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, 2019
OR

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

For the transition period from to
Commission file number: 001-38532

i3 Verticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**82-4052852**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
40 Burton Hills Blvd., Suite 415	
Nashville, TN	**37215**
(Address of principal executive offices)	(Zip Code)

(615) 465-4487
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated Filer	☒	Smaller reporting company	☐
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section13(a) of the Exchange Act. ☐

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

As of August 13, 2019, there were 14,426,424 outstanding shares of Class A common stock, $0.0001 par value per share, and 12,921,637 outstanding shares of Class B common stock, $0.0001 par value per share.

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PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2019 (unaudited)	September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 1,509	$ 572
Accounts receivable, net	13,173	12,500
Settlement assets	439	863
Prepaid expenses and other current assets	4,940	2,630
Total current assets	20,061	16,565
Property and equipment, net	3,835	2,958
Restricted cash	1,616	665
Capitalized software, net	14,999	3,372
Goodwill	165,865	83,954
Intangible assets, net	106,468	66,023
Deferred tax asset	28,344	1,152
Other assets	2,057	453
Total assets	$ 343,245	$ 175,142
Liabilities and equity		
Liabilities		
Current liabilities		
Accounts payable	$ 7,409	$ 4,114
Current portion of long-term debt	—	5,000
Accrued expenses and other current liabilities	15,622	11,538
Settlement obligations	439	863
Deferred revenue	4,916	4,927
Total current liabilities	28,386	26,442
Long-term debt, less current portion and debt issuance costs, net	137,645	31,776
Long-term tax receivable agreement obligations	23,904	791
Other long-term liabilities	12,932	3,935
Total liabilities	202,867	62,944
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, 2019 and September 30, 2018	—	—
Class A common stock, par value $0.0001 per share, 150,000,000 shares authorized; 14,420,199 and 9,112,042 shares issued and outstanding as of June 30, 2019 and September 30, 2018, respectively	1	1
Class B common stock, par value $0.0001 per share, 40,000,000 shares authorized; 12,921,637 and 17,213,806 shares issued and outstanding as of June 30, 2019 and September 30, 2018, respectively	1	2
Additional paid-in-capital	80,344	38,562
Accumulated (deficit) earnings	(1,379)	736
Total Stockholders' equity	78,967	39,301
Non-controlling interest	61,411	72,897
Total equity	140,378	112,198
Total liabilities and stockholders' equity	$ 343,245	$ 175,142

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share amounts)

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Revenue	$ 97,483	$ 84,536	$ 267,745	$ 239,455
Operating expenses				
Interchange and network fees	63,263	55,705	173,777	158,577
Other costs of services	11,431	11,061	31,414	30,119
Selling general and administrative	17,587	10,696	44,422	29,737
Depreciation and amortization	4,425	3,000	11,875	8,876
Change in fair value of contingent consideration	(417)	1,151	1,736	3,280
Total operating expenses	96,289	81,613	263,224	230,589
Income from operations	1,194	2,923	4,521	8,866
Other expenses				
Interest expense, net	1,918	2,644	3,987	7,649
Change in fair value of warrant liability	—	242	—	8,487
Total other expenses	1,918	2,886	3,987	16,136
(Loss) income before income taxes	(724)	37	534	(7,270)
(Benefit from) provision for income taxes	(131)	692	(2)	553
Net (loss) income	(593)	(655)	536	(7,823)
Net income (loss) attributable to non-controlling interest	598	(91)	2,651	(91)
Net (loss) attributable to i3 Verticals, Inc.	$ (1,191)	$ (564)	$ (2,115)	$ (7,732)
Net loss per share attributable to Class A common stockholders[(1)]:				
Basic	$ (0.12)	$ (0.01)	$ (0.23)	$ (0.01)
Diluted	$ (0.12)	$ (0.01)	$ (0.23)	$ (0.01)
Weighted average shares of Class A common stock outstanding[(1)]:				
Basic	10,064,785	8,812,630	9,254,549	8,812,630
Diluted	10,064,785	8,812,630	9,254,549	8,812,630

1. Basic and diluted net loss per Class A common stock are presented only for the period after the Company's Reorganization Transactions. See Note 1 for a description of the Reorganization Transactions. See Note 13 for the calculation of income per common share.

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

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	Retained Earnings	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 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	—	—	—	—	—	(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

i3 Verticals, Inc.

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

(In thousands)

	Class A Units	Common Units	Class P Units	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Retained Earnings	Non-Controlling Interest	Total Equity
				Shares	Amount	Shares	Amount					
Balance at September 30, 2017	$ 34,924	$ 1,240	$ —	—	$ —	—	$ —	$ —	$ (33,018)	$ —	$ —	$ 3,146
Preferred returns on Class A Units	774	—	—	—	—	—	—	—	(774)	—	—	—
Preferred returns on Redeemable Class A Units	—	—	—	—	—	—	—	—	(168)	—	—	(168)
Issuance of Common Units	—	104	—	—	—	—	—	—	—	—	—	104
Net loss	—	—	—	—	—	—	—	—	(7,168)	—	—	(7,168)
Balance at December 31, 2017	35,698	1,344	—	—	—	—	—	—	(41,128)	—	—	(4,086)
Preferred returns on Class A Units	898	—	—	—	—	—	—	—	(898)	—	—	—
Preferred returns on Redeemable Class A Units	—	—	—	—	—	—	—	—	(209)	—	—	(209)
Net loss	—	—	—	—	—	—	—	—	(655)	—	—	(655)
Balance at March 31, 2018	36,596	1,344	—	—	—	—	—	—	(42,890)	—	—	(4,950)
Preferred returns on Class A Units	850	—	—	—	—	—	—	—	(850)	—	—	—
Preferred returns on Redeemable Class A Units	—	—	—	—	—	—	—	—	(175)	—	—	(175)
Issuance of Common Units	—	—	—	—	—	—	—	—	—	—	—	—
Net income prior to the Reorganization Transactions	—	—	—	—	—	—	—	—	189	—	—	189
Exercise of Junior Subordinated Notes Warrants and Mezzanine Warrants	—	12,218	—	—	—	—	—	(116)	—	—	—	12,102
Equity based compensation recognized prior to the Reorganization Transactions	—	—	—	—	—	—	—	38	—	—	—	38
Effect of the Reorganization Transactions	(37,446)	(13,562)	—	824,861	—	17,597,223	2	804	43,726	—	15,493	9,017
Issuance of Class A common stock in conversion of Junior Subordinated Notes	—	—	—	619,542	—	—	—	8,054	—	—	—	8,054
Sale of Class A common stock in initial public offering, net	—	—	—	7,647,500	1	—	—	92,446	—	—	—	92,447
Purchase of common units in i3 Verticals, LLC from selling shareholder	—	—	—	—	—	(383,417)	—	—	—	—	(4,635)	(4,635)
Capitalization of initial public offering costs	—	—	—	—	—	—	—	(3,792)	—	—	—	(3,792)
Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	—	—	—	144	—	—	—	144
Non-controlling interests related to purchase of Common Units in i3 Verticals, LLC	—	—	—	—	—	—	—	(60,102)	—	—	60,102	—
Equity based compensation recognized subsequent to the Reorganization Transactions	—	—	—	—	—	—	—	38	—	—	—	38
Net loss subsequent to the Reorganization Transactions	—	—	—	—	—	—	—	—	—	(98)	(91)	(189)
Balance at June 30, 2018	$ —	$ —	$ —	9,091,903	$ 1	17,213,806	$ 2	$ 37,514	$ —	$ (98)	$ 70,869	$ 108,288

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Nine months ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	$ 536	$ (7,823)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,875	8,876
Equity-based compensation	4,122	817
Provision for doubtful accounts	43	33
Amortization of deferred financing costs	619	835
Debt extinguishment costs	152	—
Loss on disposal of assets	8	5
(Benefit from) deferred income taxes	(36)	(468)
Non-cash change in fair value of warrant liability	—	8,487
Increase in non-cash contingent consideration expense from original estimate	1,736	3,280
Changes in operating assets:		
Accounts receivable	3,758	2,205
Prepaid expenses and other current assets	(1,779)	1,433
Other assets	(2,369)	(2,994)
Changes in operating liabilities:		
Accounts payable	2,489	724
Accrued expenses and other current liabilities	(616)	2,936
Deferred revenue	(2,633)	(3,033)
Other long-term liabilities	(48)	160
Contingent consideration paid in excess of original estimates	(1,560)	(814)
Net cash provided by operating activities	16,297	14,659
Cash flows from investing activities:		
Expenditures for property and equipment	(585)	(1,309)
Expenditures for capitalized software	(1,478)	(760)
Purchases of merchant portfolios and residual buyouts	(2,708)	(1,207)
Acquisitions of businesses, net of cash acquired	(126,862)	(26,862)
Acquisition of other intangibles	(72)	(818)
Net cash used in investing activities	(131,705)	(30,956)

See Notes to the Interim Condensed Consolidated Financial Statements

i3 Verticals, Inc.

