

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 2024
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: 001-40898

AvidXchange Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
1210 AvidXchange Lane Charlotte, NC 28206
(Address of principal executive offices)

86-3391192
(I.R.S. Employer Identification No.)
28206
(Zip Code)

Registrant's telephone number, including area code: (800) 560-9305

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	AVDX	Nasdaq Global Select Market

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input 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 4, 2024, the registrant had 205,725,969 shares of common stock, \$0.001 par value per share, outstanding.

AvidXchange Holdings, Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2024
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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.

AvidXchange Holdings, Inc.
Unaudited Consolidated Balance Sheets
(in thousands, except share and per share data)

	<u>As of September 30,</u> <u>2024</u>	<u>As of December 31,</u> <u>2023</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 315,324	\$ 406,974
Restricted funds held for customers	1,154,280	1,578,656
Marketable securities	78,957	44,645
Accounts receivable, net of allowances of \$4,738 and \$4,231, respectively	56,102	46,689
Supplier advances receivable, net of allowances of \$1,664 and \$1,333 respectively	13,965	9,744
Prepaid expenses and other current assets	12,678	12,070
Total current assets	1,631,306	2,098,778
Property and equipment, net	98,433	100,985
Operating lease right-of-use assets	1,279	1,628
Deferred customer origination costs, net	27,678	27,663
Goodwill	165,921	165,921
Intangible assets, net	74,033	84,805
Other noncurrent assets and deposits	6,399	3,957
Total assets	\$ 2,005,049	\$ 2,483,737
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 15,991	\$ 16,777
Accrued expenses	47,473	56,367
Payment service obligations	1,154,280	1,578,656
Deferred revenue	13,076	12,851
Current maturities of lease obligations under finance leases	171	275
Current maturities of lease obligations under operating leases	1,659	1,525
Current maturities of long-term debt	4,800	6,425
Total current liabilities	1,237,450	1,672,876
Long-term liabilities		
Deferred revenue, less current portion	12,395	14,742
Obligations under finance leases, less current maturities	62,863	62,464
Obligations under operating leases, less current maturities	2,291	3,275
Long-term debt	9,100	69,760
Other long-term liabilities	4,152	4,175
Total liabilities	1,328,251	1,827,292
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.001 par value; 50,000,000 shares authorized, no shares issued and outstanding as of September 30, 2024 and December 31, 2023	-	-
Common stock, \$0.001 par value; 1,600,000,000 shares authorized as of September 30, 2024 and December 31, 2023; 205,517,689 and 204,084,024 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	205	204
Additional paid-in capital	1,695,279	1,678,401
Accumulated deficit	(1,018,686)	(1,022,160)
Total stockholders' equity	676,798	656,445
Total liabilities and stockholders' equity	\$ 2,005,049	\$ 2,483,737

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

AvidXchange Holdings, Inc.
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues	\$ 112,772	\$ 98,680	\$ 323,502	\$ 276,656
Cost of revenues (exclusive of depreciation and amortization expense)	30,429	30,767	91,188	90,461
Operating expenses				
Sales and marketing	21,102	18,735	60,799	58,946
Research and development	25,125	24,754	76,037	72,616
General and administrative	25,769	25,002	72,664	75,345
Impairment and write-off of intangible assets	-	-	162	-
Depreciation and amortization	9,092	9,051	27,607	26,515
Total operating expenses	81,088	77,542	237,269	233,422
Income (loss) from operations	1,255	(9,629)	(4,955)	(47,227)
Other income (expense)				
Interest income	5,837	5,100	18,378	14,820
Interest expense	(2,614)	(3,428)	(9,274)	(10,106)
Other income	3,223	1,672	9,104	4,714
Income (loss) before income taxes	4,478	(7,957)	4,149	(42,513)
Income tax expense	431	134	675	339
Net income (loss)	\$ 4,047	\$ (8,091)	\$ 3,474	\$ (42,852)
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.02	\$ (0.04)	\$ 0.02	\$ (0.21)
Diluted	\$ 0.02	\$ (0.04)	\$ 0.02	\$ (0.21)
Weighted average number of common shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	207,235,954	202,526,844	206,389,565	201,338,550
Diluted	209,015,661	202,526,844	209,721,858	201,338,550

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

AvidXchange Holdings, Inc.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
(in thousands, except share and per share data)

