

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2022  
**OR**  
 **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-40429

**Paymentus Holdings, Inc.**  
(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**11605 North Community House Road, Suite 300**  
**Charlotte, NC**  
(Address of principal executive offices)

**45-3188251**  
(I.R.S. Employer  
Identification No.)  
**28277**  
(Zip Code)

**(888) 440-4826**

**(Registrant's telephone number, including area code)**

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, par value \$0.0001 per share	PAY	New York Stock Exchange

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

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

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

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

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

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

As of November 8, 2022, the registrant had 19,653,961 shares of Class A Common Stock, \$0.0001 par value per share and 103,336,337 shares of Class B Common Stock, \$0.0001 par value per share, outstanding.

## Table of Contents

	<u>Page</u>	
<b>PART I.</b>	<b><u>FINANCIAL INFORMATION</u></b>	
Item 1.	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Operations</u>	5
	<u>Condensed Consolidated Statements of Comprehensive (Loss) Income</u>	6
	<u>Condensed Consolidated Statements of Stockholders' Equity</u>	7
	<u>Condensed Consolidated Statements of Cash Flows</u>	9
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	11
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4.	<u>Controls and Procedures</u>	36
<b>PART II.</b>	<b><u>OTHER INFORMATION</u></b>	
Item 1.	<u>Legal Proceedings</u>	37
Item 1A.	<u>Risk Factors</u>	37
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 3.	<u>Defaults Upon Senior Securities</u>	37
Item 4.	<u>Mine Safety Disclosures</u>	37
Item 5.	<u>Other Information</u>	38
Item 6.	<u>Exhibits</u>	38
	<u>Signatures</u>	39

### ***Special Note Regarding Forward-Looking Statements***

This quarterly report on Form 10-Q for the quarterly period ended September 30, 2022 ("Quarterly Report") contains forward-looking statements within the meaning of the federal securities laws, such as those under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which statements involve substantial risks and uncertainties. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from historical results or from any future results or projections expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this report include statements about:

- our ability to effectively manage our growth and expand our operations;
- our ability to further attract, retain and expand our biller, financial institutions, partner and consumer base;
- our ability to timely implement and recognize revenue from new customers;
- our expectations regarding our revenue, expenses and other operating results;
- the continued impact of the COVID-19 pandemic on our operating results, liquidity and financial condition and on our employees, billers, financial institutions, partners, consumers and other key stakeholders;
- our market opportunity and anticipated trends in our business and industry;
- our ability to remain competitive as we continue to scale our business;
- our ability to develop new product features and enhance our platform;
- our ability to hire and retain experienced and talented employees as we grow our business;
- general economic conditions, including inflation, and their impact on us, consumer demand, average bill amounts and interchange fees;
- the expected impact of our recent acquisitions of PayVeris LLC, or Payveris, and Finovera, Inc., or Finovera;
- our future acquisitions or strategic investments in complementary companies, products or technologies;
- our ability to maintain and enhance our brand;
- our plan to expand into new channels and industry verticals across different markets;
- our international expansion plans and ability to expand internationally; and
- those factors described in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021 and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this report.

You should not place undue reliance on our forward-looking statements as predictions of future events. We have based the forward-looking statements primarily on our current expectations and projections about future events and trends that we believe may affect our business, operating results, financial condition and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors, including those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this report. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

Neither we nor any other person assumes responsibility for the ultimate outcome of any of these forward-looking statements. Moreover, the forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this report to reflect events or circumstances after the date of this report or to reflect new information or the occurrence of unanticipated events, except as required by law.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information.

***Certain Definitions***

In this report, unless the context requires otherwise, all references to “we,” “our,” “us,” “Paymentus,” and the “Company” refer to Paymentus Holdings, Inc., and where appropriate its consolidated subsidiaries.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PAYMENTUS HOLDINGS, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)  
 (In thousands, except share and per share data)

	September 30, 2022	December 31, 2021
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 148,314	\$ 168,386
Restricted funds held for financial institutions	77,601	33,443
Accounts and other receivables, net of allowance of \$332 and \$102	62,758	43,935
Income tax receivable	2,650	2,488
Prepaid expenses and other current assets	12,318	8,184
Total current assets	303,641	256,436
Property and equipment, net of accumulated depreciation and amortization of \$5,448 and \$4,791	1,996	2,044
Capitalized internal-use software development costs, net	42,711	30,888
Intangible assets, net	36,113	42,088
Goodwill	129,344	129,413
Operating lease right-of-use assets	9,582	7,703
Deferred tax asset	165	163
Other long-term assets	7,677	4,207
Total assets	\$ 531,229	\$ 472,942
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 27,394	\$ 24,748
Accrued liabilities	16,665	12,491
Financial institution funds in-transit	77,601	33,443
Operating lease liabilities	1,389	1,456
Contract liabilities	1,328	2,173
Income tax payable	720	122
Total current liabilities	125,097	74,433
Deferred tax liability	—	3,318
Operating leases, net of current portion	8,703	6,463
Contract liabilities, net of current portion	2,637	1,713
Finance leases and other finance obligations, net of current portion	750	883
Total liabilities	137,187	86,810
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, \$0.0001 par value per share, 5,000,000 shares authorized as of September 30, 2022 and December 31, 2021, respectively; none issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	—	—
Class A common stock, \$0.0001 par value per share, 883,950,000 shares authorized as of September 30, 2022 and December 31, 2021, respectively; 19,653,565 and 17,251,079 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	2	1
Class B common stock, \$0.0001 par value per share, 111,050,000 shares authorized as of September 30, 2022 and December 31, 2021, respectively; 103,336,337 and 103,388,082 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	10	11
Additional paid-in capital	365,632	356,017
Accumulated other comprehensive income	(67)	168
Retained earnings	28,465	29,935
Total stockholders' equity	394,042	386,132
Total liabilities and stockholders' equity	\$ 531,229	\$ 472,942

The accompanying notes are an integral part of these condensed consolidated financial statements.

PAYMENTUS HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 128,152	\$ 101,676	\$ 364,825	\$ 287,393
Cost of revenue	90,295	70,512	256,286	199,754
Gross profit	37,857	31,164	108,539	87,639
Operating expenses				
Research and development	10,350	8,818	30,925	24,469
Sales and marketing	19,048	11,314	53,089	29,041
General and administrative	9,376	9,904	29,038	24,067
Total operating expenses	38,774	30,036	113,052	77,577
(Loss) income from operations	(917)	1,128	(4,513)	10,062
Other income (loss)				
Interest income, net	504	11	594	4
Foreign exchange gain (loss)	(28)	(16)	52	(8)
(Loss) income before income taxes	(441)	1,123	(3,867)	10,058
(Provision for) benefit from income taxes	(296)	(701)	2,397	(5,423)
Net (loss) income	\$ (737)	\$ 422	\$ (1,470)	\$ 4,635
Undeclared dividends on Series A preferred stock	—	—	—	(2,258)
Net (loss) income attributable to common stock	\$ (737)	\$ 422	\$ (1,470)	\$ 2,377
Net (loss) income per share attributable to common stock				
Basic	\$ (0.01)	\$ —	\$ (0.01)	\$ 0.02
Diluted	\$ (0.01)	\$ —	\$ (0.01)	\$ 0.02
Weighted-average number of shares used to compute net (loss) income per share attributable to common stock				
Basic	122,740,982	118,206,073	121,765,509	110,272,583
Diluted	122,740,982	124,427,777	121,765,509	116,419,674

The accompanying notes are an integral part of these condensed consolidated financial statements.

PAYMENTUS HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)  
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income	\$ (737)	\$ 422	\$ (1,470)	\$ 4,635
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments, net of tax	(86)	6	(235)	(42)
Comprehensive (loss) income	<u>\$ (823)</u>	<u>\$ 428</u>	<u>\$ (1,705)</u>	<u>\$ 4,593</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

PAYMENTUS HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)  
(In thousands, except share amounts)

	Common Stock		Additional	Retained	Other	Total
	Shares	Amount	Paid-In Capital	Earnings	Comprehensive Income	Stockholders' Equity
<b>Balances at December 31, 2021</b>	120,639,1					
	61	\$ 12	\$ 356,017	\$ 29,935	\$ 168	\$ 386,132
Stock-based compensation	—	—	1,276	—	—	1,276
Issuance of Class A common stock for stock-based awards	412,222	—	13	—	—	13
Other comprehensive loss	—	—	—	—	(45)	(45)
Net income	—	—	—	1,718	—	1,718
<b>Balances at March 31, 2022</b>	121,051,3					
	83	\$ 12	\$ 357,306	\$ 31,653	\$ 123	\$ 389,094
Stock-based compensation	—	—	1,344	—	—	1,344
Issuance of Class A common stock for stock-based awards	1,568,761	—	289	—	—	289
Other comprehensive loss	—	—	—	—	(104)	(104)
Net loss	—	—	—	(2,451)	—	(2,451)
<b>Balances at June 30, 2022</b>	122,620,1					
	44	\$ 12	\$ 358,939	\$ 29,202	\$ 19	\$ 388,172
Issuance of warrant	—	—	3,478	—	—	3,478
Change in estimate of warrants expected to vest	—	—	46	—	—	46
Stock-based compensation	—	—	2,002	—	—	2,002
Issuance of Class A common stock for stock-based awards	369,758	—	1,167	—	—	1,167
Other comprehensive loss	—	—	—	—	(86)	(86)
Net loss	—	—	—	(737)	—	(737)
<b>Balances at September 30, 2022</b>	122,989,9					
	02	\$ 12	\$ 365,632	\$ 28,465	\$ (67)	\$ 394,042

	Series A		Common Stock		Additional	Treasur	Retained	Other	Total
	Preferred Stock				Paid-In	y	Earning	Comprehensive	Stockholde
	Shares	Amount	Shares	Amount	Capital	Stock	s	Income	rs' Equity
<b>Balances at December 31, 2020</b>	23,013	\$ —	103,479,239	\$ 517	\$ 29,175	\$ (579)	\$ 55,047	\$ 216	\$ 84,376
Stock-based compensation	—	—	—	—	563	—	—	—	563
Repayment of related party loan receivable	—	—	—	—	813	—	—	—	813
Other comprehensive income	—	—	—	—	—	—	—	21	21
Net income	—	—	—	—	—	—	3,638	—	3,638
<b>Balances at March 31, 2021</b>	23,013	\$ —	103,479,239	\$ 517	\$ 30,551	\$ (579)	\$ 58,685	\$ 237	\$ 89,411
Issuance of Class A common stock in connection with initial public offering and private placement, net of offering costs, underwriting discounts and commissions	—	—	13,880,950	1	272,633	—	—	—	272,634
Conversion of common stock to Class B common stock in connection with initial public offering	—	—	—	(506)	506	—	—	—	—
Redemption of Series A preferred stock in connection with initial public offering	(23,013)	—	—	—	(23,013)	—	—	—	(23,013)
Payment of dividends on Series A preferred stock in connection with redemption upon initial public offering	—	—	—	—	—	—	(34,412)	—	(34,412)
Issuance of warrant	—	—	—	—	4,498	—	—	—	4,498
Retirement of treasury stock in connection with initial public offering	—	—	—	—	(579)	579	—	—	—
Stock-based compensation	—	—	—	—	568	—	—	—	568
Other comprehensive loss	—	—	—	—	—	—	—	(69)	(69)
Net income	—	—	—	—	—	—	575	—	575
<b>Balances at June 30, 2021</b>	—	\$ —	117,360,189	\$ 12	285,164	\$ —	\$ 24,848	\$ 168	\$ 310,192
Issuance of Class A common stock for acquisitions	—	—	2,601,579	—	66,857	—	—	—	66,857
Change in estimate of warrants expected to vest	—	—	—	—	304	—	—	—	304
Stock-based compensation	—	—	—	—	754	—	—	—	754
Issuance of Class B common stock for stock option exercises	—	—	7,500	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	6	6
Net income	—	—	—	—	—	—	422	—	422
<b>Balances at September 30, 2021</b>	—	\$ —	119,969,268	\$ 12	353,079	\$ —	\$ 25,270	\$ 174	\$ 378,535