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

(In thousands)

	Nine months ended June 30,	
	2019	2018
Cash flows from financing activities:		
Proceeds from revolving credit facility	149,919	19,250
Payments of revolving credit facility	(14,862)	(90,850)
Proceeds from notes payable to banks	—	24,671
Payments of notes payable to banks	(35,000)	(3,750)
Payment of notes payable to mezzanine lenders	—	(10,486)
Payment of unsecured notes payable to related and unrelated creditors	—	(5,489)
Payment of debt issuance costs	(152)	(266)
Proceeds from the exercise of Mezzanine Warrants and Junior Subordinated Notes Warrants	—	270
Proceeds from issuance of Class A common stock sold in public offering, net of underwriting discounts and offering costs	21,660	—
Proceeds from issuance of Class A common stock sold in initial public offering, net of underwriting discounts and offering costs	—	89,729
Payments for Common Units in i3 Verticals, LLC from selling shareholder	—	(4,635)
Cash paid for contingent consideration	(2,634)	(977)
Required distributions to members for tax obligations	(2,025)	—
Proceeds from stock option exercises	390	—
Net cash provided by financing activities	117,296	17,467
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,888	1,170
Cash, cash equivalents, and restricted cash at beginning of period	1,237	1,968
Cash, cash equivalents, and restricted cash at end of period	$ 3,125	$ 3,138
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,980	$ 8,961
Cash paid for income taxes	$ 24,611	$ 137

See Notes to the Interim Condensed Consolidated Financial Statements

1. ORGANIZATION AND OPERATIONS

i3 Verticals, Inc. (the "Company") was formed as a Delaware corporation on January 17, 2018. The Company was formed for the purpose of completing an initial public offering ("IPO") of its Class A common stock and other related transactions in order to carry on the business of i3 Verticals, LLC and its subsidiaries. i3 Verticals, LLC was founded in 2012 and delivers seamlessly integrated 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 (the "Junior Subordinated Notes") by certain related and unrelated creditors of i3 Verticals, LLC.

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.

- As of June 30, 2019, i3 Verticals, Inc. owned 52.7% of the economic interest in i3 Verticals, LLC.
- As of June 30, 2019, the Continuing Equity Owners owned Common Units in i3 Verticals, LLC representing approximately 47.3% of the economic interest in i3 Verticals, LLC, shares of Class A common stock in the Company representing approximately 0.8% of the economic interest and voting power in the Company, and shares of Class B common stock in i3 Verticals, Inc., representing approximately 47.3% of the voting power in the Company.
- 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.
- Combining the Class A common stock and Class B common stock, the Continuing Equity Owners hold approximately 48.1% of the economic interest and voting power in i3 Verticals, Inc.

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.

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, 2019 and for the three and nine months ended June 30, 2019 and 2018. The results of operations for the three and nine months ended June 30, 2019 and 2018 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, 2018 and 2017, included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2018.

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

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. The reconciliation between the condensed consolidated balance sheet and the condensed consolidated statement of cash flows is as follows:

	June 30, 2019	June 30, 2018
Cash and cash equivalents on condensed consolidated balance sheet	$ 1,509	$ 2,473
Restricted cash	1,616	665
Total cash, cash equivalents and restricted cash on condensed consolidated statement of cash flows	$ 3,125	$ 3,138

Inventories

Inventories consist of point-of-sale equipment to be sold to customers and are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Inventories were $1,803 and $930 at June 30, 2019 and September 30, 2018, respectively, and are included within prepaid expenses and other current assets on the accompanying condensed consolidated balance sheets.

Acquisitions

Business acquisitions have been recorded using the acquisition method of accounting in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, *Business Combinations* (“ASC 805”), and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value as of the date of acquisition. When relevant, the fair value of material contingent consideration included in an acquisition is calculated using a Monte Carlo simulation. The fair value of merchant relationships and non-compete assets acquired is identified using the Income Approach. 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. Acquisitions completed during the nine months ended June 30, 2019 contributed $11,679 and $(2,490) to revenue and net loss, respectively, to the results in the Company's condensed consolidated statements of operations for the nine months then ended.

Revenue Recognition and Deferred Revenue

Revenue is recognized when it is realized or realizable and earned, in accordance with ASC 605, *Revenue Recognition* (“ASC 605”). Recognition occurs when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been performed; (3) the seller’s price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. The Company accrues for rights of refund, processing errors or penalties, or other related allowances based on historical experience.

The majority of the Company's gross revenue for the nine months ended June 30, 2019 and 2018 is derived from volume-based payment processing fees (“discount fees”) and other related fixed transaction or service fees. The remainder is comprised of sales of software licensing subscriptions, ongoing support, and other POS-related solutions the Company provides to its clients directly and through its processing bank relationships.

Discount fees represent a percentage of the dollar amount of each credit or debit transaction processed. Discount fees are recognized at the time the merchants’ transactions are processed. The Company follows the requirements of ASC 605-45 *Revenue Recognition—Principal Agent Considerations*, in determining its merchant processing services revenue reporting. Generally, when 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 on a gross basis equal to the full amount of the discount charged to the merchant. This amount includes interchange fees paid to card issuing banks and assessments paid to payment card networks pursuant to which such parties receive payments based primarily on processing volume for particular groups of merchants. Revenues generated from merchant portfolios when 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 other fees.

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. Revenues derived from service fees are recognized at the time the services are performed and there are no further performance obligations. Revenues from the sale of equipment is recognized upon transfer of ownership and delivery to the customer, after which there are no further performance obligations.

Revenues from sales of the Company’s software licensing subscriptions are recognized when they are realized or realizable and earned. Contractual arrangements are evaluated for indications that multiple element arrangements may exist, including instances in which more-than-incidental software deliverables are included. Arrangements may contain multiple elements, such as hardware, software products, maintenance, and professional installation and training services. Revenues are allocated to each element based on the selling price hierarchy. The selling price for a deliverable is based on vendor specific objective evidence of selling price, if available, third party evidence, or estimated selling price. The Company establishes estimated selling price, based on the judgment of the Company's management, considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. In arrangements with multiple elements, the Company determines allocation of the transaction price at inception of the arrangement based on the relative selling price of each unit of accounting.

In multiple element arrangements in which more-than-incidental software deliverables are included, the Company applies the residual method to determine the amount of software license revenues to be recognized. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration recognized upon delivery of the software license or services arrangement. The Company allocates the fair value of each element of a software-related multiple-element arrangement based upon its fair value as determined by vendor specific objective evidence of selling price, with any remaining amount allocated to the software license. If evidence of the fair value cannot be established for the undelivered elements of a software arrangement, then the entire amount of revenue under the arrangement is deferred until these elements have been delivered or objective evidence can be established. These amounts, if any, are included in deferred revenue in the condensed consolidated balance sheets. Revenues related to software licensing subscriptions, maintenance or other support services with terms greater than one month are recognized ratably over the term of the agreement.

Revenues from sales of the Company's combined hardware and software element are recognized when they are realized or realizable and earned 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 training, installation, and repair services are recognized as revenue as these services are performed.

Deferred revenue represents amounts billed to customers by the Company for services contracts. 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.

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 associations, which are a percentage of the processing volume the Company generates from Visa and Mastercard, as well as fees charged by card-issuing banks. Other costs of services include 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. Interchange and other costs of services are recognized at the time the merchant's transactions are processed.

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, warrant valuation, revenue recognition for multiple element arrangements, loss reserves, assumptions used in the calculation of equity-based compensation and in the calculation of income taxes, and certain tax assets and liabilities as well as the related valuation allowances. Actual results could differ from those estimates.

During the first quarter of fiscal year 2019, management determined it was appropriate to change the amortization rate for certain of our merchant contract intangible assets to reflect the expected distribution of future cash flows. This change was applied prospectively beginning on October 1, 2018.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (Subtopic 350-40). The amendments in ASU No. 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. As a public business entity, the Company is an emerging growth company and has elected to use the extended transition period provided for such companies. As a result, the Company is not required to adopt this ASU until October 1, 2021. Early adoption is permitted, including adoption in an interim period. The Company elected to early adopt this standard using the prospective method as of October 1, 2018. There was no impact on the Company’s condensed consolidated financial statements for the adoption of ASU No. 2018-15.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). The amendments in ASU No. 2018-13 provide clarification and modify the disclosure requirements on fair value measurement in Topic 820, *Fair Value Measurement*. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. As a public business entity, the Company is an emerging growth company and has elected to use the extended transition period provided for such companies. As a result, the Company will not be required to adopt this ASU 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 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting* (Topic 718). The amendments in ASU No. 2018-07 expand the scope of Topic 718, *Compensation—Stock Compensation* to include share-based payments issued to nonemployees for goods or services. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. As a public business entity, the Company is an emerging growth company and has elected to use the extended transition period provided for such companies. As a result, the Company will not be required to adopt this ASU until October 1, 2020. Early adoption is permitted, but no earlier than a company’s adoption date of ASU No. 2014-09. 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). The amendments in ASU No. 2016-13 require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The amendments in this ASU 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, 2018, including interim periods within those fiscal years. As a public business entity, the Company is an emerging growth company and has elected to use the extended transition period provided for such companies. As a result, the Company will not be required to adopt this ASU 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 February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (“ASU 2016-02”). This ASU 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 effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. As a public business entity, the Company is an emerging growth company and has elected to use the extended transition period provided for such companies. As a result, the Company will not be required to adopt this ASU until October 1, 2020. 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 narrows 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 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. The Company is currently evaluating the impact of the adoption of these principles on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue From Contracts With Customers (Topic 606) ("ASU 2014-09"). The ASU supersedes the revenue recognition requirements in ASC 605. The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard, as amended, is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. As an emerging growth company, the Company will not be required to adopt this ASU until October 1, 2019. The amendment allows companies to use either a full retrospective or a modified retrospective approach to adopt this ASU. 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. Since the Company has not yet adopted ASU 2014-09, the effective date and transition requirements of the related ASUs will be the same as the effective date and transition requirements in ASU 2014-09.

The Company has formed a project team, is developing a plan for adoption and is determining the impact on its revenue recognition policies, procedures and control framework and the resulting impact on its consolidated financial position, results of operations and cash flows. The Company has reviewed revenue sources and evaluated revenue populations by type to determine the appropriate distribution into portfolios that will result in materially consistent conclusions as if each revenue type was evaluated on a contract-by-contract basis under the new standard. The analysis of these portfolios is ongoing. This ASU could have a material impact on the amounts presented in certain categories on our consolidated statements of operations, but we do not expect it to have a material effect on our consolidated financial position, results of operations and cash flows. This analysis is subject to change as the Company continues to refine its assessment of the standard. The Company anticipates adopting this ASU on October 1, 2019 using the modified retrospective approach.

