restated Certificate of Incorporation of i3 Verticals, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2018) (File No. 001-38532).</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Amended and Restated Bylaws of i3 Verticals, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2018) (File No. 001-38532).</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>Indenture, dated February 18, 2020, among i3 Verticals, LLC, i3 Verticals, Inc. as guarantor and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on February 19, 2020) (File No. 001-38532).</u></a>
<a href="#"><u>4.2</u></a>	<a href="#"><u>Form of 1.00% Exchangeable Senior Notes due 2025 (included in Exhibit 4.1).</u></a>
<a href="#"><u>31.1*</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.</u></a>
<a href="#"><u>31.2*</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.</u></a>
<a href="#"><u>32.1**</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>32.2**</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

---

\* Filed herewith.

\*\* Furnished herewith.



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

I, Gregory S. Daily, certify that:

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

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

Date: August 10, 2020

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

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

Date: August 10, 2020

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



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

In connection with the Quarterly Report of i3 Verticals, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2020, 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: August 10, 2020

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

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

In connection with the Quarterly Report of i3 Verticals, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2020, 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: August 10, 2020

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