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PAYMENTUS HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(In thousands)

	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (1,470)	\$ 4,635
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	17,518	8,587
Deferred income taxes	(3,331)	2,691
Stock-based compensation	4,622	1,885
Non-cash lease expense	1,703	2,131
Amortization of contract asset	1,347	423
Provision for credit losses	219	—
Change in operating assets and liabilities		
Accounts and other receivables	(19,143)	(7,814)
Prepaid expenses and other current and long-term assets	(854)	167
Accounts payable	2,975	7,842
Accrued liabilities	2,390	149
Operating lease liabilities	(1,398)	(2,071)
Contract liabilities	80	383
Income taxes receivable, net of payable	485	349
Net cash provided by operating activities	<u>5,143</u>	<u>19,357</u>
<b>Cash flows from investing activities</b>		
Business combinations, net of cash and restricted cash acquired	—	(57,120)
Other intangible assets acquired	(248)	—
Purchases of property and equipment	(1,163)	(825)
Capitalized internal-use software development costs	(22,257)	(13,473)
Net cash used in investing activities	<u>(23,668)</u>	<u>(71,418)</u>
<b>Cash flows from financing activities</b>		
Proceeds from initial public offering, net of underwriter's discounts and commissions	—	224,595
Proceeds from private placement	—	50,000
Redemption of Series A preferred stock	—	(23,013)
Payment of dividends on Series A preferred stock	—	(34,412)
Proceeds from repayment of related party loan	—	813
Proceeds from exercise of stock-based awards	1,469	—
Financial institution funds in-transit	44,158	6,612
Payments of deferred offering costs	—	(1,961)
Payments on other financing obligations	(2,486)	(1,482)
Payments on finance leases	(201)	(204)
Net cash provided by financing activities	<u>42,940</u>	<u>220,948</u>
Foreign currency effect on cash, cash equivalents and restricted cash	(329)	24
Net increase in cash, cash equivalents and restricted cash	<u>24,086</u>	<u>168,911</u>
<b>Cash, cash equivalents and restricted cash</b>		
Beginning of period	201,829	46,666
End of period	<u>\$ 225,915</u>	<u>\$ 215,577</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes, net of refunds	\$ 421	\$ 2,308
<b>Non-cash investing activities:</b>		
Fair value of Class A common stock issued for acquisitions	\$ —	\$ 66,857
Property and equipment purchases in accounts payable	—	147
Business acquisition liability in accrued liabilities and finance leases and other finance obligations, net of current portion	—	2,186
<b>Non-cash financing activities:</b>		
Prepaid insurance funded through short-term borrowings	\$ 4,425	\$ 5,756
Issuance of warrant and change in estimate of warrants expected to vest	3,524	4,802

The accompanying notes are an integral part of these condensed consolidated financial statements.

PAYMENTUS HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)  
(In thousands)

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
<b>The below table reconciles cash, cash equivalents, and restricted cash in the condensed consolidated balance sheets to the total of the same amounts shown in the condensed consolidated statements of cash flows:</b>		
Cash and cash equivalents	\$ 148,314	\$ 177,506
Restricted funds held for financial institutions	77,601	38,071
Total cash, cash equivalents and restricted cash as shown in the condensed consolidated statements of cash flows	\$ 225,915	\$ 215,577

The accompanying notes are an integral part of these condensed consolidated financial statements.

## 1. Organization and Description of Business

### *Description of Business*

Paymentus Holdings, Inc. and its wholly owned subsidiaries ("Paymentus" or the "Company") provides electronic bill presentment and payment services, enterprise customer communication and self-service revenue management to billers through a Software-as-a-Service ("SaaS"), secure, omni-channel technology platform. The platform seamlessly integrates into a biller's core financial and operating systems to provide flexible and secure access to payment processing of credit cards, debit cards, eChecks and digital wallets across a significant number of channels including online, mobile, IVR, call center, chatbot and voice-based assistants. Paymentus was incorporated in the state of Delaware on September 2, 2011 with office locations in Charlotte, North Carolina, Richmond Hill, Ontario (Canada), Blacksburg, Virginia, and Delhi and Bangalore (India). On or about September 1, 2022, the Company's headquarters were moved to Charlotte, North Carolina. The Company expects to reestablish its headquarters in or around the Seattle, Washington area in 2023.

### *Initial Public Offering and Private Placement*

In May 2021, the Company completed its initial public offering ("IPO"), in which the Company issued and sold 11,500,000 shares of its Class A common stock at \$21.00 per share, including 1,500,000 shares issued upon the exercise of the underwriters' option to purchase additional shares. The Company received net proceeds of \$224.6 million after deducting underwriting discounts and commissions of \$16.9 million. The Company incurred direct offering expenses of \$2.0 million.

In connection with the IPO:

- all 103,479,239 shares of the Company's outstanding common stock automatically converted into an equivalent number of shares of Class B common stock on a one-to-one basis; and
- entities affiliated with Accel-KKR purchased 2,380,950 shares of the Company's Class A common stock at \$21.00 per share in a concurrent private placement that closed immediately subsequent to the closing of the IPO. The Company received aggregate proceeds of \$50.0 million in this concurrent private placement and did not pay underwriting discounts or commissions with respect to the shares of Class A common stock that were sold in the private placement.

## 2. Basis of Presentation and Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the United States Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all disclosures normally required in annual consolidated financial statements prepared in accordance with GAAP. Therefore, these unaudited condensed consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements and the related notes included in the Company's Form 10-K for the year ended December 31, 2021 filed with the SEC on March 3, 2022 (the "2021 Form 10-K").

These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the Company's financial position, results of operations, comprehensive income, changes in stockholders' equity and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2022 and 2021 are not necessarily indicative of the results to be expected for the full year or any other future interim or annual period.

### *Stock Split*

On May 10, 2021, the Company effected a 5-for-1 forward stock split of its common stock. In connection with the forward stock split, each issued and outstanding share of common stock, automatically and without action on the part of the stockholders, became five shares of common stock. The par value per share of common stock was not adjusted. All share, per share and related information presented in the unaudited interim condensed consolidated financial statements and accompanying notes have been retroactively adjusted, where applicable, to reflect the impact of the stock split.

## ***Principles of Consolidation***

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and balances have been eliminated upon consolidation.

## ***Segment Information***

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker ("CODM") in deciding how to make operating decisions, allocate resources and assess performance. The Company has three operating segments based on geography. The United States segment represents the vast majority of the Company's consolidated net sales and gross profit. The additional two operating segments, Canada and India, do not meet the quantitative thresholds for separate reporting, either individually or in the aggregate. None of the operating segments qualified for aggregation. The Company's CODM is its Chief Executive Officer. The CODM evaluates the performance of the Company's operating segments based on revenue and gross profit. The Company does not analyze discrete segment balance sheet information related to long-term assets. All other financial information is presented on a consolidated basis. For information regarding the Company's long-lived assets and revenue by geographic area, see Note 15.

## ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Such estimates include revenue recognition, the allowance for credit losses, the lives of tangible and intangible assets, the valuation of acquired intangible assets and the recoverability or impairment of intangible assets, including goodwill, internal-use software development costs, valuation of stock warrants issued, stock-based compensation, and accounting for income taxes. The Company bases its estimates on historical experience and also on assumptions that management considers reasonable. The Company assesses these estimates on a regular basis; however, actual results could differ from these estimates.

## ***Custodial Accounts***

The Company has established a relationship with its merchant processors to act as collection and paying agents, whereby a merchant processor receives funds from customers and forwards such funds to the respective Paymentus client, based on the instructions received from the Company. These merchant processors act as custodians of the cash received, and the Company has no legal ownership rights to the funds held in such custodial accounts and does not control the use of these funds. As the Company does not take ownership of the funds, these custodial accounts are not included in the Company's consolidated balance sheets. The balance of cash in the custodial accounts held by these merchant processors was \$55.1 million and \$47.4 million as of September 30, 2022 and December 31, 2021, respectively.

## ***Restricted Funds Held for Financial Institutions and Financial Institution Funds In-Transit***

Restricted funds held for financial institutions and the corresponding liability of financial institution funds in-transit represent the timing differences arising between the amounts the Company's sponsor bank receives from the sending financial institutions and the amounts disbursed to the recipient financial institutions. The restricted funds held for financial institutions' account is a transaction account maintained at the Company's sponsor bank for clearing payments from financial institutions (as defined by the U.S. Treasury's Financial Crimes Enforcement Network) to other financial institutions. Restricted funds held for financial institutions represent restricted cash that, based upon the Company's intent, are restricted solely for satisfying the corresponding obligations to send funds to the various financial institutions.

## ***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to credit risk primarily consist of cash, cash equivalents, and accounts receivable. The Company maintains its cash and cash equivalents with high-quality financial institutions with investment-grade ratings. For accounts receivable, the Company is exposed to credit risk in the event of nonpayment by customers to the extent of the amounts recorded in the consolidated balance sheets. No customer accounted for more than 10% of revenue for either of the three or nine months ended September 30, 2022 and 2021. No customer accounted for more than 10% of accounts receivable as of September 30, 2022, while one customer accounted for more than 10% of accounts receivable as of December 31, 2021.

### Summary of Significant Accounting Policies

The Company's significant accounting policies are discussed in Note 2, "Basis of Presentation and Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements as of December 31, 2021 and 2020 and for the years ended December 31, 2021 and 2020 included in the 2021 Form 10-K. There have been no significant changes to these policies during the three and nine months ended September 30, 2022.

### Accounting Pronouncements

The Company is provided the option to adopt new or revised accounting guidance as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 either (1) within the same periods as those otherwise applicable to public business entities, or (2) within the same time periods as non-public business entities, including early adoption when permissible. With the exception of standards the Company elected to early adopt, when permissible, the Company has elected to adopt new or revised accounting guidance within the same time period as non-public business entities, as indicated below.

### Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers" ("ASU 2021-08"). ASU 2021-08 will require companies to apply the definition of a performance obligation under ASU 2014-09, Revenue from contracts with customers ("Topic 606") to recognize and measure contract assets and contract liabilities relating to contracts with customers that are acquired in a business combination. Under current U.S. GAAP, an acquirer generally recognizes assets acquired and liabilities assumed in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers, at fair value on the acquisition date. ASU 2021-08 will result in the acquirer recording acquired contract assets and liabilities on the same basis that would have been recorded by the acquiree before the acquisition under ASU Topic 606. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022 for public entities and December 15, 2023 for all other entities, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

## 3. Revenue, Performance Obligations and Contract Balances

### Disaggregation of Revenue

The following table presents a disaggregation of revenue from contracts with customers (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Payment transaction processing revenue	\$ 126,373	\$ 100,384	\$ 359,846	\$ 284,029
Other	1,779	1,292	4,979	3,364
Total revenue	<u>\$ 128,152</u>	<u>\$ 101,676</u>	<u>\$ 364,825</u>	<u>\$ 287,393</u>

### Remaining Performance Obligations

ASU Topic 606 requires disclosure of the aggregate amount of the transaction price allocated to unsatisfied performance obligations. The purpose of this disclosure is to provide additional information about the amounts and expected timing of revenue to be recognized from the remaining performance obligations in our existing contracts.

As of September 30, 2022, the aggregate amount of transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied was \$4.0 million, of which the Company expects to recognize over 80% within the next four years. The timing of revenue recognition within the next year is largely dependent upon the go-live dates of the Company's contracts.

As of September 30, 2022, the Company has contractual rights under its commercial agreements to receive \$61.0 million of fixed consideration related to the future minimum guarantees through 2026. As permitted, the Company has elected to exclude from this disclosure any variable consideration that meets specified criteria. Accordingly, the total unsatisfied or partially unsatisfied performance obligations related to processing services is significantly higher than the amount disclosed.