3. ACQUISITIONS

On January 14, 2019, the Company made an investment of $1,000 in the equity of a hospitality software and payments company. The acquired asset is accounted for as a cost method investment.

During the nine months ended June 30, 2019, the Company also acquired the following intangible assets and businesses:

Residual Buyouts

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

During the nine months ended June 30, 2019, the Company purchased $2,708 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 seven years.

Business Combinations

During the nine months ended June 30, 2019, the Company completed the acquisitions of unrelated businesses, including Pace Payment Systems, Inc.

Purchase of Pace Payment Systems, Inc.

On May 31, 2019, i3-SDCR 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-SDCR. The Company acquired Pace to expand its software offerings, primarily in the public sector and education verticals. The total purchase consideration was $55,969, including $52,408 in cash consideration, funded by proceeds from the Company's revolving line of credit, $3,336 of contingent consideration and $225 of restricted shares of Class A common stock in i3 Verticals. Certain of the purchase price allocations assigned for this acquisition are preliminary.

The goodwill associated with the acquisition is not deductible for tax purposes. The acquired merchant relationships intangible asset has an estimated amortization period of 15 years. The non-compete agreement and trade name have estimated amortization periods of 3 and 5 years, respectively. The weighted-average estimated amortization period of all intangibles acquired is 15 years. The acquired capitalized software has an estimated amortization period of 7 years. The acquisition also included a deferred tax asset related to net operating losses, which we have fully valued as of June 30, 2019.

Acquisition-related costs for Pace amounted to approximately $292 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 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 $85,661, including $78,682 in revolving line of credit proceeds and $6,979 of contingent consideration. Certain of the purchase price allocations assigned for these acquisitions are preliminary.

For all except one of these business acquired, the goodwill associated with the acquisitions is deductible for tax purposes, and goodwill associated with the acquisition of one of the businesses is not deductible for tax purposes. The acquired merchant relationships intangible assets have estimated amortization periods of between thirteen and nineteen 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.

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

Acquisition-related costs for these businesses amounted to approximately $863 and were expensed as incurred.

Certain provisions in the purchase agreements provide for additional consideration of up to $24,100, 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 May 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.

Summary of Business Combinations

The preliminary fair values assigned to certain assets and liabilities assumed, as of the acquisition dates, during the nine months ended June 30, 2019 were as follows:

	Pace	Other	Total
Cash and cash equivalents	$ 108	$ 4,004	$ 4,112
Accounts receivable	545	3,867	4,412
Settlement assets	—	20	20
Inventories	45	26	71
Prepaid expenses and other current assets	53	408	461
Property and equipment	527	592	1,119
Capitalized software	3,400	8,740	12,140
Acquired merchant relationships	13,400	31,380	44,780
Non-compete agreements	60	150	210
Trade name	500	1,240	1,740
Goodwill	42,705	39,175	81,880
Other assets	4	2	6
Total assets acquired	61,347	89,604	150,951
Accounts payable	722	84	806
Accrued expenses and other current liabilities	95	1,241	1,336
Settlement obligations	—	20	20
Deferred revenue, current	24	2,598	2,622
Other long-term liabilities	4,537	—	4,537
Net assets acquired	$ 55,969	$ 85,661	$ 141,630

Pro Forma Results of Operations for Business Combinations

The following unaudited supplemental pro forma results of operations have been prepared as though each of the businesses that were acquired during the nine month period ended June 30, 2019 had occurred on October 1, 2017. Pro forma adjustments were made to reflect the impact of depreciation and amortization, changes to executive compensation and the revised debt load, all in accordance with ASC 805. This supplemental pro forma information does not purport to be indicative of the results of operations that would have been attained had the acquisitions been made on these dates, or of results of operations that may occur in the future.

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

	Nine months ended June 30,	
	2019	2018
Revenue	$ 299,832	$ 284,443
Net income (loss)	$ (4,772)	$ (16,113)

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, 2018 (net of accumulated impairment losses of $11,458, $0 and $0, respectively)	$ 69,666	$ 14,288	$ —	$ 83,954
Goodwill attributable to acquisition activity during the nine months ended June 30, 2019[(1)]	44,989	36,922	—	81,911
Balance at June 30, 2019	$ 114,655	$ 51,210	$ —	$ 165,865

1. Includes $31 of measurement period adjustments related to acquisitions in the previous fiscal year.

Intangible assets, net consisted of the following as of June 30, 2019:

	Cost	Accumulated Amortization	Carrying Value	Amortization Life and Method
Finite-lived intangible assets:				
Merchant relationships	$ 139,571	$ (40,987)	$ 98,584	12 to 19 years – accelerated or straight-line
Non-compete agreements	1,770	(515)	1,255	2 to 5 years – straight-line
Website development costs	77	(15)	62	3 years – straight-line
Trade names	3,992	(1,087)	2,905	3 to 7 years – straight-line
Residual buyouts	4,701	(1,753)	2,948	2 to 8 years – straight-line
Referral and exclusivity agreements	900	(221)	679	5 to 10 years – straight-line
Total finite-lived intangible assets	151,011	(44,578)	106,433	
Indefinite-lived intangible assets:				
Trademarks	35	—	35	
Total identifiable intangible assets	$ 151,046	$ (44,578)	$ 106,468	

Amortization expense for intangible assets amounted to $3,233 and $9,054 during the three and nine months ended June 30, 2019, respectively, and $2,376 and $7,007 during the three and nine months ended June 30, 2018, respectively.

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

Based on net carrying amounts at June 30, 2019, the Company's estimate of future amortization expense for intangible assets are presented in the table below for fiscal years ending September 30:

2019 (three months remaining)	$ 3,299
2020	11,734
2021	10,181
2022	9,042
2023	8,090
Thereafter	64,087
	$ 106,433

5. LONG-TERM DEBT, NET

A summary of long-term debt, net as of June 30, 2019 and September 30, 2018 is as follows:

	Maturity	June 30, 2019	September 30, 2018
Term loans to bank under the 2017 Senior Secured Credit Facility	October 30, 2022	—	35,000
Revolving lines of credit to banks under the 2017 Senior Secured Credit Facility	October 30, 2022	—	3,250
Revolving lines of credit to banks under the 2019 Senior Secured Credit Facility	May 9, 2024	139,577	—
Debt issuance costs, net		(1,932)	(1,474)
Total long-term debt, net of issuance costs		137,645	36,776
Less current portion of long-term debt		—	(5,000)
Long-term debt, net of current portion		$ 137,645	$ 31,776

2019 Senior Secured Credit Facility

On May 9, 2019, the Company replaced its existing 2017 Senior Secured Credit Facility (defined below) with a new credit agreement (the “2019 Senior Secured Credit Facility”). The Company concluded that the replacement of the 2017 Senior Secured Credit Facility should be accounted for as a debt modification based on the guidance in ASC 470-50. In connection with the replacement of the 2017 Senior Secured Credit Facility, the Company recorded a debt extinguishment charge of $152 for the write-off of deferred financing costs, which was recorded in interest expense in the condensed consolidated statements of operations. The 2019 Senior Secured Credit Facility consists of a $300,000 revolving line of credit, together with an option to increase the revolving line of credit and/or obtain incremental term loans in an additional principal amount of up to $50,000 in the aggregate (subject to the receipt of additional commitments for any such incremental loan amounts). The 2019 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% (2.50% as of June 30, 2019), 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% (0.50% as of June 30, 2019), 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 2019 Senior Secured Credit Facility requires the Company to pay unused commitment fees of 0.15% to 0.30% (0.20% as of June 30, 2019) on any undrawn amounts under the revolving line of credit 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 2019 Senior Secured Credit Facility is May 9, 2024. As of June 30, 2019, there was $160,423 available for borrowing under the revolving line of credit.

The 2019 Senior Secured Credit Facility is secured by substantially all assets of the Company. The lenders under the 2019 Senior Secured Credit Facility hold senior rights to collateral and principal repayment over all other creditors.

The provisions of the 2019 Senior Secured Credit Facility place certain restrictions and limitations upon the Company. These include, among others, restrictions on liens, investments, indebtedness, fundamental changes and dispositions; maintenance of certain financial ratios; and certain non-financial covenants pertaining to the activities of the Company during the period covered. The Company was in compliance with such covenants as of June 30, 2019. In addition, the 2019 Senior Secured Credit Facility restricts the Company's ability to make dividends or other distributions to the holders of the Company's equity. The Company is permitted to (i) make cash distributions to the holders of the Company's equity in order to pay taxes incurred by owners of equity in i3 Verticals, LLC, by reason of such ownership, (ii) move intercompany cash between subsidiaries that are joined to the 2019 Senior Secured Credit Facility, (iii) repurchase equity from employees, directors, officers or consultants in an aggregate amount not to exceed $3,000 per year, (iv) make certain payments in connection with the Tax Receivable Agreement, and (v) make other dividends or distributions in an aggregate amount not to exceed 5% of the net cash proceeds received from any additional common equity issuance. The Company is also permitted to make non-cash dividends in the form of additional equity issuances. Each subsidiary may make ratable distributions to persons that own equity interests in such subsidiary. All other forms of dividends or distributions are prohibited under the 2019 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 are due.

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

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

Mezzanine Warrants

During 2013, the Company issued notes payable in the aggregate principal amount of $10,500 (the “Mezzanine Notes”) to three creditors. In June 2018, all of the outstanding aggregate principal balance and accrued interest on the Mezzanine Notes was repaid with proceeds from the Company’s IPO.

In connection with the issuance of the Mezzanine Notes, the Company granted warrants (the “Mezzanine Warrants”) to purchase 1,423,688 common units in i3 Verticals, LLC. The Mezzanine Warrants were determined to have no material value as of the grant date. On June 25, 2018, in conjunction with the Reorganization Transactions described in Note 1, all existing Mezzanine Warrants were exercised for common units in i3 Verticals, LLC. The intrinsic value of the Mezzanine Warrants at that date was $9,241. The change in the fair market value of the warrants for the three and nine months ended June 30, 2018 is reflected within the condensed consolidated statement of operations.