### Contract Balances

The contract asset balances at September 30, 2022 and December 31, 2021 were \$10.1 million and \$5.6 million, respectively, of which \$2.7 million and \$1.7 million was included in prepaid expenses and other current assets and \$7.4

million and \$3.9 million was included in other long-term assets in the condensed consolidated balance sheets, respectively. The increase in the contract asset balance was primarily related to the addition of new warrants, see Note 11 for details. During the three months ended September 30, 2022 and 2021, the Company reduced revenue and the related contract assets by \$0.5 million and \$0.2 million, respectively and for the nine months ended September 30, 2022 and 2021, revenue and the related contract assets were reduced by \$1.3 million and \$0.4 million, respectively.

The Company recorded \$4.0 million and \$3.9 million of contract liabilities in the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021, respectively, which relates to legacy contracts obtained from prior acquisitions associated with the Company's insignificant other revenue stream and other payments the Company received in advance for services. The change in the contract liabilities is primarily related to timing differences between payment from the customer and the Company's satisfaction of each performance obligation. Revenue recognized during the three months ended September 30, 2022 and 2021 that was included in the contract liabilities balance at the beginning of each of the periods was \$0.5 million and \$0.8 million, respectively. Revenue recognized during the nine months ended September 30, 2022 and 2021 that was included in the contract liabilities balance at the beginning of each respective period was \$0.6 million and \$1.5 million, respectively.

#### 4. Business Combinations

##### *PayVeris, LLC*

On September 1, 2021, the Company completed its acquisition of PayVeris, LLC ("Payveris") by acquiring all outstanding equity interests for a total purchase price of approximately \$145.5 million, comprised of \$85.1 million in cash and 2,364,270 shares of the Company's Class A common stock with a fair value of approximately \$60.4 million. Payveris is a payments processing company for financial institutions. The acquisition is expected to increase the addressable market opportunity for the Company's existing solutions while also enhancing Payveris' platform with real-time capabilities, enhanced electronic bill presentment and additional payment options for banks, credit unions and financial institutions of all sizes.

The acquisition was accounted for as a business combination and, accordingly, the total fair value of purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values on the acquisition date. The major classes of assets and liabilities to which the Company has allocated the fair value of purchase consideration were as follows (in thousands):

Accounts receivable	\$	1,026
Prepaid expenses and other current assets		237
Intangible assets, includes software acquired		38,498
Property and equipment		77
Goodwill		108,950
Restricted funds held for financial institutions		31,459
Financial institution funds in-transit		(31,459)
Accounts payable		(194)
Accrued liabilities		(265)
Deferred revenue		(2,805)
<b>Total</b>	<b>\$</b>	<b>145,524</b>

The finalization of purchase price allocation did not result in any changes to the preliminary estimate. The Company recorded a measurement period adjustment of \$8.5 million during the fourth quarter of 2021 to decrease trademarks and increase goodwill related to the refinement of inputs in the acquisition valuation. There were no measurement period adjustments during the three and nine months ended September 30, 2022.

The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of Payveris and the assembled workforce. The goodwill is deductible for income tax purposes.

The fair values and estimated useful lives of the acquired intangible assets by category were as follows (in thousands, except years):

	Fair Value	Useful Life (Years)
Customer Relationships	\$ 26,154	8.0
Trademarks	3,993	4.0
Developed Technology	8,102	4.0
<b>Total</b>	<b>\$ 38,249</b>	

## Finovera, Inc.

On September 2, 2021, the Company completed its acquisition of Finovera by acquiring all outstanding shares for a total purchase price of approximately \$12.9 million, net of cash acquired, comprised of \$5.0 million in cash of which \$0.8 million is being held back by the Company for a period of twenty-four months following the transaction closing date and is recorded in finance leases and other finance obligations, net of current portion in the condensed consolidated balance sheets, and 293,506 shares of the Company's Class A common stock with a fair value of approximately \$7.9 million. Finovera is a bill aggregation technology provider for financial institutions. The acquisition of Finovera is expected to increase the addressable market opportunity for the Company's biller and financial institution solutions by, among other things, increasing the availability of certain bill data.

The acquisition was accounted for as a business combination and, accordingly, the total fair value of purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values on the acquisition date. The major classes of assets and liabilities to which the Company has allocated the fair value of purchase consideration were as follows (in thousands):

Cash	\$	65
Accounts receivable		267
Intangible assets		6,048
Prepaid expenses and other current assets		39
Goodwill		7,266
Accounts payable		(85)
Accrued liabilities		(72)
Deferred taxes		(588)
Total	\$	<u>12,940</u>

The finalization of the purchase price allocation did not result in any changes to the preliminary estimate. There were no measurement period adjustments during the three and nine months ended September 30, 2022.

The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of Finovera and the assembled workforce. The goodwill is not deductible for income tax purposes.

The fair values and estimated useful lives of the acquired intangible assets by category were as follows (in thousands, except years):

	Fair Value	Useful Life (Years)
Developed Technology	\$ 5,155	4.0
Customer Relationships	893	2.0
Total	<u>\$ 6,048</u>	

The revenue and expenses of the acquired businesses have been included in the Company's condensed consolidated financial results since the acquisition date. Revenues and expenses related to these acquisitions and pro forma results of operations have not been presented for the three and nine months ended September 30, 2021 because the effects of these acquisitions was not material to the Company's overall operations.

The Company incurred costs related to these acquisitions of approximately \$1.7 million for the year ended December 31, 2021. All acquisition related costs were expensed as incurred and have been recorded in general and administrative expenses in the condensed consolidated statements of operations.

## 5. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Computer equipment	\$ 5,366	\$ 4,934
Furniture and fixtures	1,661	1,456
Leasehold improvements	417	445
Total property and equipment	7,444	6,835
Less: Accumulated depreciation and amortization	(5,448)	(4,791)
Property and equipment, net	<u>\$ 1,996</u>	<u>\$ 2,044</u>

Depreciation and amortization expense recorded for property and equipment was \$0.3 million and \$0.3 million for the three months ended September 30, 2022 and 2021, respectively, and \$1.0 million and \$0.8 million for the nine months ended September 30, 2022 and 2021, respectively.

## 6. Goodwill, Internal-use Software Development Costs and Intangible Assets

### Goodwill

The changes in the carrying amount of goodwill by reporting unit were as follows (in thousands):

	United States	Other	Total
<b>Balance as of December 31, 2021</b>	\$ 128,519	\$ 894	\$ 129,413
Foreign currency translation adjustments	—	(69)	(69)
<b>Balance as of September 30, 2022</b>	<u>\$ 128,519</u>	<u>\$ 825</u>	<u>\$ 129,344</u>

### Internal-use Software Development Costs

The Company capitalizes qualifying internal-use software development costs related to its platform. The costs consist of personnel costs (including related benefits) that are incurred during the application development stage, as well as implementation costs incurred to fulfill our contracts with customers as they (1) relate directly to the contract, (2) are expected to generate resources that will be used to satisfy the performance obligation under the contract, and (3) are expected to be recovered through revenues generated under the contract. Capitalization of costs begins when two criteria are met: (1) the preliminary project stage is completed, and (2) it is probable that the software will be completed and used for its intended function. Capitalization ceases when the software is substantially complete and ready for its intended use, including the completion of all significant testing. Costs related to preliminary project activities and post-implementation operating activities are expensed as incurred. During the three months ended September 30, 2022 and 2021, the Company capitalized \$7.8 million and \$4.8 million in software development costs, respectively, and during the nine months ended September 30, 2022 and 2021, the Company capitalized \$22.3 million and \$13.5 million in software development costs, respectively.

Capitalized costs are amortized over the estimated useful life of the software, which management estimated to be a range of three to five years, and are recorded on a straight-line basis, which represents the manner in which the expected benefit will be derived. Amortization expense is recorded in cost of revenue and operating expenses in the condensed consolidated statement of operations aligned with the internal organizations that are the primary beneficiaries of such assets. During the three months ended September 30, 2022 and 2021, the Company recorded \$2.4 million and \$1.3 million of amortization expense in cost of revenue, and \$1.4 million and \$1.2 million of amortization expense in operating expenses, respectively. During the nine months ended September 30, 2022 and 2021, the Company recorded \$6.1 million and \$3.5 million of amortization expense in cost of revenue, and \$4.3 million and \$3.3 million of amortization expense in operating expenses, respectively.

### Intangible Assets

Intangible assets, net consisted of the following (in thousands):

	September 30, 2022			Weighted-Average Useful Life (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Technology	\$ 20,797	\$ (11,131)	\$ 9,666	4.0
License	2,479	(2,479)	—	—
Customer relationship	33,781	(10,759)	23,022	8.0
Software	1,109	(596)	513	3.0
Trademark	4,193	(1,281)	2,912	4.0
Total	<u>\$ 62,359</u>	<u>\$ (26,246)</u>	<u>\$ 36,113</u>	

	December 31, 2021			Weighted-Average Useful Life (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Technology	\$ 20,837	\$ (8,655)	\$ 12,182	4.0
License	2,652	(2,652)	—	—
Customer relationship	33,830	(8,021)	25,809	8.0
Software	893	(456)	437	3.0
Trademark	4,193	(533)	3,660	4.0
Total	<u>\$ 62,405</u>	<u>\$ (20,317)</u>	<u>\$ 42,088</u>	

Amortization expense of intangible assets was \$2.0 million and \$1.0 million for the three months ended September 30, 2022 and 2021, respectively, and \$6.2 million and \$1.1 million for the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022, future expected amortization expense is as follows (in thousands):

Years Ending December 31,	
2022 (remaining three months)	\$ 2,066
2023	8,082
2024	7,807
2025	6,169
2026	3,283
Thereafter	8,706
Total future amortization expense	<u>\$ 36,113</u>

## 7. Leases

The Company enters into operating and finance leases, primarily related to rental of office space, equipment and data centers. Both operating and finance leases have remaining lease terms which range from less than one year to ten years, and often include one or more renewal or termination options. These options are not included in the determination of the lease term at commencement unless it is reasonably certain that the Company will exercise the option.

The components of lease cost were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease cost	\$ 659	\$ 893	\$ 1,901	\$ 2,329
Finance lease cost				
Depreciation expense	67	68	203	204
Interest on finance lease liabilities	2	4	7	13
Total finance lease cost	69	72	210	217
Short-term lease cost	181	424	807	592
Total lease cost	<u>\$ 909</u>	<u>\$ 1,389</u>	<u>\$ 2,918</u>	<u>\$ 3,138</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows for operating leases	\$ 521	\$ 546	\$ 1,598	\$ 2,236
Operating cash flows for finance leases	2	4	7	13
Financing cash flows for finance leases	66	68	201	204
Right-of-use assets obtained in exchange of operating lease obligations	--	--	4,151	2,638

The total remaining lease payments under non-cancelable operating and finance leases as of September 30, 2022 were as follows (in thousands):

Years Ending December 31,	Operating Leases	Finance Leases
2022 (remaining three months)	\$ 498	\$ 64
2023	1,748	102
2024	1,721	—
2025	1,736	—
2026	1,758	—
Thereafter	3,690	—
Total minimum lease payments including interest	\$ 11,151	\$ 166
Less imputed interest	(1,059)	(1)
Total lease liabilities	\$ 10,092	\$ 165

## 8. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Payroll and employee-related expenses	\$ 9,402	\$ 8,093
Finance leases and other financing obligations	4,252	2,382
Other accrued liabilities	3,011	2,016
Total	\$ 16,665	\$ 12,491

Finance leases and other financing obligations includes the current portion of finance leases related to the acquisition of computer equipment and short-term insurance premium financing arrangements.

## 9. Commitments and Contingencies

### Other Commitments

The Company has entered into certain non-cancellable agreements for software and marketing services that specify all significant terms, including fixed or minimum services to be used, pricing provisions and the approximate timing of the transaction. Obligations under contracts that are cancellable or with remaining terms of 12 months or less are not included. There have been no material changes to the Company's contractual obligations or commitments outside of the ordinary course of business as compared to those described in the 2021 Form 10-K.

The Company sponsors a 401(k) defined contribution plan covering all eligible U.S. employees. Contributions to the 401(k) plan are discretionary. For the three and nine months ended September 30, 2022, the Company made \$0.2 million and \$0.6 million of matching contributions to the 401(k) plan, respectively. The Company did not make any matching contributions to the 401(k) plan for the three and nine months ended September 30, 2021.

### Legal Matters

The Company is involved from time to time in various claims and legal proceedings arising in the ordinary course of business. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company believes that none of its current claims and legal proceedings will have a material adverse effect on its financial position, results of operations, or cash flows as of and for the three and nine months ended September 30, 2022.

### Indemnification

The Company enters into indemnification provisions under agreements with other parties in the ordinary course of business, including business partners, investors, contractors, customers, and the Company's officers, directors, and certain employees. The Company has agreed to indemnify and defend the indemnified party claims and related losses suffered or incurred by the indemnified party from actual or threatened third-party claims due to the Company's activities or non-compliance with obligations or representations made by the Company. The Company seeks to limit, or cap, its indemnification exposure in its commercial and other contracts. It is not possible to determine the maximum potential loss under these indemnification provisions due to the Company's limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision.

## 10. Related Party Transactions

There have been no material changes to the Company's related party transactions as previously disclosed in the Company's 2021 Form 10-K.

## 11. Equity

### **Preferred Stock**

The Company's amended and restated certificate of incorporation authorizes the issuance of 5,000,000 shares of undesignated preferred stock with a par value of \$0.0001 per share with rights and preferences, including voting rights, designated from time to time by the board of directors. There were no shares of preferred stock issued or outstanding as of September 30, 2022.

### **Common Stock**

The Company has two classes of common stock: Class A common stock and Class B common stock. The Company's amended and restated certificate of incorporation authorizes the issuance of 883,950,000 shares of Class A common stock and 111,050,000 shares of Class B common stock. The shares of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to ten votes. Class A and Class B common stock have a par value of \$0.0001 per share, and are referred to as common stock throughout the notes to the condensed consolidated financial statements, unless otherwise noted. Holders of common stock are entitled to receive any dividends as may be declared from time to time by the board of directors.

Shares of Class B common stock may be converted to Class A common stock at any time at the option of the stockholder. Shares of Class B common stock automatically convert to Class A common stock upon the following: (i) sale or transfer of such share of Class B common stock; (ii) the death of the Class B common stockholder (or nine months after the date of death if the stockholder is one of the Company's founders); and (iii) on the first trading day on or after the date on which the outstanding shares of Class B common stock represent less than 10% of the then outstanding Class A and Class B common stock. Following the conversion of all outstanding shares of Class B common stock into Class A common stock, no further shares of Class B common stock will be issued.

### **Series A Preferred Stock**

Upon completion of the IPO, the Company used approximately \$57.4 million of the net proceeds to redeem all of the issued and outstanding shares of Series A preferred stock (including accrued dividends of \$34.4 million). As of September 30, 2022, there were no shares of Series A preferred stock issued and outstanding.

### **Warrant**

On May 13, 2021, the Company entered into a warrant agreement with JPMC Strategic Investments I Corporation ("JPMC"), an affiliate of J.P. Morgan Securities LLC, an underwriter in the IPO, pursuant to which the Company issued a warrant to JPMC for up to 509,370 shares of Class A common stock upon completion of the IPO at an exercise price of \$18.38 per share. Upon completion of the IPO, 382,027 of the warrant shares had vested and are therefore, exercisable. The vesting of the remaining 127,343 shares of Class A common stock underlying the warrant will be subject to the achievement of certain commercial milestones through December 31, 2025 pursuant to a related commercial agreement with JPMorgan Chase Bank, National Association ("JPM Chase"), an affiliate of JPMC. This commercial agreement was amended in August 2022, and the achievement of certain commercial milestones was extended through December 31, 2026 and minimum revenue commitments were set for each of the calendar years through 2026. Consistent with classification guidance in ASU Topic 606, the Company accounts for the consideration payable in the form of warrants to a customer as a reduction of the transaction price and, therefore, of revenue as the revenue is earned. The warrant fair value was determined using the Black-Scholes pricing model in accordance with ASC 718, *Compensation-Stock Compensation*.

On August 29, 2022, the Company entered into a warrant agreement with JPMC, in connection with an amendment to the Company's existing commercial agreement with JPM Chase, pursuant to which the Company issued a warrant to JPMC for up to 684,510 shares of Class A common stock at an exercise price of \$10.10 per share. Upon signing of the warrant agreement, 171,128 of the warrant shares had vested and are therefore, exercisable. The vesting of the remaining 513,382 shares of Class A common stock underlying the warrant will be subject to the achievement of certain commercial milestones through December 31, 2026 pursuant to the commercial agreement, as amended. Consistent with classification guidance in ASU Topic 606, the Company accounts for the consideration payable in the form of warrants to

a customer as a reduction of the transaction price and, therefore, of revenue as the revenue is earned. The warrant fair value was determined using the Black-Scholes pricing model in accordance with ASC 718, *Compensation-Stock Compensation*.

During 2021, the Company updated the May 2021 warrant value recognized based on the expectation that the probability of achievement of certain milestones would be achieved. The increase was recorded using the fair value determined at the time of grant multiplied by the estimated number of remaining warrants expected to vest. This increase was recorded as additional paid-in capital and as a contract asset included in prepaid expenses and other current assets and other long-term assets in the condensed consolidated balance sheets. The increase made to the valuation in the three and nine months ended September 30, 2022 was not material.

As of September 30, 2022, an aggregate of 569,072 warrants had vested and were exercisable under the outstanding warrant agreements.

## 12. Stock-Based Compensation

In May 2021, the Company's board of directors adopted, and its stockholders approved, the 2021 Equity Incentive Plan (the "2021 Plan"), which became effective in connection with the IPO. The 2021 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to the Company's employees and any of its parent or subsidiary corporations' employees, and for the grant of non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, and performance awards to the Company's employees, directors and consultants and any of its parent or subsidiary corporations' employees and consultants. A total of 10,459,000 shares of the Company's Class A common stock have been reserved for issuance under the 2021 Plan in addition to (i) an annual increase of 4% of the outstanding shares of the Company's common stock, with Class A and Class B common stock taken together, on the first day of each fiscal year ( the "Evergreen Addition") and (ii) upon the expiration, forfeiture, cancellation, or reacquisition of any shares of Class B common stock underlying outstanding stock awards granted under the 2012 Equity Incentive Plan, an equal number of shares of Class A common stock, such number of shares not to exceed 7,563,990. On January 1, 2022, pursuant to the Evergreen Addition, 4,825,566 shares of Class A common stock were added to the 2021 Plan issuance reserve. At September 30, 2022, there were 14,075,898 remaining shares available for the Company to grant under the 2021 Plan.

### Stock Options

A summary of the Company's option activity during the nine months ended September 30, 2022 was as follows (in thousands, except share and per share amounts):

	Options Outstanding	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2021	6,849,910	\$ 5.05	4.98	\$ 205,010
Options granted	—			
Options exercised	(2,282,645)	0.64		
Options forfeited	(210,104)	8.66		
Outstanding at September 30, 2022	<u>4,357,161</u>	\$ 7.19	5.88	\$ 11,041
Exercisable at September 30, 2022	<u>3,294,854</u>	\$ 6.72	5.61	\$ 9,900

There were no options granted during the three or nine months ended September 30, 2022. There were no options granted during the three months ended September 30, 2021. The weighted average grant date fair value of options granted during the nine months ended September 30, 2021 was \$7.21. Aggregate intrinsic value represents the difference between the exercise price of the options and the fair value of the Company's common stock.

There were no options granted during the three months ended September 30, 2021. The fair value of options granted during the nine months ended September 30, 2021 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>Nine Months Ended September 30, 2021</u>
Dividend yield	0.0%
Risk-free interest rate	0.3% - 0.8%
Expected term (in years)	5
Expected volatility	38.0%

### Restricted Stock Units ("RSUs")

A summary of the Company's RSU activity during the nine months ended September 30, 2022 was as follows:

	Number of RSU's Outstanding	Weighted- Average Grant Date Fair Value
Awarded and unvested at December 31, 2021	513,547	\$ 25.93
Awards granted	1,142,491	15.37
Awards vested	(68,096)	26.08
Awards forfeited	(150,076)	17.80
Awarded and unvested at September 30, 2022	<u>1,437,866</u>	\$ 18.38

The fair value of RSU grants is determined based upon the market closing price of the Company's Class A common stock on the date of grant. RSUs vest over the requisite service period, which ranges between four years and five years from the date of grant, subject to continued employment for employees and provision of services for nonemployees.

Stock-based compensation expense included in the condensed consolidated statements of operations was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	\$ —	\$ —	\$ —	\$ —
Operating expenses				
Research and development	507	110	1,080	141
Sales and marketing	612	56	1,062	92
General and administrative	883	588	2,480	1,652
Total stock-based compensation	<u>\$ 2,002</u>	<u>\$ 754</u>	<u>\$ 4,622</u>	<u>\$ 1,885</u>

At September 30, 2022, there was \$2.8 million of total unrecognized compensation cost related to unvested stock options granted under the 2012 Equity Incentive Plan and the 2021 Plan, which is expected to be recognized over a remaining weighted-average period of 1.6 years.

At September 30, 2022, there was \$24.3 million of total unrecognized compensation cost related to unvested RSUs granted under the 2021 Plan, which is expected to be recognized over a remaining weighted-average period of 3.7 years.

### 13. Income Taxes

The Company computes its tax provision for interim periods by applying the estimated annual effective tax rate to year-to-date income from recurring operations and adjusting for discrete items arising in that quarter. However, if the Company is unable to make a reliable estimate of its annual effective tax rate, then the actual effective tax rate for the year-to-date period may be the best estimate. For the three and nine months ended September 30, 2021, the Company determined that its annual effective tax rate approach would provide a reliable estimate and therefore used its historical method to calculate its tax provision. However, for the three and nine months ended September 30, 2022, the Company used a discrete effective tax rate method as it was determined that the effective tax rate determined using the forecast of

ordinary income or loss does not reasonably estimate the effective tax rate to be applied to year-to-date pre-tax (loss) income, and any small changes would result in significant changes in the estimated annual effective tax rate.

The Company's effective tax rate for the three and nine months ended September 30, 2022 is (65.2%) and 62.3%, respectively. For the three and nine months ended September 30, 2021, the effective tax rate was 58.0% and 53.9%, respectively. The difference between the Company's effective tax rate and the U.S. federal statutory rate of 21% in the above periods was primarily the result of excess tax benefits on stock-based compensation, state taxes, foreign income taxed at different rates and permanent tax adjustments related to nondeductible executive compensation.

As of September 30, 2022, the Company recognized sizable tax deductions for stock-based compensation. These permanent benefits are creating net operating losses that have resulted in a net deferred tax asset. These permanent tax benefits have also created a cumulative history of losses such that the Company has determined that the resulting net deferred tax asset is not more likely than not to be realized. The Company began recording a valuation allowance during the three months ended June 30, 2022 against its U.S. net deferred tax assets. As of September 30, 2022, the Company's valuation allowance was \$6.7 million.

#### 14. Net (Loss) Income per Share Attributable to Common Stock

Basic net (loss) income per share attributable to common stockholders is computed by deducting the undeclared dividends on the Series A preferred stock from net (loss) income to arrive at net (loss) income attributable to common stock and dividing the net (loss) income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period.

Diluted net (loss) income per share attributable to common stock is computed by giving effect to all potentially dilutive common stock equivalents to the extent they are dilutive. The dilutive effect of outstanding options, RSUs and warrants is reflected in diluted net (loss) income per share attributable to common stock by application of the treasury stock method. The calculation of diluted net (loss) income per share attributable to common stock excludes all anti-dilutive common shares.

The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis to each class of common stock and the resulting basic and diluted net (loss) income per share attributable to common stockholders are, therefore, the same for both Class A and Class B common stock on both an individual and combined basis.