Debt issuance costs

During the three and nine months ended June 30, 2019, the Company incurred debt issuance costs totaling $1,229, in connection with the issuance of long-term debt. During the three and nine months ended June 30, 2018, the Company incurred debt issuance costs totaling $5 and $1,171, respectively, in connection with the issuance of long-term debt. The debt issuance costs are being amortized over the related term of the debt using the straight-line method and are presented net against long-term debt in the condensed consolidated balance sheets. As part of the April 2016 amendment to the Company’s previous senior credit facility (the “2016 Senior Secured Credit Facility”), the Company expensed a nominal amount of unamortized debt issuance costs related to the exit of a participating bank from the 2016 Senior Secured Credit Facility. The amortization of deferred debt issuance costs is included in interest expense and amounted to approximately $154 and $619 during the three and nine months ended June 30, 2019, respectively, and $370 and $835 during the three and nine months ended June 30, 2018, 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 $131 and $2 for the three and nine months ended June 30, 2019, respectively, and an expense of $692 and $553 for the three and nine months ended June 30, 2018, 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, 2019, the Company acquired an aggregate of 4,292,169 common units of i3 Verticals, LLC in connection with the redemption of common units, which resulted in an increase in the tax basis of our investment in i3 Verticals, LLC subject to the provisions of the Tax Receivable Agreement. As a result of these exchanges, during the nine months ended June 30, 2019, the Company recognized an increase to its net deferred tax assets in the amount of $27,192, and corresponding Tax Receivable Agreement liabilities of $23,113, representing 85% of the tax benefits due to the Continuing Equity Owners. The results of these transactions brought the deferred tax asset and corresponding Tax Receivable Agreement liability balances to $28,151 and $23,929, respectively, as of June 30, 2019.

Payments to the Continuing Equity Owners related to exchanges through June 30, 2019 will range from $0 to $2,181 per year and are expected to be paid over the next 24 years. The amounts recorded as of June 30, 2019, 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, 2019 and 2018, because of the relatively short maturity dates on these instruments. The carrying amount of debt approximates fair value as of June 30, 2019 and 2018, because interest rates on these instruments approximate market interest rates.

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

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

	Accrued Contingent Consideration
Balance at September 30, 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

	Mezzanine Warrants	Accrued Contingent Consideration
Balance at September 30, 2017	$ 767	$ 3,340
Change in the fair value of warrant liabilities, included in Other expenses	8,487	—
Contingent consideration accrued at time of business combination	—	2,084
Change in fair value of contingent consideration included in Operating expenses	—	3,280
Contingent consideration paid	—	(1,791)
Balance at June 30, 2018	$ —	$ 6,913

Approximately $7,162 and $3,813 of contingent consideration was recorded in accrued expenses and other current liabilities as of June 30, 2019 and September 30, 2018, respectively. Approximately $6,694 and $2,186 of contingent consideration was recorded in other long-term liabilities as of June 30, 2019 and September 30, 2018, respectively.

8. EQUITY-BASED COMPENSATION

A summary of equity-based compensation expense recognized during the three and nine months ended June 30, 2019 and 2018 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
TRA non-participation compensatory shares	$ —	$ 741	$ —	$ 741
Stock options	1,808	76	4,122	76
Equity-based compensation expense	$ 1,808	$ 817	$ 4,122	$ 817

Amounts are included in general and administrative expense on the condensed consolidated statements of operations. Income tax benefits of $30 were recognized related to equity-based compensation during the three and nine months ended June 30, 2019 and 2018.

Stock Options

In May 2018, the Company adopted the 2018 Equity Incentive Plan (the “2018 Plan”) under which the Company may grant up to 3,500,000 stock options and other equity-based awards to employees, directors and officers. The number of shares of Class A common stock available for issuance under the 2018 Plan includes an annual increase on the first day of each year, beginning with the 2019 calendar year, equal to 4.0% of the outstanding shares of all classes of the Company's common stock as of the last day of the immediately preceding calendar year, unless the Company's board of directors determines prior to the last trading day of December of the immediately preceding calendar year that the increase shall be less than 4%. As of June 30, 2019, there are 4,552,873 options available to grant under the 2018 Plan.

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

In connection with the IPO, the Company granted 2,045,000 stock options to its directors and certain employees. The stock options were granted with an exercise price of $13.00 per share and vest ratably over a three-year period.

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

	June 30, 2019	September 30, 2018
Expected volatility[1]	27.0 %	26.3 %
Expected dividend yield[2]	— %	— %
Expected term[3]	6 years	6 years
Risk-free interest rate[4]	2.5 %	2.8 %

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.
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, 2019 is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period	2,138,500	$ 13.13
Granted	2,297,916	22.52
Exercised	(29,967)	13.00
Forfeited	(81,916)	17.62
Outstanding at end of period	4,324,533	$ 18.04

The weighted-average grant date fair value of stock options granted during the nine months ended June 30, 2019 was $7.15. As of June 30, 2019, there were 4,324,533 stock options outstanding, of which 638,761 were exercisable. As of June 30, 2019, total unrecognized compensation expense related to unvested stock options, including an estimate for pre-vesting forfeitures, was $19,847, which is expected to be recognized over a weighted-average period of 2.5 years.

TRA Non-Participation Compensatory Shares

On June 25, 2018, the Company entered into a Tax Receivable Agreement with i3 Verticals, LLC and each of the Continuing Equity Owners as described in Note 6. The Former Equity Owners did not participate in the Tax Receivable Agreement. Therefore, as part of the Reorganization Transactions, the Class B common units held by the Former Equity Owners were converted into Class A common stock based on a conversion ratio that provided an equitable adjustment to reflect the full value of the Class B common units. For employees who are Former Equity Owners, this arrangement was a modification under ASC 718. We recognized stock-based compensation expense of $741 as part of the Reorganization Transactions as a result of this conversion for the three and nine months ended June 30, 2018.

(in thousands, except warrant, 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 $615 and $1,640 during the three and nine months ended June 30, 2019, respectively, and $419 and $1,105 three and nine months ended June 30, 2018, respectively.

A summary of approximate future minimum payments under these leases as of June 30, 2019 is as follows:

Years ending September 30:		
2019 (three months remaining)	$	652
2020		2,344
2021		1,817
2022		1,579
2023		1,482
Thereafter		1,405
Total	$	9,279

Minimum Processing Commitments

The Company has non-exclusive 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, 2019, such minimum fee commitments were as follows:

Years ending September 30:		
2019 (three months remaining)	$	634
2020		2,541
2021		1,457
2022		2,046
2023		2,646
Thereafter		243
Total	$	9,567

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 when there is no accrued liability, the Company discloses the estimate of the amount of possible loss or range of loss. However, the Company in some instances may be unable to estimate an amount of possible loss or range of loss based on the significant uncertainties involved in, or the preliminary nature of, the matter, and in these instances the Company will disclose the nature of the contingency and describe why the Company is unable to determine an estimate of possible loss or range of loss.

In addition, the Company is involved in ordinary course legal proceedings, which include all claims, lawsuits, investigations and proceedings, including unasserted claims, which are probable of being asserted, arising in the ordinary course of business. 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 that such matters will not have a material impact on the Company's consolidated financial position, 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

Prior to the Company's IPO and Reorganization Transactions, portions of the Junior Subordinated Notes held by related creditors were outstanding. Interest expense to related parties for the Company's Junior Subordinated Notes amounted to $145 and $457 during the three and nine months ended June 30, 2018, respectively.

Prior to the Company's IPO and Reorganization Transactions, the Mezzanine Notes held by related creditors were outstanding. Interest expense to related parties for the Company's Mezzanine Notes amounted to $315 and $952 during the three and nine months ended June 30, 2018, respectively.

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 "Axia Tech Agreement") with Axia Technologies, LLC ("Axia Tech"), an entity controlled by the previous owner of Axia, LLC. Under the Axia Tech Agreement, the Company agreed to provide processing services for certain merchants as designated by Axia Tech from time to time. In accordance with ASC 605-45, revenue from the processing services is recognized net of interchange, residual expense and other fees. The Company earned net revenues related to the Axia Tech Agreement of $21 and $59 during the three and nine months ended June 30, 2019, respectively, and $13 and $37 during the three and nine months ended June 30, 2018, 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 Axia Tech.

In connection with the Company’s IPO, the Company and i3 Verticals, LLC entered into a Tax Receivable Agreement with the Continuing Equity Owners that provides for the payment by the Company to the Continuing Equity Owners of 85% of the amount of certain tax benefits, if any, that it actually realizes, or in some circumstances, is deemed to realize in its tax reporting, as a result of (i) future redemptions funded by the Company or exchanges, or deemed exchanges in certain circumstances, of Common Units of i3 Verticals, LLC for Class A common stock of i3 Verticals, Inc. or cash, and (ii) certain additional tax benefits attributable to payments made under the Tax Receivable Agreement. See Note 6 for further information. As of June 30, 2019, the total amount due under the Tax Receivable Agreement was $23,929.

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 (“PayFac”) 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.

(in thousands, except warrant, 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, 2019 and 2018.

	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
Operating expenses				
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[1]	$ 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.

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

	For the Nine Months Ended June 30, 2019			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	$ 241,841	$ 25,904	$ —	$ 267,745
Operating expenses				
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(1)	$ 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.