The following table sets forth the computation of basic and diluted net (loss) income per share attributable to common stock (in thousands except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net (loss) income	\$ (737)	\$ 422	\$ (1,470)	\$ 4,635
Undeclared dividends on Series A preferred stock	—	--	—	(2,258)
Net (loss) income attributable to common stock	<u>\$ (737)</u>	<u>\$ 422</u>	<u>\$ (1,470)</u>	<u>\$ 2,377</u>
<b>Denominator:</b>				
Weighted-average shares of common stock - basic	122,740,982	118,206,073	121,765,509	110,272,583
Dilutive effect of stock options to purchase common stock	—	6,076,424	—	6,077,748
Dilutive effect of RSUs	—	11,180	—	4,398
Dilutive effect of warrants	—	134,100	—	64,945
Weighted-average shares of common stock - diluted	<u>122,740,982</u>	<u>124,427,777</u>	<u>121,765,509</u>	<u>116,419,674</u>
<b>Net (loss) income per share attributable to common stock</b>				
Basic	\$ (0.01)	\$ —	\$ (0.01)	\$ 0.02
Diluted	\$ (0.01)	\$ —	\$ (0.01)	\$ 0.02

The following table summarizes the securities that were excluded from the computation of diluted net income per share attributable to common stock as their inclusion would have been antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stock options to purchase common stock	4,705,323	—	5,693,398	—
RSUs	1,396,810	—	860,848	—
Warrants	428,803	—	418,630	—

## 15. Geographic Information

Revenue by geographic area, based on the location of the Company's users, was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	\$ 125,655	\$ 99,544	\$ 357,088	\$ 281,309
Other	2,497	2,132	7,737	6,084
Total	\$ 128,152	\$ 101,676	\$ 364,825	\$ 287,393

Long-lived assets, comprising property and equipment assets, by geographic area were as follows (in thousands):

	September 30,		December 31,	
	2022	2021	2022	2021
United States	\$ 796	\$ 588		
Other	1,200	1,456		
Total	\$ 1,996	\$ 2,044		

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

### Overview

We are a leading provider of cloud-based bill payment technology and solutions. We deliver our next-generation product suite through a modern technology stack to more than 1,700 biller business and financial institution clients. Our platform was used by approximately 21 million consumers and businesses in North America in December 2021 to pay their bills, make money movements and engage with our clients. We serve billers of all sizes that primarily provide non-discretionary services across a variety of industry verticals, including utilities, financial services, insurance, government, telecommunications and healthcare. We also serve financial institutions by providing them with a modern platform that their customers use for bill payment, account-to-account transfers and person-to-person transfers. By powering this comprehensive network of billers and financial institutions, each with their own set of bill payment requirements, we believe we have created an enviable feedback loop that enables us to continuously drive innovation, grow our business and uniquely improve the electronic bill payment experience for participants in the bill payment ecosystem.

Our platform provides our clients with easy-to-use, flexible and secure electronic bill payment experiences powered by an omni-channel payment infrastructure that allows consumers to pay their bills using their preferred payment type and channel. Because our biller platform is developed on a single code base and leverages a SaaS infrastructure, we can rapidly deploy new features and tools to our entire biller base simultaneously. Through a single point of integration to our billers' core financial and operating systems, our mission-critical solutions provide our billers with a payments operating system that helps them collect revenue faster and more profitably and empower their consumers with the information and transparency needed to control their finances.

We generate substantially all of our revenue from payment transaction fees and have achieved significant growth through our capital efficient model. We rely on a diversified go-to-market strategy to reach new billers. We acquire new billers through direct sales channels, software and strategic partnerships and our Instant Payment Network, or IPN, which together promote rapid adoption of our platform through partnerships with leading business networks. Through these channels, our platform reaches millions of consumers, driving transaction growth.

We believe our revenue is highly visible. We derive the majority of our revenue from a fee paid per transaction by the consumer, the biller or a combination of both. Our usage-based monetization strategy aligns our economic success with the success of our billers and partners. Since we benefit from increased transactional volume, we do not charge separate license fees or implementation fees. In addition, our modern platform architecture generally allows us to provide integration, implementation, maintenance and system upgrades at no additional cost to billers.

### **Impact of Economic and Inflationary Trends**

In 2022, the United States economy has experienced inflationary conditions, increased interest rates and two consecutive quarters of decreased gross domestic product. While we believe our business is resilient and can generally weather unusual levels of inflation, the economic uncertainty and continuing inflationary pressures, which has been particularly acute in the utility sector, have had some impact on our expected 2022 financial performance and will likely have some impact on our 2023 performance. For example, some of our clients have deferred anticipated 2022 implementations into 2023 or are reevaluating the development of technology resources, which will delay expected revenue recognition. Furthermore, inflationary pressure is resulting in higher average bills, particularly in the utility sector, and increased interchange fees. While we are seeking to adjust our prices to address the inflationary pressures, our ability to do so typically lags behind the impact of inflation on our clients, the increase in average bill amounts and increased interchange fees. We intend to continue to manage through this uncertain economic environment by working closely with clients on implementations and price adjustments. In addition, although we are focused on prudent expense management, we are seeing ongoing wage pressure in our current workforce due to the levels of inflation, which is also putting some short-term pressure on our EBITDA margins.

### **Impact of the COVID-19 Pandemic**

The COVID-19 pandemic, including its variants, and efforts to control its spread have at times significantly curtailed the movement of people, goods and services in the United States, where we generate substantially all of our revenue, and worldwide, where we are targeting future growth. It has also caused extreme societal, economic and financial market volatility, resulting in business shutdowns and a global economic downturn. The magnitude and duration of the COVID-19 pandemic and the magnitude and duration of its effect on business activity cannot be predicted with any certainty.

In light of the uncertainty relating to the spread of COVID-19, we have taken precautionary measures intended to reduce the risk of the virus spreading to our employees, billers and partners, and we may take further precautionary measures. In particular, governmental authorities have at times instituted, and in the future may institute, shelter-in-place policies and other restrictions in many jurisdictions in which we operate or maintain significant operations, which policies and restrictions have at times required our employees to work remotely. Even though many of the shelter-in-place policies or other governmental restrictions have been lifted, we are taking, and expect to continue to take, a measured and careful approach to having employees return to offices and travel for business. To the extent our employees are required to work from our offices, we may experience turnover from employees unwilling to return to the office. These precautionary measures and policies could negatively impact employee productivity, training and collaboration or otherwise disrupt our business operations. In addition, such restrictions impact certain of our sales efforts, marketing efforts and implementations, adversely affecting the effectiveness of such efforts in some cases, delaying potential revenue recognition and potentially inhibiting future growth.

In addition, the COVID-19 pandemic has disrupted and may continue to disrupt the operations of our billers and partners for an indefinite period of time, which in turn could negatively impact our business and operating results. Widespread remote work arrangements may also negatively impact our billers' and partners' operations, and the operations of third-party service providers who perform critical services for us, and, by extension, our operations.

We will continue to evaluate the nature and extent of the COVID-19 pandemic's potential impact on our business, operating results and financial condition.

### **Components of Results of Operations**

#### **Revenue**

We generate substantially all of our revenue from payment transaction fees. Transaction fees are fees collected for each transaction processed through our platform, on either a fixed basis or variable basis based on the transaction value, with the actual fees dependent on type of transaction, payment or transaction channel and industry vertical. However, irrespective of these factors, the transaction fees that we receive are generally consistent across transaction types, payment and transaction channels and industry verticals. We receive such transaction fees directly from billers, financial institutions, partners or, in some cases, from consumers as a convenience fee.

#### **Cost of Revenue, Gross Profit and Gross Margin**

Cost of revenue consists of certain direct costs that are directly attributed to processing transactions on our platform. This includes interchange, assessment and network expenses incurred for processing payments as well as costs of servicing our clients through product support, implementations and customer care. Cost of revenue also includes an allocation of hosting and data center costs for our infrastructure and platform environment, telecommunication expenses used by sales and customer support teams and a portion of amortization of capitalized internal-use software development costs and a portion of amortization of intangible assets, including amortization of intangible assets acquired as part of our acquisitions of other businesses. We expect that cost of revenue will increase in absolute dollars, but it may fluctuate as a percentage of revenue from period to period, as our transaction mix changes and we continue to invest in growing our business across all geographical segments, including through the acquisition of other businesses.

There are external factors that impact interchange fees, such as the average transaction amount in a particular month or quarter. For example, hot summers and cold winters tend to increase utility bills, and property taxes result in two larger payments per year, each of which increases our interchange cost.

Gross profit is equal to our revenue less cost of revenue. Gross profit as a percentage of our revenue is referred to as gross margin. Our gross margin has been and will continue to be affected by a number of factors, including average transaction value, payment type and payments and transactions through our IPN.

### **Operating Expenses**

#### *Research and Development*

Research and development expenses consist of personnel-related expenses, including stock-based compensation expenses, incurred in developing new products or enhancing existing products and are expensed as incurred, unless they qualify as internal-use software development costs, which are capitalized and amortized. We expect our research and development expenses to increase in absolute dollars, but they may fluctuate as a percentage of revenue from period to period as we expand our research and development team to develop new products and product enhancements. Over the longer term, we expect research and development expenses to decrease as a percentage of revenue as we leverage the scale of our business.

#### *Sales and Marketing*

Sales and marketing expenses consist primarily of personnel-related expenses, including stock-based compensation expenses for sales and marketing personnel, sales commissions, partner fees, marketing program expenses, travel-related expenses and costs to market and promote our platform through advertisements, marketing events, partnership arrangements and direct biller acquisition as well as amortization of intangible assets acquired as part of our acquisitions of other businesses. We expect our sales and marketing expenses to increase in absolute dollars, but they may fluctuate as a percentage of revenue from period to period.

#### *General and Administrative*

General and administrative expenses consist primarily of personnel-related expenses, including stock-based compensation expenses for finance, risk management, legal and compliance, human resources, information technology and facilities personnel. General and administrative expenses also include costs incurred for external professional services and other corporate expenses. We expect to incur additional general and administrative expenses as a result of operating as a public company, and to support the growth in our business. We expect that our general and administrative expenses will increase in absolute dollars, but they may fluctuate as a percentage of revenue from period to period. Over the longer term, we expect general and administrative expenses to decrease as a percentage of revenue as we leverage the scale of our business.

### **Factors Affecting Our Performance**

The discussion below includes a number of forward-looking statements regarding our future performance. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from matters referred to below, see the discussions under "Risk Factors" and "Special Note Regarding Forward-Looking Statements" herein and in our Form 10-K for the year ended December 31, 2021 or the "2021 Form 10-K".

#### **Increased Adoption of Electronic Bill Payment Solutions**

As the number of financial transactions online continues to increase, electronic bill payment is becoming a greater share of the bill payment market. We have observed that consumers demand a frictionless electronic bill payment experience and increasingly prefer more flexible and innovative digital payment options. We expect this trend to continue, providing us with a greater opportunity to provide next-generation bill and digital payment technology and power more transactions, further fueling our growth.

### **Acquiring New and Maintaining Existing Billers and Financial Institutions**

Our future growth depends on the continued adoption of our platform by new billers and financial institutions, as well as maintaining our existing billers and financial institutions. We intend to continue investing in our efficient go-to-market strategies, increasing brand awareness and driving adoption of our platform and products. We had more than 1,700 billers and financial institution clients as of December 31, 2021, including billers of all sizes and across numerous vertical markets and financial institutions of all sizes. Our ability to attract new, and maintain existing, billers and financial institutions and drive adoption of our platform will depend on a number of factors, including the effectiveness and pricing of our products, offerings of our competitors and the effectiveness of our marketing efforts. Our growth and performance also depends on our ability to promptly implement and begin recognizing revenues from our new billers and financial institutions.

### **Expanding Usage of Our Platform with Existing Billers and Financial Institutions**

We believe our large base of existing billers and financial institutions represents a significant opportunity for further consumption of our platform. We believe our solutions create a superior experience for consumers and accelerate revenue realization for billers, which drives increased usage of our platform. We intend to continue investing in this value proposition. Leveraging our platform to capture more transactions from our existing biller and financial institution base is expected to organically drive transaction growth at lower cost.