	As of and for the Three Months Ended June 30, 2018			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	$ 79,766	$ 4,770	$ —	$ 84,536
Operating expenses				
Interchange and network fees	54,673	1,032	—	55,705
Other costs of services	10,693	368	—	11,061
Selling general and administrative	6,126	1,908	2,662	10,696
Depreciation and amortization	2,424	517	59	3,000
Change in fair value of contingent consideration	88	1,063	—	1,151
Income (loss) from operations	$ 5,762	$ (118)	$ (2,721)	$ 2,923
Processing margin(1)	$ 18,130	$ 3,489	$ —	$ 21,619
Total assets	$ 142,866	$ 18,941	$ 4,873	$ 166,680
Goodwill	$ 69,541	$ 10,625	$ —	$ 80,166

1. Processing margin is equal to revenue less interchange and network fees, less other costs of services. $3,730, $119 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.

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

	For the Nine Months Ended June 30, 2018			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	$ 224,671	$ 14,788	$ (4)	$ 239,455
Operating expenses				
Interchange and network fees	155,012	3,565	—	158,577
Other costs (benefits) of services	28,949	1,171	(1)	30,119
Selling general and administrative	17,127	5,546	7,064	29,737
Depreciation and amortization	7,140	1,615	121	8,876
Change in fair value of contingent consideration	1,535	1,745	—	3,280
Income (loss) from operations	$ 14,908	$ 1,146	$ (7,188)	$ 8,866
Processing margin[1]	$ 50,923	$ 10,486	$ (3)	$ 61,406
Total assets	$ 142,866	$ 18,941	$ 4,873	$ 166,680
Goodwill	$ 69,541	$ 10,625	$ —	$ 80,166

1. Processing margin is equal to revenue less interchange and network fees, less other costs of services. $10,213, $434 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.

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, 2019, i3 Verticals, Inc. owned 14,420,199 of i3 Verticals, LLC's Common Units, representing a 52.7% 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.

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

Prior to the IPO, the i3 Verticals, LLC membership structure included Class A units, common units and Class P units. The Company analyzed the calculation of earnings per unit for periods prior to the IPO using the two-class method and determined that it resulted in values that would not be meaningful to the users of these condensed consolidated financial statements. Therefore, earnings per share information for the three and nine months ended June 30, 2018 represents only the period from June 25 through June 30, 2018.

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, 2019 and 2018:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Basic and diluted[(2)] net loss per share:				
Numerator				
Net (loss) income	$ (593)	$ (138)	$ 536	$ (138)
Less: Net income (loss) attributable to non-controlling interest	598	(91)	2,651	(91)
Net loss attributable to Class A common stockholders	$ (1,191)	$ (47)	$ (2,115)	$ (47)
Denominator				
Weighted average shares of Class A common stock outstanding[(1)]	10,064,785	8,812,630	9,254,549	8,812,630
Basic and diluted net loss per share	$ (0.12)	$ (0.01)	$ (0.23)	$ (0.01)

1. Excludes 285,433 restricted Class A common stock units.
2. For the three and nine months ended June 30, 2019, the following securities were excluded from the weighted average effect of dilutive securities in the computation of diluted earnings per share of Class A common stock:
   a. 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, and 17,213,806 shares of weighted average Class B common stock for the three and nine months ended June 30, 2018 along with the reallocation of net income assuming conversion of these shares, were excluded because the effect would have been anti-dilutive,
   b. 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
   c. 1,188,987 and 974,402 shares for the three and nine months ended June 30, 2019, respectively, and 377,537 shares for the three and nine months ended June 30, 2018 resulting from estimated stock option exercises as calculated by the treasury stock method, and 285,433 restricted Class A common units for the three and nine months ended June 30, 2019 and 279,273 restricted Class A common units for the three and nine months ended June 30, 2018 were excluded because the effect of including them would have been anti-dilutive.

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

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

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, 2019 and 2018:

	Nine months ended June 30,	
	2019	2018
Common Units issued as part of acquisitions' purchase consideration	$ —	$ 104
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	$ 2,084
Replacement of the 2016 Senior Secured Credit Facility with the 2017 Senior Secured Credit Facility	$ —	$ 87,525
Replacement of the 2017 Senior Secured Credit Facility with the 2019 Senior Secured Credit Facility	$ 100,229	$ —
Mezzanine Notes net settled with Mezzanine Warrant exercises	$ —	$ 14
Unsecured notes payable to related and unrelated creditors net settled with Junior Subordinated Notes Warrants	$ —	$ 2,565
Settlement of warrant liability with equity as a result of Mezzanine Warrant exercise	$ —	$ 9,253
Preferred return on Redeemable Class A Units	$ —	$ 552
Preferred return on Class A Units	$ —	$ 2,522
Debt issuance costs financed with proceeds from the 2017 Senior Secured Credit Facility	$ —	$ 904
Debt issuance costs and accrued interest financed with proceeds from the 2019 Senior Secured Credit Facility	$ 1,271	$ —
Increase in accrued equity issuance costs	$ —	$ 760
Conversion of notes payable to related and unrelated creditors to Class A common stock	$ —	$ 8,054

15. SUBSEQUENT EVENTS

Form S-3 Filing

On August 8, 2019, the Company filed with the SEC an omnibus shelf registration statement on Form S-3 (File No. 333-233126), for the offer and sale of up to $250,000 of the Company's securities from time to time and in such amounts and at such prices and terms as are to be determined in the future by the Company directly or through agents, dealers or underwriters, as well as the possible resale by certain selling securityholders, including certain of our executive officers and directors, of up to 13,145,534 shares of Class A common stock to be sold from time to time and in such amounts and at such prices and terms as are to be determined in the future by the selling securityholders directly or through agents, dealers or underwriters. The S-3 was declared effective on August 9, 2019.

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, 2018 ("Form 10-K"), filed with the SEC on December 7, 2018. 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:

- *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 successfully identify acquisition targets and thereafter to complete 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;*
- *our indebtedness and potential increases in our indebtedness;*
- *operating and financial restrictions imposed by our 2019 Senior Secured Credit Facility (as defined below); and*
- *the risk factors included in our Form 10-K, and subsequent SEC filings, and included in Part II, Item 1A of this Quarterly Report on Form 10-Q, if any.*

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

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

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

Executive Overview

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

Initial Public Offering

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.

Acquisitions

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 $56.0 million, including $52.4 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.

Acquisitions during the nine months ended June 30, 2018

During the nine months ended June 30, 2018, we completed the acquisitions of three unrelated businesses. On October 31, 2017, we acquired all of the outstanding stock of San Diego Cash Register Company, Inc. ("SDCR, Inc."). We acquired SDCR, Inc. to expand our presence within the integrated POS market. We used proceeds from our 2017 Senior Secured Credit Facility and the issuance of $0.1 million of common units in i3 Verticals, LLC to fund the net purchase consideration of $20.8 million, including $0.7 million of contingent consideration. We also completed the acquisitions of two additional unrelated business. These two acquisitions expanded our presence in the public sector and POS markets. Total purchase consideration of these two unrelated businesses was $9.6 million, which included $8.2 million of cash consideration funded with proceeds from our revolving line of credit and $1.4 million of contingent consideration.

The results of operations of these acquired businesses have been included in our financial statements since the applicable acquisition date. For additional information, see Note 3 to our condensed consolidated financial statements.

Our Revenue and Expenses

Revenues

We generate revenue primarily from payment processing services provided to clients, which principally include but are not limited to volume-based 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.

Expenses

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.

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 also are included in other cost of services. The cost of equipment sold is also included in cost of services. Interchange, network fees 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 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 PayFac 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, 2019 and 2018 was \$3.4 billion and \$3.0 billion, respectively, representing a period-to-period growth rate of 13.7%. Our payment volume for the nine months ended June 30, 2019 and 2018 was \$9.3 billion and \$8.6 billion, respectively, representing a period-to-period growth rate of 8.3%. 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 grew to 51% of our payment volume for the three months ended June 30, 2019 from 43% for the three months ended June 30, 2018.

We measure period-to-period payment volume attrition as the change in card-based payment volume for all clients that were processing with us for the same period in the prior year. We exclude from our calculations payment volume from new clients added during the period. We experience attrition in payment volume as a result of several factors, including business closures, transfers of clients' accounts to our competitors and account closures that we initiate due to heightened credit risks. During the nine months ended June 30, 2019, we experienced approximately 1% net volume attrition per month.

Results of Operations

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

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

	Three months ended June 30,		Change	
(in thousands)	2019	2018	Amount	%
Revenue	$ 97,483	$ 84,536	$ 12,947	15.3 %
Operating expenses				
Interchange and network fees	63,263	55,705	7,558	13.6 %
Other costs of services	11,431	11,061	370	3.3 %
Selling general and administrative	17,587	10,696	6,891	64.4 %
Depreciation and amortization	4,425	3,000	1,425	47.5 %
Change in fair value of contingent consideration	(417)	1,151	(1,568)	(136.2)%
Total operating expenses	96,289	81,613	14,676	18.0 %
Income from operations	1,194	2,923	(1,729)	(59.2)%
Other expenses				
Interest expense, net	1,918	2,644	(726)	(27.5)%
Change in fair value of warrant liability	—	242	(242)	n/m
Total other expenses	1,918	2,886	(968)	(33.5)%
(Loss) income before income taxes	(724)	37	(761)	n/m
(Benefit from) provision for income taxes	(131)	692	(823)	(118.9)%
Net (loss) income	(593)	(655)	62	n/m
Net income (loss) attributable to non-controlling interest	598	(91)	689	n/m
Net (loss) attributable to i3 Verticals, Inc.	$ (1,191)	$ (564)	$ (627)	n/m

n/m = not meaningful

Revenue

Revenue increased $12.9 million, or 15.3%, to $97.5 million for the three months ended June 30, 2019 from $84.5 million for the three months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years contributed an incremental $10.1 million to our revenue for the three months ended June 30, 2019. The remaining $2.8 million of increased revenue was due primarily to an increase in payment volume.

Revenue includes revenues from 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. Revenues from the Purchased Portfolios decreased $1.3 million, or 31.6%, to $2.9 million for the three months ended June 30, 2019 from $4.2 million for the three months ended June 30, 2018. Excluding revenues from the Purchased Portfolios, revenue grew $14.3 million, or 17.8%, to $94.6 million for the three months ended June 30, 2019 from $80.3 million for the three months ended June 30, 2018.

Revenue within Merchant Services increased $7.5 million, or 9.4%, to $87.3 million for the three months ended June 30, 2019 from $79.8 million for the three months ended June 30, 2018. Revenue within Proprietary Software and Payments increased $5.4 million, or 114.2%, to $10.2 million for the three months ended June 30, 2019 from $4.8 million for the three months ended June 30, 2018.

Payment volume increased $0.4 billion, or 13.7%, to $3.4 billion for the three months ended June 30, 2019 from $3.0 billion for the three months ended June 30, 2018.

Interchange and Network Fees

Interchange and network fees increased $7.6 million, or 13.6%, to $63.3 million for the three months ended June 30, 2019 from $55.7 million for the three months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years contributed an incremental $4.8 million to our interchange and network fees for the three months ended June 30, 2019. The remaining $2.8 million of increased interchange and network fees was due primarily to an increase in payment volume.

Interchange and network fees related to the Purchased Portfolios decreased $0.7 million, or 30.4%, to $1.5 million for the three months ended June 30, 2019 from $2.2 million for the three months ended June 30, 2018. Excluding interchange and network fees from these Purchased Portfolios, interchange and network fees grew $8.2 million, or 15.3%, to $61.8 million for the three months ended June 30, 2019 from $53.6 million for the three months ended June 30, 2018.

Interchange and network fees within Merchant Services increased $7.1 million, or 12.9%, to $61.7 million for the three months ended June 30, 2019 from $54.7 million for the three months ended June 30, 2018. Interchange and network fees within Proprietary Software and Payments increased $0.5 million, or 47.2%, to $1.5 million for the three months ended June 30, 2019 from $1.0 million for the three months ended June 30, 2018.

Other Costs of Services

Other costs of services increased $0.4 million, or 3.3%, to $11.4 million for the three months ended June 30, 2019 from $11.1 million for the three months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years contributed an incremental $0.2 million to our other costs of services for the three months ended June 30, 2019. The remaining $0.2 million of increased other costs of services was due primarily to an increase in payment volume, resulting in greater residuals paid to our distribution partners.

Other costs of services within Merchant Services decreased $0.2 million, or 1.6%, to $10.5 million for the three months ended June 30, 2019 from $10.7 million for the three months ended June 30, 2018.

Other costs of services within Proprietary Software and Payments increased $0.5 million, or 145.7%, to $0.9 million for the three months ended June 30, 2019 from $0.4 million for the three months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years within Proprietary Software and Payments contributed an incremental $0.5 million to our other costs of services for the three months ended June 30, 2019.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $6.9 million, or 64.4%, to $17.6 million for the three months ended June 30, 2019 from $10.7 million for the three months ended June 30, 2018. This increase was primarily driven by a $4.5 million increase in employment expenses, primarily resulting from an increase in stock compensation expense and an increase in headcount that resulted from acquisitions and additions to corporate staff. Increases in insurance and professional services, software and technological services, rent expense and advertising and promotion comprised the remainder of the increase.

Depreciation and Amortization

Depreciation and amortization increased $1.4 million, or 47.5%, to $4.4 million for the three months ended June 30, 2019 from $3.0 million for the three months ended June 30, 2018. Amortization expense increased $1.3 million to $4.1 million for the three months ended June 30, 2019 from $2.8 million for the three months ended June 30, 2018 primarily due to acquisitions completed during the three months ended June 30, 2019. Depreciation expense increased $0.1 million to $0.3 million for the three months ended June 30, 2019 from $0.2 million for the three months ended June 30, 2018.

Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration to be paid in connection with acquisitions was a benefit of $0.4 million for the three months ended June 30, 2019 primarily due to shortfalls from expectations for some of our acquisitions. The change in fair value of contingent consideration for the three months ended June 30, 2018 was a charge of $1.2 million.

Interest Expense, net

Interest expense, net, decreased $0.7 million, or 27.5%, to $1.9 million for the three months ended June 30, 2019 from $2.6 million for the three months ended June 30, 2018. The decrease reflects a lower average amount of indebtedness outstanding and payment of all of the outstanding aggregate principal balance and accrued interest on the notes payable to the lenders under our Mezzanine Notes and unsecured notes payable to related and unrelated creditors in connection with the Reorganization Transactions in the second quarter of fiscal year 2018.

Change in Fair Value of Warrant Liability

The change in fair value of our warrant liabilities corresponds to the value of the warrants issued in connection with our Mezzanine Notes. The warrants were exercised in June 2018 in conjunction with our IPO. The change in fair value of the warrant liabilities was a charge of $0.2 million for the three months ended June 30, 2018.

Provision for Income Taxes

The provision for income taxes decreased to a benefit of $0.1 million for the three months ended June 30, 2019 from an expense of $0.7 million for the three months ended June 30, 2018. The provision for income taxes consists primarily of provisions for state income taxes and, for certain subsidiaries of i3 Verticals, LLC which are corporations, provisions for federal income taxes. Our effective tax rate was 18% for the three months ended June 30, 2019. 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, 2019 Compared to Nine Months Ended June 30, 2018

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

	Nine months ended June 30,		Change	
(in thousands)	2019	2018	Amount	%
Revenue	$ 267,745	$ 239,455	$ 28,290	11.8 %
Operating expenses				
Interchange and network fees	173,777	158,577	15,200	9.6 %
Other costs of services	31,414	30,119	1,295	4.3 %
Selling general and administrative	44,422	29,737	14,685	49.4 %
Depreciation and amortization	11,875	8,876	2,999	33.8 %
Change in fair value of contingent consideration	1,736	3,280	(1,544)	(47.1) %
Total operating expenses	263,224	230,589	32,635	14.2 %
Income from operations	4,521	8,866	(4,345)	(49.0) %
Other expenses				
Interest expense, net	3,987	7,649	(3,662)	(47.9) %
Change in fair value of warrant liability	—	8,487	(8,487)	n/m
Total other expenses	3,987	16,136	(12,149)	(75.3) %
Income (loss) before income taxes	534	(7,270)	7,804	n/m
(Benefit from) provision for income taxes	(2)	553	(555)	(100.4) %
Net income (loss)	536	(7,823)	8,359	n/m
Net income (loss) attributable to non-controlling interest	2,651	(91)	2,742	n/m
Net (loss) attributable to i3 Verticals, Inc.	$ (2,115)	$ (7,732)	$ 5,617	n/m

n/m = not meaningful

Revenue

Revenue increased $28.3 million, or 11.8%, to $267.7 million for the nine months ended June 30, 2019 from $239.5 million for the nine months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years contributed an incremental $21.4 million to our revenue for the nine months ended June 30, 2019. The remaining $6.9 million of increased revenue was due primarily to an increase in payment volume.

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 $4.3 million, or 30.4%, to $9.8 million for the nine months ended June 30, 2019 from $14.0 million for the nine months ended June 30, 2018. Excluding revenues from the Purchased Portfolios, revenue grew $32.5 million, or 14.4%, to $258.0 million for the nine months ended June 30, 2019 from $225.4 million for the nine months ended June 30, 2018.

Revenue within Merchant Services increased $17.2 million, or 7.6%, to $241.8 million for the nine months ended June 30, 2019 from $224.7 million for the nine months ended June 30, 2018. Revenue within Proprietary

Software and Payments increased $11.1 million, or 75.2%, to $25.9 million for the nine months ended June 30, 2019 from $14.8 million for the nine months ended June 30, 2018.

Payment volume increased $0.7 billion, or 8.3%, to $9.3 billion for the nine months ended June 30, 2019 from $8.6 billion for the nine months ended June 30, 2018.

Interchange and Network Fees

Interchange and network fees increased $15.2 million, or 9.6%, to $173.8 million for the nine months ended June 30, 2019 from $158.6 million for the nine months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years contributed an incremental $8.5 million to our interchange and network fees for the nine months ended June 30, 2019. The remaining $6.7 million of increased interchange and network fees was due primarily to an increase in payment volume.

Interchange and network fees related to the Purchased Portfolios decreased $2.0 million, or 29.5%, to $4.8 million for the nine months ended June 30, 2019 from $6.8 million for the nine months ended June 30, 2018. Excluding interchange and network fees from the Purchased Portfolios, interchange and network fees grew $17.2 million, or 11.3%, to $169.0 million for the nine months ended June 30, 2019 from $151.8 million for the nine months ended June 30, 2018.

Interchange and network fees within Merchant Services increased $14.2 million, or 9.2%, to $169.2 million for the nine months ended June 30, 2019 from $155.0 million for the nine months ended June 30, 2018. Interchange and network fees within Proprietary Software and Payments increased $1.0 million, or 27.6%, to $4.5 million for the nine months ended June 30, 2019 from $3.6 million for the nine months ended June 30, 2018.

Other Costs of Services

Other costs of services increased $1.3 million, or 4.3%, to $31.4 million for the nine months ended June 30, 2019 from $30.1 million for the nine months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years contributed an incremental $1.4 million to our other costs of services for the nine months ended June 30, 2019.

Other costs of services within Merchant Services increased $0.7 million, or 2.4%, to $29.6 million for the nine months ended June 30, 2019 from $28.9 million for the nine months ended June 30, 2018.