### **Growing Our Partner Base**

We believe there is a significant opportunity to increase the transactions on our platform through expanding our base of software, strategic and IPN partners. While revenue derived from or through our IPN partnerships has not been significant historically, we expect that the revenue contribution from our IPN will grow over time. As our IPN partner base expands, and new partners use our platform to power bill payment experiences within their ecosystems, we expect to organically expand the reach of our platform to millions of new consumers and thereby drive new, revenue-generating transactions to our platform. We intend to invest in the expansion of our partner base, including the addition of new IPN partners, because our ability to secure new partners will have a direct impact on our transaction growth.

### **Investing in Sales and Marketing**

We will continue to expand efforts to market our platform through our diversified sales and marketing strategy. We intend to invest in sales and marketing strategies that we believe will drive further brand awareness and preference among our billers, financial institutions, partners and consumers. Given the nature of our biller, financial institution and partner base, our investment in sales and marketing in a given period may not impact results until subsequent periods. We approach sales and marketing spend strategically to maintain efficient biller and partner acquisition.

### **Innovation and Enhancement of Our Platform**

We will continue to invest in our platform and IPN to maintain our position as a leading provider of biller communication and payments. To drive adoption and increase penetration of our platform, we intend to continue to introduce new products and features. We believe that investment in research and development will contribute to our long-term growth, but may also negatively impact our short-term profitability. We will continue to leverage emerging technologies and invest in the development of more features and better functionality for consumers.

## **Key Performance and Non-GAAP Measures**

We use the following metrics to measure our performance, identify trends affecting our business, prepare financial projections and make strategic decisions. We believe that these key performance and non-GAAP measures provide meaningful supplemental information for management and investors in assessing our historical and future operating performance. The calculation of the key performance and non-GAAP measures discussed below may differ from other similarly titled metrics used by other companies, securities analysts or investors.

### **Transactions Processed**

	<u>Three Months Ended September 30,</u>			<u>Nine Months Ended September 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>% Growth</u>	<u>2022</u>	<u>2021</u>	<u>% Growth</u>
	<u>(in millions)</u>			<u>(in millions)</u>		
Transactions processed	92.2	70.6	30.6%	269.6	197.2	36.7%

We define transactions processed as the number of revenue generating payment transactions, such as checks, credit card and debit card transactions, automated clearing house, or ACH, items and emerging payment types, which are initiated and generally processed through our platform during a period. The number of transactions also includes

account-to-account and person-to-person transfers. The number of transactions processed during the three and nine months ended September 30, 2022 increased approximately 30.6% and 36.7%, respectively, as compared to the same periods in 2021. The increase was primarily driven by the addition of new billers and financial institutions and increased transactions from our existing billers and financial institutions.

### **Non-GAAP Measures**

We use supplemental measures of our performance that are derived from our consolidated financial information but which are not presented in our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles, or GAAP. These supplemental non-GAAP measures include contribution profit, adjusted gross profit, adjusted EBITDA and free cash flow.

#### *Contribution Profit*

We calculate contribution profit as gross profit plus other cost of revenue. Other cost of revenue equals cost of revenue less interchange and assessment fees paid by us to our payment processors.

#### *Adjusted Gross Profit*

We calculate adjusted gross profit as gross profit adjusted for non-cash items, primarily stock-based compensation and amortization.

#### *Adjusted EBITDA*

We calculate adjusted EBITDA as net income before other income (expense) (which consists of interest income (expense), net and foreign exchange gain (loss)), depreciation and amortization, income taxes, adjusted to exclude the effects of stock-based compensation expense and certain nonrecurring expenses that management believes are not indicative of ongoing operations, consisting primarily of professional fees and other indirect charges associated with our IPO.

#### *Free Cash Flow*

We calculate free cash flow as net cash provided by (used in) operating activities less capital expenditures and software and capitalized internal-use software development costs.

#### *How we use Non-GAAP Measures*

We use non-GAAP measures to supplement financial information presented on a GAAP basis. We believe that excluding certain items from our GAAP results allows management and our board of directors to more fully understand our consolidated financial performance from period to period and helps management project our future consolidated financial performance as forecasts are developed at a level of detail different from that used to prepare GAAP-based financial measures. Moreover, we believe these non-GAAP measures provide our investors with useful information to help them evaluate our operating results by facilitating an enhanced understanding of our operating performance and enabling them to make more meaningful period-to-period comparisons. In particular, we exclude interchange and assessment fees in the presentation of contribution profit because we believe inclusion is less directly reflective of our operating performance as we do not control the payment channel used by consumers, which is the primary determinant of the amount of interchange and assessment fees. We use contribution profit to measure the amount available to fund our operations after interchange and assessment fees, which are directly linked to the number of transactions we process and thus our revenue and gross profit. There are limitations to the use of the non-GAAP measures presented in this report. Our non-GAAP measures may not be comparable to similarly titled measures of other companies; other companies, including companies in our industry, may calculate non-GAAP measures differently than we do, limiting the usefulness of those measures for comparative purposes. These non-GAAP measures should not be considered in isolation from or as a substitute for financial measures prepared in accordance with GAAP.

We also urge you to review the reconciliation of these non-GAAP financial measures included below. To properly and prudently evaluate our business, we encourage you to review the condensed consolidated financial statements and related notes included elsewhere in this report and to not rely on any single financial measure to evaluate our business.

## Contribution Profit

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Gross profit	\$ 37,857	\$ 31,164	\$ 108,539	\$ 87,639
Plus: other cost of revenue	13,277	9,488	38,704	25,563
Contribution profit	<u>\$ 51,134</u>	<u>\$ 40,652</u>	<u>\$ 147,243</u>	<u>\$ 113,202</u>

In general, contribution profit is driven by the number of transactions we process offset by network fees associated with processing those transactions. The amount of contribution profit per transaction may vary due to a variety of factors including client size, type and industry as well as whether the client is a biller, financial institution or other partner. Contribution profit for the three and nine months ended September 30, 2022 increased approximately 26.0% and 30.1%, respectively, as compared to the same periods in 2021. The increase was primarily driven by the addition of new billers and financial institutions and increased transactions from our existing billers and financial institutions. For the three and nine months ended September 30, 2022, contribution profit increased at a slower rate than transactions due to a continued mix shift to larger, high volume clients.

## Adjusted Gross Profit

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Gross profit	\$ 37,857	\$ 31,164	\$ 108,539	\$ 87,639
Stock-based compensation	—	—	—	—
Amortization	3,186	1,398	8,575	3,610
Adjusted gross profit	<u>\$ 41,043</u>	<u>\$ 32,562</u>	<u>\$ 117,114</u>	<u>\$ 91,249</u>

Adjusted gross profit for the three and nine months ended September 30, 2022 increased approximately 26.0% and 28.3%, respectively, as compared to the same periods in 2021. Adjusted gross profit is driven primarily by the same factors that impact gross profit with the exception of excluding the amortization in cost of revenue. The percentage increase in adjusted gross profit is lower than the percentage increase in contribution profit due to additional other cost of revenue recorded related to the PayVeris, LLC or Payveris, and Finovera, Inc., or Finovera, acquisitions. The increase in amortization was driven by additional capitalization of software costs as well as amortization of acquired intangibles associated with our acquisitions of Payveris and Finovera.

## Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Net (loss) income	\$ (737)	\$ 422	\$ (1,470)	\$ 4,635
Excluding				
Interest income, net	(504)	(11)	(594)	(4)
Provision for (benefit from) income taxes	296	701	(2,397)	5,423
Depreciation and amortization	6,158	3,647	17,518	8,587
Foreign exchange (gain) loss	28	16	(52)	8
Stock-based compensation	2,002	754	4,622	1,885
Other nonrecurring expenses <sup>(1)</sup>	769	—	769	2,711
Adjusted EBITDA	<u>\$ 8,012</u>	<u>\$ 5,529</u>	<u>\$ 18,396</u>	<u>\$ 23,245</u>

(1) Other nonrecurring expenses consist of indirect costs incurred associated with our IPO in the nine months ended September 30, 2021 and an estimated liability booked in the three months ended September 30, 2022 related to the potential costs of terminating a commercial contract.

As adjusted EBITDA is a measure of profitability, it would generally be expected to move in line with revenue, contribution profit, gross profit and adjusted gross profit. Adjusted EBITDA decreased in the nine months ended September 30, 2022 as compared to the same period in 2021 due to our investment in sales and marketing and research and development in order to drive future growth of the business as well as the increased costs associated with being a public company and the impact of the Payveris and Finovera acquisitions.

## Free Cash Flow

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Net cash provided by operating activities	\$ (1,949)	\$ 6,600	\$ 5,143	\$ 19,357
Purchases of property and equipment and software	(368)	(261)	(1,163)	(825)
Other intangible assets acquired	(125)	--	(248)	--
Capitalized internal-use software development costs	(7,793)	(4,737)	(22,257)	(13,473)
Free cash flow	\$ (10,235)	\$ 1,602	\$ (18,525)	\$ 5,059
Net cash used in investing activities <sup>(1)</sup>	\$ (8,286)	\$ (62,118)	\$ (23,668)	\$ (71,418)
Net cash provided by financing activities	\$ 18,722	\$ 4,724	\$ 42,940	\$ 220,948

(1) Net cash used in investing activities includes payments for purchases of property and equipment and software and costs related to capitalized internal-use software development, which is also included in our calculation of free cash flow.

## Results of Operations

The following table sets forth our condensed consolidated statements of operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Revenue	\$ 128,152	\$ 101,676	\$ 364,825	\$ 287,393
Cost of revenue <sup>(1)</sup>	90,295	70,512	256,286	199,754
Gross profit	37,857	31,164	108,539	87,639
Operating expenses				
Research and development <sup>(1)</sup>	10,350	8,818	30,925	24,469
Sales and marketing <sup>(1)</sup>	19,048	11,314	53,089	29,041
General and administrative <sup>(1)</sup>	9,376	9,904	29,038	24,067
Total operating expenses	38,774	30,036	113,052	77,577
(Loss) income from operations	(917)	1,128	(4,513)	10,062
Other income (expense)				
Interest income (expense), net	504	11	594	4
Foreign exchange gain (loss)	(28)	(16)	52	(8)
(Loss) income before income taxes	(441)	1,123	(3,867)	10,058
(Provision for) benefit from income taxes	(296)	(701)	2,397	(5,423)
Net (loss) income	\$ (737)	\$ 422	\$ (1,470)	\$ 4,635

(1) Stock-based compensation expense was allocated in cost of revenue and operating expenses as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Cost of revenue	\$ —	\$ —	\$ —	\$ —
Research and development	507	110	1,080	141
Sales and marketing	612	56	1,062	92
General and administrative	883	588	2,480	1,652
Total stock-based compensation	\$ 2,002	\$ 754	\$ 4,622	\$ 1,885

The following table presents the components of our condensed consolidated statements of operations for the periods presented as a percentage of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	70.5	69.3	70.2	69.5
Gross profit	29.5	30.7	29.8	30.5
Operating expenses				
Research and development	8.1	8.7	8.5	8.5
Sales and marketing	14.9	11.1	14.6	10.1
General and administrative	7.3	9.7	8.0	8.4
Total operating expenses	30.3	29.6	31.0	26.9
(Loss) income from operations	(0.7)	1.1	(1.2)	3.6
Other income (expense)				
Interest income (expense), net	0.4	—	0.2	—
Foreign exchange gain (loss)	—	—	—	—
(Loss) income before income taxes	(0.3)	1.1	(1.1)	3.5
(Provision for) benefit from income taxes	(0.2)	(0.7)	0.7	(1.9)
Net (loss) income	(0.6%)	0.4%	(0.4%)	1.6%

#### Comparison of the Three Months Ended September 30, 2022 and 2021

##### Revenue

	Three Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Revenue	\$ 128,152	\$ 101,676	\$ 26,476	26.0

The increase in revenue was primarily due to an increase in the number of transactions processed, which was driven by the implementation of new billers, increased transactions from our existing billers and additional transactions as a result of the Payveris and Finovera acquisitions, offset by the decrease in revenue we received per transaction on a blended basis.