Other costs of services within Proprietary Software and Payments was increased $0.6 million, or 50.8%, to $1.8 million for the nine months ended June 30, 2019 from $1.2 million for the nine months ended June 30, 2018. Acquisitions completed during the 2019 and 2018 fiscal years within Proprietary Software and Payments contributed an incremental $0.8 million to our other costs of services for the nine months ended June 30, 2019.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $14.7 million, or 49.4%, to $44.4 million for the nine months ended June 30, 2019 from $29.7 million for the nine months ended June 30, 2018. This increase was primarily driven by a $10.6 million increase in employment expense, primarily resulting from an increase in stock compensation expense and an increase in headcount that resulted from acquisitions and additions to corporate staff. Increases in insurance and professional services, software and technological services, rent expense and advertising and promotion comprised the remainder of the increase.

Depreciation and Amortization

Depreciation and amortization increased $3.0 million, or 33.8%, to $11.9 million for the nine months ended June 30, 2019 from $8.9 million for the nine months ended June 30, 2018. Amortization expense increased $1.5 million to $11.0 million for the nine months ended June 30, 2019 from $8.3 million for the nine months ended June 30, 2018 primarily due to acquisitions completed during the nine months ended June 30, 2019. Depreciation expense increased $0.2 million to $0.8 million for the nine months ended June 30, 2019 from $0.6 million for the nine months ended June 30, 2018.

Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration to be paid in connection with acquisitions was a charge of $1.7 million for the nine months ended June 30, 2019 primarily due to strong performance of some of our acquisitions. The change in fair value of contingent consideration for the nine months ended June 30, 2018 was a charge of $3.3 million.

Interest Expense, net

Interest expense, net, decreased $3.7 million, or 47.9%, to $4.0 million for the nine months ended June 30, 2019 from $7.6 million for the nine months ended June 30, 2018. The decrease reflects a lower average amount of indebtedness outstanding, as well as payment of all of the outstanding aggregate principal balance and accrued interest on the notes payable to the lenders under our Mezzanine Notes and unsecured notes payable to related and unrelated creditors in connection with the Reorganization Transactions in the second quarter of fiscal year 2018.

Change in Fair Value of Warrant Liability

The change in fair value of our warrant liabilities corresponds to the value of the warrants issued in connection with our Mezzanine Notes. The warrants were exercised in June 2018 in conjunction with our IPO. The change in fair value of the warrant liabilities was a charge of $8.5 million for the nine months ended June 30, 2018.

Provision for Income Taxes

The provision for income taxes increased to $0.0 million for the nine months ended June 30, 2019 from an expense of $0.6 million for the nine months ended June 30, 2018. The provision for income taxes consists primarily of provisions for state income taxes and, for certain subsidiaries of i3 Verticals, LLC which are corporations, provisions for federal income taxes. Our effective tax rate was 0% for the nine months ended June 30, 2019. 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 customers is strongest in August, September, October, January and February, at the start of each semester, and generally weakens throughout the semester, with little revenue in the summer months of June and July. Operating expenses show less seasonal fluctuation, with the result that net income is subject to the same seasonal factors as our revenues. The growth in our business may have partially overshadowed seasonal trends to date, and seasonal impacts on our business may be more pronounced in the future.

Liquidity and Capital Resources

We have historically financed our operations (not including investments and acquisitions) and working capital through net cash from operating activities. As of June 30, 2019, we had $1.5 million of cash and cash equivalents and available borrowing capacity of $160.4 million under our 2019 Senior Secured Credit Facility. 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 consistently have had positive cash flow provided by operations and expect that our cash flow from operations, current cash and cash equivalents and available borrowing capacity under our new 2019 Senior Secured Credit Facility (as defined below) will be sufficient to fund our operations and planned capital expenditures and to service our debt obligations for at least the next twelve months. To the extent that additional funds are necessary to finance future acquisitions, and to meet our long-term liquidity needs as we continue to execute on our strategy, we anticipate that they can be obtained through additional indebtedness, equity or debt issuances, or both. 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 2019 Senior Secured Credit Facility may restrict i3 Verticals, LLC's ability to provide funds to i3 Verticals, Inc.

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, 2019 and 2018

	Nine months ended June 30,	
	2019	2018
	(in thousands)	
Net cash provided by operating activities	$ 16,297	$ 14,659
Net cash used in investing activities	$ (131,705)	$ (30,956)
Net cash provided by financing activities	$ 117,296	$ 17,467

Cash Flow from Operating Activities

Net cash provided by operating activities increased $1.6 million to $16.3 million for the nine months ended June 30, 2019 from $14.7 million for the nine months ended June 30, 2018. The increase in net cash provided by operating activities included an increase in net income, from a net loss, of $8.4 million offset by a $8.5 million decrease in the change in the fair value of warrant liabilities. Equity-based compensation increased $3.3 million, depreciation and amortization expense increased $3.0 million, and we experienced a reduction of $0.4 million in benefit from income taxes from the revaluation of deferred taxes related to the federal tax reform enacted on December 22, 2017. These increases were partially offset by a $1.5 million reduction in increases in non-cash contingent consideration expense from original estimates. Operating assets and liabilities decreased $3.4 million, primarily driven by a $3.6 million decrease in accrued liabilities and a $3.2 million increase in prepaid expenses, partially offset by a $1.8 million increase in accounts payable and a $1.6 million decrease in accounts receivable for the nine months ended June 30, 2019 compared to the nine months ended June 30, 2018.

Cash Flow from Investing Activities

Net cash used in investing activities increased $100.7 million to $131.7 million for the nine months ended June 30, 2019 from $31.0 million for the nine months ended June 30, 2018. The increase in net cash used in investing activities was primarily driven by an increase of $100.0 million in cash used in acquisitions, net of cash acquired, and $1.5 million in purchases of merchant portfolios and residual buyouts. These increases were partially offset by a decrease of $0.7 million in acquisitions of other intangibles and $0.7 million in expenditures for property and equipment for the nine months ended June 30, 2019 compared to the nine months ended June 30, 2018.

Cash Flow from Financing Activities

Net cash provided by financing activities increased $99.8 million to $117.3 million for the nine months ended June 30, 2019 from $17.5 million for the nine months ended June 30, 2018. The increase in net cash provided by financing activities was primarily the result of an increase in proceeds from the revolving credit facility of $130.7 million, a reduction in payments on the revolving credit facility of $76.0 million, proceeds from the issuance of Class A common stock sold in the offering in June 2019 of $21.7 million, a reduction in payments of notes payable to mezzanine lenders of $10.5 million and a decrease in payments of unsecured notes payable to related and unrelated creditors of $5.5 million, The increase in cash provided by financing activities is partially offset by a decrease in proceeds from the issuance of Class A common stock sold in the initial public offering in June 2018 of $89.7 million, an increase in payments of notes payable to banks of $31.3 million and a decrease in proceeds from notes payable to banks of $24.7 million for the three months ended June 30, 2019 from the three months ended June 30, 2018.

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 replaced our existing 2017 Senior Secured Credit Facility with a new 2019 senior secured credit facility (the “2019 Senior Secured Credit Facility”). The 2019 Senior Secured Credit Facility consists of a $300.0 million revolving line of credit, together with an option to increase the revolving line of credit and/or obtain incremental term loans in an additional principal amount of up to $50.0 million in the aggregate (subject to the receipt of additional commitments for any such incremental loan amounts). The 2019 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% (2.50% as of June 30, 2019), 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% (0.50% as of June 30, 2019), 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 2019 Senior Secured Credit Facility requires us to pay unused commitment fees of 0.15% to 0.30% on any undrawn amounts under the revolving line of credit 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 2019 Senior Secured Credit Facility is May 9, 2024. At June 30, 2019, there was $160.4 million available for borrowing under the revolving line of credit.

The 2019 Senior Secured Credit Facility is secured by substantially all of our assets. The revolving line of credit to banks hold senior rights to collateral and principal repayment over all other creditors.

The provisions of the 2019 Senior Secured Credit Facility places 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 its business, transactions with affiliates, prepayments of other indebtedness maintenance of certain financial ratios, and certain other non-financial covenants pertaining to our activities during the period covered.

Secondary Offering

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 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.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of June 30, 2019 related to leases and borrowings:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
(in thousands)					
Processing minimums[(1)]	$ 9,567	$ 2,784	$ 3,383	$ 3,327	$ 73
Facility leases	9,279	2,472	3,535	2,660	612
2019 Senior Secured Credit Facility and related interest[(2)]	175,413	7,176	14,353	153,884	—
Contingent consideration[(3)]	13,856	7,162	6,694	—	—
Total	$ 208,115	$ 19,594	$ 27,965	$ 159,871	$ 685

1. We have non-exclusive agreements with several processors to provide us services related to transaction processing and transmittal, transaction authorization and data capture, and access to various reporting tools. Certain of these agreements require us to submit a minimum monthly number of transactions for processing. If we submit a number of transactions that is lower than the minimum, we are required to pay to the processor the fees it would have received if we had submitted the required minimum number of transactions.
2. We estimated interest payments through the maturity of our 2019 Senior Secured Credit Facility by applying the interest rate of 4.91% in effect on our outstanding balance as of June 30, 2019, plus an unused fee rate of 0.15%.
3. 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, 2019, the total amount due under the Tax Receivable Agreement was $23.9 million, and payments to the Continuing Equity Owners related to exchanges through June 30, 2019 will range from $0 to $2.2 million per year and are expected to be paid over the next 24 years. The amounts recorded as of June 30, 2019, 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.

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

As of June 30, 2019, there have been no significant changes to our critical accounting estimates disclosed in the Form 10-K filed with the SEC on December 7, 2018, except as described in Note 2 to our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

As of June 30, 2019, there have been no significant changes to our recently issued accounting pronouncements disclosed in the Form 10-K filed with the SEC on December 7, 2018, except as described in Note 2 to our condensed consolidated financial statements.