##### Cost of Revenue, Gross Profit and Gross Margin

	Three Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Cost of revenue	\$ 90,295	\$ 70,512	\$ 19,783	28.1
Gross profit	\$ 37,857	\$ 31,164	\$ 6,693	21.5
Gross margin	29.5%	30.6%		

The increase in cost of revenue was driven by the increase in revenue and transactions processed as it consists primarily of interchange fees and processor costs, driven by higher average bill amounts due primarily to inflation, as well as other direct and indirect costs associated with making our platform available to our billers.

Gross margin decreased for the three months ended September 30, 2022 due to an increase in amortization expense included in cost of revenue associated with the Payveris and Finovera acquisitions.

## Operating Expenses

	Three Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Operating expenses				
Research and development	\$ 10,350	\$ 8,818	\$ 1,532	17.4
Sales and marketing	19,048	11,314	7,734	68.4
General and administrative	9,376	9,904	(528)	(5.3)
Total operating expenses	\$ 38,774	\$ 30,036	\$ 8,738	
Percentage of total revenue				
Research and development	8.1%	8.7%		
Sales and marketing	14.9%	11.1%		
General and administrative	7.3%	9.7%		

### Research and Development Expenses

The increase in research and development expenses was primarily due to an increase in employee-related costs, including benefits due to an increase in headcount as we continued to invest in building and adding additional features and functionality to our platform. Additionally, we incurred increased hosting costs as we transitioned from data center to the cloud and an increase in stock-based compensation expense associated with routine grants.

### Sales and Marketing Expenses

The increase in sales and marketing expenses was primarily due to an increase in employee-related costs, including benefits, as we continued to expand our sales and marketing efforts with additional headcount in order to continue to drive our growth. In addition, we incurred amortization expense related to the identifiable intangible assets from the Payveris and Finovera acquisitions as well as increased stock-based compensation associated with routine grants.

### General and Administrative Expenses

The decrease in general and administrative expenses was primarily due to lower costs for our directors and officers insurance and corporate premiums, a reduction in lease cost and a decreases in employee-related costs, primarily from a reduction in executive salaries and our bonus accrual.

### Other Income (Loss)

	Three Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Interest income, net	\$ 504	\$ 11	\$ 493	n/m
Foreign exchange loss	(28)	(16)	(12)	75.0

n/m – not meaningful

The changes in interest income, net was primarily due to the increase in the federal reserve rates which had a positive impact on our included government issued securities, which are included in cash and cash equivalents on the balance sheet. The changes in foreign exchange loss were immaterial.

### Income Taxes

	Three Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Provision for income taxes	\$ (296)	\$ (701)	\$ 405	(57.8)

The change in provision for income taxes for the three months ended September 30, 2022 as compared to the same period in the prior year, was primarily due to changes in pre-tax (loss) and income and the result of excess tax benefits on stock-based compensation, state taxes, foreign income taxed at different rates and permanent tax adjustments related to nondeductible executive compensation, in addition to a valuation allowance recorded against the net deferred tax assets.

## Comparison of the Nine Months Ended September 30, 2022 and 2021

### Revenue

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Revenue	\$ 364,825	\$ 287,393	\$ 77,432	26.9

The increase in revenue was primarily due to an increase in the number of transactions processed, which was driven by the implementation of new billers, increased transactions from our existing billers and additional transactions as a result of the Payveris and Finovera acquisitions, offset by the decrease in revenue we received per transaction on a blended basis.

*Cost of Revenue, Gross Profit and Gross Margin*

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Cost of revenue	\$ 256,286	\$ 199,754	\$ 56,532	28.3
Gross profit	\$ 108,539	\$ 87,639	\$ 20,900	23.8
Gross margin	29.8%	30.5%		

The increase in cost of revenue was driven by the increase in revenue and transactions processed as it consists primarily of interchange fees and processor costs, driven by higher average bill amounts due primarily to inflation, as well as other direct and indirect costs associated with making our platform available to our billers.

Gross margin decreased for the nine months ended September 30, 2022 due to an increase in amortization expense included in cost of revenue associated with the Payveris and Finovera acquisitions.

## Operating Expenses

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Operating expenses				
Research and development	\$ 30,925	\$ 24,469	\$ 6,456	26.4
Sales and marketing	53,089	29,041	24,048	82.8
General and administrative	29,038	24,067	4,971	20.7
Total operating expenses	\$ 113,052	\$ 77,577	\$ 35,475	
Percentage of total revenue				
Research and development	8.5 %	8.5 %		
Sales and marketing	14.6 %	10.1 %		
General and administrative	8.0 %	8.4 %		

### Research and Development Expenses

The increase in research and development expenses was primarily due to an increase in employee-related costs, including benefits due to an increase in headcount as we continued to invest in building and adding additional features and functionality to our platform. Additionally, we incurred increased hosting costs as we transitioned from data center to the cloud and an increase in stock-based compensation expense associated with routine grants.

### Sales and Marketing Expenses

The increase in sales and marketing expenses was primarily due to an increase in employee-related costs, including benefits, as we continued to expand our sales and marketing efforts with additional headcount in order to continue to drive our growth. In addition, we incurred amortization expense related to the identifiable intangible assets from the Payveris and Finovera acquisitions as well as increased stock-based compensation associated with routine grants.

### General and Administrative Expenses

The increase in general and administrative expenses was primarily due to increased costs of operating as a public company, including significant increases in our directors and officers insurance premiums, and increases in employee-related costs, including benefits and stock-based compensation, due to an increase in general and administrative headcount.

### Other Income (Loss)

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Interest income, net	\$ 594	\$ 4	\$ 590	n/m
Foreign exchange gain (loss)	52	(8)	60	n/m

n/m – not meaningful

The changes in interest income (expense), net and foreign exchange gain were immaterial.

### Income Taxes

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
	(dollars in thousands)			
Benefit from (provision for) income taxes	\$ 2,397	\$ (5,423)	\$ 7,820	(144.2)

The change in benefit from (provision for) income taxes for the nine months ended September 30, 2022 as compared to the same period in the prior year, was primarily due to changes in pre-tax (loss) and income and the result of excess tax benefits on stock-based compensation, state taxes, foreign income taxed at different rates and permanent tax adjustments related to nondeductible executive compensation, in addition to a valuation allowance recorded against the net deferred tax assets.

## Liquidity and Capital Resources

### Sources and Uses of Funds

As of September 30, 2022, we had \$148.3 million of unrestricted cash and cash equivalents. We believe that existing unrestricted cash and cash equivalents will be sufficient to support our working capital and capital expenditure requirements for at least the next 12 months. Since inception, we have financed operations primarily through the sale of equity securities and revenue from payment transaction fees and subscriptions. Our principal uses of cash are funding operations and capital expenditures.

From time to time, we may explore additional financing sources and means to lower our cost of capital, which could include equity, equity-linked and debt financing. We cannot assure you that any additional financing will be available to us on acceptable terms, or at all. The inability to raise capital would adversely affect our ability to achieve our business objectives. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we may be subject to increased fixed payment obligations and could be subject to additional restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business or execute our growth strategy. Any future indebtedness we incur may result in terms that could be unfavorable to equity investors.

### Historical Cash Flows

The following table summarizes our condensed consolidated cash flows.

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Net cash provided by (used in)		
Operating activities	\$ 5,143	\$ 19,357
Investing activities	(23,668)	(71,418)
Financing activities	42,940	220,948
Effects of foreign exchange on cash	(329)	24
Net increase in cash, cash equivalents and restricted cash	<u>\$ 24,086</u>	<u>\$ 168,911</u>

#### Net Cash Provided by Operating Activities

Our primary source of operating cash is revenue from payment transaction fees. Our primary uses of operating cash are personnel-related costs, payments to third parties to fulfill our payment transactions and payments to sales and marketing partners. Net cash provided by operating activities mainly consists of our net income adjusted for certain non-cash items, including depreciation and amortization, stock-based compensation, other non-cash income and expense items, and net changes in operating assets and liabilities.

Net cash provided by operating activities for the nine months ended September 30, 2022 was \$5.1 million. Net loss was \$1.5 million, adjusted for non-cash charges of \$22.0 million consisting primarily of depreciation and amortization, stock-based compensation, and non-cash lease expense, which contributed positively to operating activities. This was offset by net cash outflows of \$15.4 million provided by changes in our operating assets and liabilities.

Net cash provided by operating activities for the nine months ended September 30, 2021 was \$19.4 million. Net income was \$4.6 million, adjusted for non-cash charges of \$15.7 million consisting primarily of depreciation and amortization, stock-based compensation, and non-cash lease expense, which contributed positively to operating activities. This was offset by net cash outflows of \$1.0 million provided by changes in our operating assets and liabilities.

#### Net Cash Used in Investing Activities

Cash used in our investing activities consists primarily of cash paid for acquisitions, capitalized internal-use software development costs, purchases of property and equipment and intangible assets.

Net cash used in investing activities for the nine months ended September 30, 2022 consisted of \$22.3 million of capitalized internal-use software development costs, \$1.2 million of purchases of property and equipment and \$0.2 of other intangible assets acquired.

Net cash used in investing activities for the nine months ended September 30, 2021 consisted of \$57.1 million of cash paid for acquisitions, net of cash and restricted cash acquired and contingent consideration, \$13.5 million of capitalized internal-use software development costs and \$0.8 million of purchases of property and equipment.

### *Net Cash Provided by Financing Activities*

Cash provided by financing activities consists primarily of proceeds from the IPO and private placement and proceeds from stock option exercises, changes in financial institution funds in-transit offset by the redemption of the Series A preferred stock, payment of deferred offering costs related to the IPO, and payments on capital lease and other financing arrangements and principal payments on debt.

Net cash provided by financing activities for the nine months ended September 30, 2022 consisted of an increase in financial institution funds in-transit of \$44.2 million and proceeds from stock option exercises of \$1.5 million, offset by \$2.7 million of payments on finance leases and other financing obligations.

Net cash provided financing activities for the nine months ended September 30, 2021 consisted of proceeds from the IPO of \$224.6 million, proceeds from the private placement of \$50.0 million, increase in financial institution funds in-transit of \$6.6 million and proceeds of \$0.8 million from the repayment of a related party loan, offset by \$23.0 million for the redemption of the Series A preferred stock, \$34.4 million for the repayment of dividends on the Series A preferred stock, \$1.7 million of payments on finance leases and other financing obligations and \$2.0 million of payments of deferred offering costs directly related to our IPO.

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

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

### **Critical Accounting Policies and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no material changes to our critical accounting policies as compared to the critical accounting policies and significant judgments and estimates disclosed in our 2021 Form 10-K.

### **Emerging Growth Company Status**

Section 107 of the Jumpstart Our Business Startups Act of 2012, as amended, or the JOBS Act, provides that an "emerging growth company" may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" may delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Section 107 of the JOBS Act provides that any decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable. We have elected to use this extended transition period under the JOBS Act.

### **Recent Accounting Pronouncements**

See Note 2 to our condensed consolidated financial statements included elsewhere in this report for more information regarding recently issued accounting pronouncements.

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

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

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

Our cash and cash equivalents consist of bank deposits and money market funds with original maturities of three months or less. Our cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our cash equivalents and our investment portfolio are subject to market risk due to changes in interest rates. We do not believe, as of September 30, 2022, that a hypothetical 10% increase or decrease in interest rates would have had a material impact on the value of our cash equivalents or investment portfolio.

## **Foreign Currency Exchange Risk**

Certain of our operations are conducted in foreign currencies. While we have generated substantially all of our revenue from billers in the United States, we have foreign currency risks related to revenue denominated in other currencies, such as the Canadian dollar. In addition, we have significant operations outside of the United States, particularly in Canada and India, where expenses are denominated in the local currency. Decreases in the relative value of the U.S. dollar to other currencies may negatively affect revenue and other operating results as expressed in U.S. dollars. We have not engaged in the hedging of foreign currency transactions, although we may do so in the future. We do not believe, as of September 30, 2022, that a hypothetical 10% increase or decrease in the relative value of the U.S. dollar to other currencies would have had a material effect on operating results.

## **Item 4. Controls and Procedures**

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, 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, or the Exchange Act). Based on that evaluation, and as a result of the material weaknesses in internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2022, our disclosure controls and procedures were not effective at the reasonable assurance level. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the unaudited condensed consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

### ***Material Weaknesses in Internal Control over Financial Reporting***

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. As of September 30, 2022, our material weaknesses were as follows:

- We lacked a sufficient number of trained professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters, including accounting for capitalized internal-use software development costs, identification of reporting units, translation of foreign currency in consolidation, accounting for deferred compensation, calculation of earnings per share and classification of accounts in the financial statements. Additionally, we did not design and maintain effective controls over verifying the appropriate review and approval of journal entries.
- We did not design and maintain effective controls relevant to the preparation of our financial statements with respect to certain information technology, or IT, general controls for information systems. Specifically, we did not design and maintain (1) program change management controls to ensure that IT program and data changes affecting certain IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately; and (2) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs and data to appropriate company personnel.

### ***Remediation Plan***

We believe we have made significant progress toward remediation of the material weaknesses described above. We have updated the design of permissions of our general ledger accounting system to allow for effective restricted access and segregation of duties to govern the preparation and review of journal entries. Additional remediation measures are ongoing and include the following:

- continuing to hire additional personnel with public company experience for our accounting and finance function;
- enhanced and documented management review controls over journal entries and the identification and review of complex transactions;
- secured the general ledger accounting system by implementing Single Sign-On (SSO); and
- designing and implementing additional change management and access controls for our relevant IT applications to further restrict privileged access and implementing controls to review activities, which may materially affect our financial statements, for those users who have privileged access.

While we believe these efforts will remediate the material weaknesses, these material weaknesses cannot be considered fully remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

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

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations on Effectiveness of Controls**

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II—OTHER INFORMATION**

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

From time to time, we are involved in legal proceedings and subject to claims that arise in the ordinary course of our business, which may include claims relating to contractual disputes, product liability, tort or personal injury, employment, intellectual property or other commercial or regulatory matters. In addition, if current or future government regulations are interpreted or enforced in a manner adverse to us or our business, including among other things, those with security and privacy laws, we may be subject to enforcement actions, penalties, damages, material limitations on our business and reputational harm. Furthermore, as a public company, we may become subject to stockholder inspection demands under Delaware law and derivative or other similar litigation. Although the results of legal proceedings and claims cannot be predicted with certainty, we are not currently party to any legal proceedings or claims that we believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results or financial condition.

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

Investing in our Class A common stock involves a high degree of risk. We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. You should carefully consider the risks described under the heading “Risk Factors” in Part I, Item 1A of our 2021 Form 10-K, the other information in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and the related notes, as well as our other public filings with the SEC, before deciding to invest in our Class A common stock. During the nine months ended September 30, 2022, there were no material changes to the risk factors as described in our 2021 Form 10-K. The occurrence of any of the events described therein could harm our business, financial condition, results of operations, liquidity or prospects. In such an event, the market price of our Class A common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business.

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

None.

### **Item 3. Defaults upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.****(a) Exhibits**

Exhibit Number	Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	<a href="#">Warrant Agreement, dated as of August 29, 2022, by and between Paymentus Holdings, Inc. and JPMC Strategic Investments   Corporation.</a>	8-K	001-40429	10.1	August 30, 2022	
10.2+	<a href="#">Confirmatory Employment Letter by and between Paymentus Holdings, Inc. and Paul Seamon.</a>					X
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1*	<a href="#">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.</a>					X
32.2*	<a href="#">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.</a>					X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					

+ Indicates a management contract or compensatory plan or arrangement.

\* The certifications attached as Exhibit 32.1 and 32.2 that accompany this report are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Paymentus Holdings, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this report, irrespective of any general incorporation language contained in such filing.

**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.

Date: November 10, 2022

**PAYMENTUS HOLDINGS, INC.**

By: /s/ Dushyant Sharma

**Dushyant Sharma**  
**Chairman, President and Chief Executive Officer**  
**(Principal Executive Officer)**

Date: November 10, 2022

By: /s/ Paul Seamon

**Paul Seamon**  
**Interim Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**



# Paymentus

November 10, 2022

Paul Seamon  
Via email

## Re: Confirmatory Employment Letter

Dear Andrew:

This confirmatory employment letter agreement (the “**Agreement**”) is entered into between Paul Seamon (“**you**”) and Paymentus Holdings, Inc. (the “**Company**” or “**we**”), effective as of the date of this Agreement as first set forth above (the “**Effective Date**”), to confirm the terms and conditions of your employment with the Company as of the Effective Date.

1. **Title and Position.** You will continue to serve as the Company’s Vice President of Finance and Strategy, and as of September 9, 2022, Interim Chief Financial Officer. You also will continue to report to the Company’s Chief Executive Officer (“CEO”) and will perform the duties and responsibilities customary for such position and such other related duties as are reasonably assigned by the CEO.

1. **Base Salary.** As of the Effective Date, your annual base salary will be \$335,000 (“**Salary**”), which will be payable, less any applicable withholdings, in accordance with the Company’s normal payroll practices. Your base salary will be subject to review and adjustment from time to time by the CEO, in his sole discretion, provided however, while you serve as Interim Chief Financial Officer, your base salary will be subject to review and adjustment from time to time by the Board of Directors of the Company (the “**Board**”) or its Compensation Committee (the “**Committee**”), as applicable, in its sole discretion.

2. **Annual Bonus.** For the Company’s 2023 fiscal year, you will be eligible for a target annual cash bonus opportunity equal to \$150,000. Any annual bonus will be subject to (i) performance and other criteria established by CEO, in his sole discretion, provided however, while you serve as Interim Chief Financial Officer, any annual bonus will be subject to performance and other criteria established by the Board or the Committee, as applicable, in its sole discretion, and (ii) your continued employment through the date that bonus is paid to you. The CEO, Board or the Committee, as applicable and in his or its sole discretion, may approve that the Company grant additional discretionary bonus amounts to you.

3. **Equity Awards.** You will be eligible to receive awards of stock options or other equity awards pursuant to any plans or arrangements the Company may have in effect from time to time, as approved by the Board or Committee, as applicable, in its sole discretion.

4. **Employee Benefits.** You will continue to be eligible to participate in the benefit plans and programs established by the Company for its employees from time to time, subject to their applicable terms and conditions, including without limitation any eligibility requirements. The

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Company reserves the right to modify, amend, suspend or terminate the benefit plans, programs, and arrangements it offers to its employees at any time.

5. **Severance.** Subject to approval by the Board and/or Compensation Committee of the Board, you will be eligible to participate in the Company's Change in Control and Severance Agreement (the "**CIC Agreement**") established, and as may be in effect from time to time, for senior-level employees that is applicable to you consistent with your position within the Company.

6. **Confidentiality Agreement.** Your acceptance of this Agreement confirms that the terms of the Employment and Restrictive Covenants Agreement between you and the Company dated August 14, 2020, as may be amended or amended and restated from time to time (the "**Confidentiality Agreement**") still apply.

7. **At-Will Employment.** This Agreement does not imply any right to your continued employment for any period with the Company or any of its affiliates. Your employment with the Company is for no specified period and will continue to constitute at-will employment.

8. **Taxes.** The Company (or its affiliate, as applicable) will have the right and authority to deduct from any payments or benefits under this Agreement or require you to remit to the Company (prior to providing any such payments or benefits), all applicable federal, state, and local taxes or other required withholdings and payroll deductions ("**Withholdings**"). The payments and benefits under this Agreement are intended to be exempt from, or otherwise to comply with, Section 409A of the Internal Revenue Code of 1986, as amended, and any regulations and other formal guidance promulgated thereunder ("**Section 409A**") so that none of the payments and benefits under this Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities and ambiguous terms herein will be interpreted to be exempt or to so comply. Notwithstanding any contrary Agreement provision, the Company reserves the right to amend the Agreement as it deems necessary or advisable, in its sole discretion and without your consent or the consent of any other person or entity, to comply with Section 409A or to avoid income recognition under Section 409A or to otherwise avoid the imposition of additional tax under Section 409A prior to the actual payment or provision of any payments or benefits under this Agreement. In no event will the Company, or any parent, subsidiary or other affiliate of the Company have any responsibility, liability or obligation to reimburse or indemnify you or hold you harmless for any taxes imposed, or other costs incurred, as a result of Section 409A.

9. **Protected Activity Not Prohibited.** Notwithstanding any contrary provision of the Agreement or the Confidentiality Agreement, nothing in this Agreement, or the Confidentiality Agreement will prohibit or impede you from engaging in any Protected Activity. For purposes of this Agreement, "**Protected Activity**" will mean communicating, cooperating or filing a complaint with any U.S. federal, state or local governmental or law enforcement branch, agency or entity, including, but not limited to, the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board (collectively, a "**Governmental Entity**") with respect to possible violations of any U.S. federal, state or local law or regulation, or otherwise making disclosures to any Governmental Entity, in each case, that are protected under the whistleblower provisions of any such law or regulation; provided that, in each case, such communications and disclosures are consistent with applicable law. Notwithstanding the foregoing, you agree to take all reasonable

precautions to prevent any unauthorized use or disclosure of any information that may constitute Company confidential information (as defined in the Confidentiality Agreement or any other agreement between you and the Company or any parent, subsidiary or other affiliate of the Company relating to the protection of confidential information) in a manner not protected by applicable law (each, a “**Confidential Information Agreement**”) to any parties other than the Governmental Entities. You further understand that Protected Activity does not include disclosure of any Company attorney-client privileged communications or attorney work product. Any language in the Confidentiality Agreement or any Confidential Information Agreement that conflicts with, or is contrary to, this paragraph is superseded by this Agreement. You understand and acknowledge that pursuant to the Defend Trade Secrets Act of 2016 (a) an individual will not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made (i) in confidence to a Federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (b) an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

10. **Miscellaneous.** This Agreement, together with the Confidentiality Agreement, your CIC Agreement dated on or about the date hereof, and 2021 Equity Incentive Plan and award agreements governing the equity awards granted to you by the Company, constitute the entire agreement between you and the Company regarding the material terms and conditions of your employment, and they supersede and replace all prior representations or agreements between you and the Company. This Agreement will be governed by the laws of the State of North Carolina but without regard to the conflicts of law provision. This Agreement may be modified only by a written agreement signed by a duly authorized officer of the Company (other than yourself) and you.

*[Signature page follows]*

To confirm the terms and conditions of your employment with the Company, please sign and date in the spaces indicated and return this Agreement to me.

Sincerely,

PAYMENTUS HOLDINGS, INC.

By: /s/ Dushyant Sharma  
Dushyant Sharma  
President and Chief Executive Officer

Agreed to and accepted:

/s/ Paul Seamon  
Paul Seamon

Dated: November 10, 2022

*[Signature page to Confirmatory Employment Letter]*

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.**

I, Dushyant Sharma, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paymentus Holdings, 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) 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
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

By: Isl Dushyant Sharma  
**Dushyant Sharma**  
**Chairman, President and Chief Executive Officer**  
**(Principal Executive Officer)**

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**CERTIFICATION 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 on Form 10-Q of Paymentus Holdings, Inc. (the "Company") for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2022

By: \_\_\_\_\_  
*Isl Dushyant Sharma*  
**Dushyant Sharma**  
**Chairman, President and,**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

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**CERTIFICATION 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 on Form 10-Q of Paymentus Holdings, Inc. (the "Company") for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2022

By: \_\_\_\_\_  
*/s/ Paul Seamon*  
**Paul Seamon**  
**Interim Chief Financial Officer**  
**(Principal Financial Officer)**

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