Off-Balance Sheet Arrangements

As of June 30, 2019, 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, 2019, the 2019 Senior Secured Credit Facility consisted of a $300.0 million revolving line of credit, together with an option to increase the revolving line of credit and/or obtain incremental term loans in an additional principal amount of up to $50.0 million in the aggregate (subject to the receipt of additional commitments for any such incremental loan amounts). The 2019 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) or, at our option, 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 up to 3.25% (2.50% as of June 30, 2019) for LIBOR loans and up to 1.25% (0.50% as of June 30, 2019) for base rate loans, 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 2019 Senior Secured Credit Facility requires us to pay unused commitment fees of up to 0.30% on any undrawn amounts under the revolving line of credit 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 2019 Senior Secured Credit Facility is May 9, 2024. At June 30, 2019, there was $160.4 million available for borrowing under the revolving line of credit.

As of June 30, 2019, we had borrowings outstanding of $139.6 million under the 2019 Senior Secured Credit Facility. A 1.0% increase or decrease in the interest rate applicable to such borrowing (which is the LIBOR rate) would have a $1.4 million impact on the results of the business.

For information related to our new 2019 Senior Secured Credit Facility, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—2019 Senior Secured Credit Facility” in Part I, Item II of this Quarterly Report.

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, 2019 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, 2018 filed with the SEC on December 7, 2018 and under the heading “Risk Factors” in our registration statement on Form S-1, initially filed with the SEC on June 3, 2019 (File No. 333-231904).

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

Recent Sales of Unregistered Securities

In April 2019, we issued an aggregate of 25,000 shares of Class A common stock in exchange for an equivalent number of shares of Class B common stock and Common Units pursuant to the terms our Amended and Restated Certificate of Incorporation and of the i3 Verticals, LLC Limited Liability Company Agreement. These shares were issued in reliance on an exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibit Index

Exhibit Number	Exhibit Description
2.1#	Membership Interest Purchase Agreement, dated April 3, 2019, by and among, i3 Verticals, LLC, i3-Bearcat, LLC, NTD Holdings, Inc., GH Holdco, Inc. and David Graves and Tory Humphries (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on April 8, 2019).
2.2#*	Agreement and Plan of Merger, dated May 31, 2019, by and among i3-SDCR, Inc., as buyer, i3 Merger Sub, Inc., i3 Verticals, LLC, as guarantor, Pace Payment Systems, Inc. and 3S Advisors, LLC, as representative (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on June 3, 2019).
3.1	Amended and Restated Certificate of Incorporation of i3 Verticals, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2018) (File No. 001-38532).
3.2	Amended and Restated Bylaws of i3 Verticals, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2018) (File No. 001-38532).
10.1#	Amended and Restated Credit Agreement, dated as of May 9, 2019, among i3 Verticals, LLC, the guarantor and lender parties thereto and Bank of America, N.A., as administrative agent.
10.2#	Security and Pledge Agreement, dated as of May 9, 2019, among i3 Verticals, LLC, as borrower, the Obligors thereto, and Bank of America, N.A., as administrative agent.
10.3	First Amendment to the Amended and Restated Credit Agreement, dated as of June 26, 2019, among i3 Verticals, LLC, the guarantor and lender parties thereto and Bank of America, N.A., as administrative agent.
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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* Certain portions of this exhibit have been omitted.
** Furnished herewith.
# Schedules and exhibits have been omitted pursuant to Item 601 of Regulation S-K. i3 Verticals, Inc. hereby undertakes to furnish supplemental copies of any of the omitted schedules and exhibits upon request by the SEC.

SIGNATURES

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

i3 Verticals, Inc.

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

Date: August 13, 2019

FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment"), dated as of June 26, 2019 is entered into by and among I3 VERTICALS, LLC, a Delaware limited liability company (the "Borrower") and BANK OF AMERICA, N.A., as Administrative Agent.

RECITALS

WHEREAS, the Borrower, HoldCo, the Guarantors, the Lenders and Bank of America, N.A., as Administrative Agent, Swingline Lender and L/C Issuer, entered into that certain Amended and Restated Credit Agreement dated as of May 9, 2019 (as amended, modified, supplemented or extended from time to time, the "Credit Agreement");

WHEREAS, the Borrower has notified the Administrative Agent that administrative errors exist the Credit Agreement whereby certain references to the Borrower should instead refer to HoldCo (the "Specified Administrative Errors");

WHEREAS, pursuant to Section 11.01(g) of the Credit Agreement the Administrative Agent and the Borrower may amend the Credit Agreement to cure or correct administrative errors without the consent of any other party to the Credit Agreement;

WHEREAS, the Borrower has requested that the Administrative Agent amend the Credit Agreement as contemplated hereby to amend the Specified Administrative Errors; and

WHEREAS, the Administrative Agent is willing to amend the Credit Agreement, subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Introductory Paragraph and Recitals. The above introductory paragraph and recitals of this Agreement are incorporated herein by reference as if fully set forth herein.

2. Definitions. Capitalized terms used herein (including in the recitals hereof) and not otherwise defined herein shall have the meanings provided in the Credit Agreement.

3. Amendments to Credit Agreement.

(a) Section 6.01 of the Credit Agreement is hereby amended by (i) replacing each instance of the text "the Borrower" in clauses (a) and (b) therein with the text "HoldCo" and (ii) replacing each instance of the text "the Borrower's" in clauses (a) and (b) therein with the text "HoldCo's".

(b) Section 6.02 of the Credit Agreement is hereby amended by:

(i) replacing clause (c) therein in its entirety to read as follows:

(c) not later than thirty (30) days after the beginning of each fiscal year of HoldCo, commencing with the fiscal year beginning October 1, 2019, an annual business plan and budget of HoldCo and its Subsidiaries containing, among other things, pro forma financial statements for each quarter of such fiscal year;

(ii) replacing each instance of the text "the Borrower" in clause (e) therein with the text "HoldCo"; and

(iii) replacing the penultimate paragraph in Section 6.02 of the Credit Agreement in its entirety to read as follows:

Documents required to be delivered pursuant to Section 6.01(a) or 6.01(b) or Section 6.02(d) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which HoldCo posts such documents, or provides a link thereto on HoldCo's website on the Internet at the website address listed on Schedule 11.02; or (ii) on which such documents are posted on HoldCo's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third party website or whether sponsored by the Administrative Agent); provided that: (i) HoldCo shall deliver paper copies of such documents to the Administrative Agent or any Lender upon its request to HoldCo to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) HoldCo shall notify the Administrative Agent and each Lender (by fax transmission or e-mail transmission) of the posting of any such documents and provide to the Administrative Agent by e-mail electronic versions (i.e., soft copies) of such documents. The Administrative Agent shall have no obligation to request the delivery of or to maintain paper copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by HoldCo with any such request by a Lender for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

(c) Section 7.11 of the Credit Agreement is hereby amended by replacing each instance of the text "the Borrower" with the text "HoldCo".

(d) Section 11.02(a)(ii) of the Credit Agreement is hereby amended by replacing the text "the Borrower" with the text "HoldCo".

4. Conditions Precedent. This Agreement shall be effective upon receipt by the Administrative Agent of counterparts of this Agreement duly executed by the Borrower and the Administrative Agent (the "First Amendment Effective Date").

5. Miscellaneous.

(a) This Agreement shall be deemed to be, and is, a Loan Document.

(b) Effective as of the First Amendment Effective Date, all references to the Credit Agreement in each of the Loan Documents shall hereafter mean the Credit Agreement as amended by this Amendment.

(c) The Borrower hereby (i) acknowledges and consents to all of the terms and conditions of this Amendment, (ii) ratifies and affirms its obligations under the Loan Documents, (iii) agrees that (A) its obligations under each of the Loan Documents to which it is party shall remain in full force and effect according to their terms and (B) this Amendment and all documents executed in connection herewith do not operate to reduce or discharge its obligations under the Credit Agreement or the other Loan Documents and (iv) affirms the Liens created and granted in the Loan Documents in favor of the Administrative Agent for the benefit of the holders of the Obligations and agrees that this Amendment does not adversely affect or impair such Liens and security interests in any manner.

(d) The Borrower hereby represents and warrants to the Administrative Agent and the Lenders that as of the First Amendment Effective Date after giving effect to this Amendment (i) the Borrower has taken all necessary action to authorize the execution, delivery and performance of this Amendment, (ii) this Amendment has been duly executed and delivered by the Borrower and constitutes the Borrower's legal, valid and binding obligations, enforceable in accordance with its terms, except as such enforceability may be subject to (A) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and (B) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity), (iii) no consent, approval, authorization or order of, or filing, registration or qualification with, any court or Governmental Authority or third party is required in connection with the execution, delivery or performance by the Borrower of this Amendment and (iv) the representations and warranties of the Borrower set forth in Article 5 of the Credit Agreement and in each other Loan Document are true and correct in all material respects (and in all respects if any such representation or warranty is expressly qualified by materiality or reference to Material Adverse Effect) on and as of the First Amendment Effective Date to the same extent as though made on and as of the First Amendment Effective Date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects (and in all respects if any such representation or warranty is expressly qualified by materiality or reference to Material Adverse Effect) on and as of such earlier date.

(e) This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by telecopy or other secure electronic format (.pdf) shall be effective as an original and shall constitute a representation that an executed original shall be delivered.

(g) This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

BORROWER: I3 VERTICALS, LLC,
a Delaware limited liability company

By: /s/ Paul Maple
Name: Paul Maple
Title: General Counsel and Secretary

ADMINISTRATIVE
AGENT: BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Christine Trotter
Name: Christine Trotter
Title: Assistant Vice President

Exhibit 31.1

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

I, Gregory S. Daily, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of i3 Verticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. [Omitted];

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 13, 2019

By: /s/ Gregory S. Daily

Gregory S. Daily

Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

I, Clay Whitson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of i3 Verticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. [Omitted];

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 13, 2019

By: /s/ Clay Whitson

Clay Whitson

Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of i3 Verticals, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2019, 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 13, 2019

By: /s/ Gregory S. Daily

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

Exhibit 32.2

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

In connection with the Quarterly Report of i3 Verticals, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2019, 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 13, 2019

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