	Common Stock		Additional Paid-in Capital	Accumulate d Deficit	Total Stockholders' Equity
Balances at December 31, 2023	<u>204,084,024</u>	<u>\$ 204</u>	<u>\$ 1,678,401</u>	<u>\$ (1,022,160)</u>	<u>\$ 656,445</u>
Exercise of stock options	493,608	-	3,168	-	3,168
Issuance of common stock upon vesting of restricted stock units	1,737,736	2	(2)	-	-
Stock-based compensation expense	-	-	10,766	-	10,766
Stock-based compensation expense for Employee Stock Purchase Plan, or ESPP	-	-	193	-	193
Net loss	-	-	-	(1,009)	(1,009)
Balances at March 31, 2024	<u>206,315,368</u>	<u>\$ 206</u>	<u>\$ 1,692,526</u>	<u>\$ (1,023,169)</u>	<u>\$ 669,563</u>
Exercise of stock options	308,435	-	2,225	-	2,225
Issuance of common stock upon vesting of restricted stock units	1,028,744	1	(1)	-	-
Issuance of common stock under ESPP	167,351	-	1,220	-	1,220
Stock-based compensation expense	-	-	12,117	-	12,117
Stock-based compensation expense for ESPP	-	-	202	-	202
Net income	-	-	-	436	436
Balances at June 30, 2024	<u>207,819,898</u>	<u>\$ 207</u>	<u>\$ 1,708,289</u>	<u>\$ (1,022,733)</u>	<u>\$ 685,763</u>
Exercise of stock options	36,385	-	200	-	200
Issuance of common stock upon vesting of restricted stock units	765,718	1	(1)	-	-
Repurchase and retirement of common stock	(3,104,312)	(3)	(25,059)	-	(25,062)
Stock-based compensation expense	-	-	11,623	-	11,623
Stock-based compensation expense for ESPP	-	-	227	-	227
Net income	-	-	-	4,047	4,047
Balances at September 30, 2024	<u>205,517,689</u>	<u>\$ 205</u>	<u>\$ 1,695,279</u>	<u>\$ (1,018,686)</u>	<u>\$ 676,798</u>

	Common Stock		Additional Paid-in Capital	Accumulate d Deficit	Total Stockholders' Equity
Balances at December 31, 2022	<u>199,433,998</u>	<u>\$ 199</u>	<u>\$ 1,632,080</u>	<u>\$ (974,835)</u>	<u>\$ 657,444</u>
Exercise of stock options	123,168	-	366	-	366
Issuance of common stock upon vesting of restricted stock units	1,471,826	2	(1)	-	1
Stock-based compensation expense	-	-	8,661	-	8,661
Stock-based compensation expense for ESPP	-	-	270	-	270
Net loss	-	-	-	(15,990)	(15,990)
Balances at March 31, 2023	<u>201,028,992</u>	<u>\$ 201</u>	<u>\$ 1,641,376</u>	<u>\$ (990,825)</u>	<u>\$ 650,752</u>
Exercise of stock options	99,215	-	337	-	337
Issuance of common stock upon vesting of restricted stock units	792,242	1	(1)	-	-
Issuance of common stock under ESPP	193,164	-	1,178	-	1,178
Stock-based compensation expense	-	-	10,869	-	10,869
Stock-based compensation expense for ESPP	-	-	152	-	152
Net loss	-	-	-	(18,771)	(18,771)
Balances at June 30, 2023	<u>202,113,613</u>	<u>\$ 202</u>	<u>\$ 1,653,911</u>	<u>\$ (1,009,596)</u>	<u>\$ 644,517</u>
Exercise of stock options	91,353	-	748	-	748
Issuance of common stock upon vesting of restricted stock units	691,115	1	(1)	-	-
Stock-based compensation expense	-	-	11,043	-	11,043
Stock-based compensation expense for ESPP	-	-	186	-	186
Net loss	-	-	-	(8,091)	(8,091)
Balances at September 30, 2023	<u>202,896,081</u>	<u>\$ 203</u>	<u>\$ 1,665,887</u>	<u>\$ (1,017,687)</u>	<u>\$ 648,403</u>

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

AvidXchange Holdings, Inc.
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income (loss)	\$ 3,474	\$ (42,852)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Depreciation and amortization expense	27,607	26,515
Amortization of deferred financing costs	310	326
Debt extinguishment costs	1,081	-
Provision for credit losses	2,985	2,118
Stock-based compensation	35,128	31,181
Accrued interest	1,192	1,509
Impairment and write-off on intangible assets	162	-
Accretion of investments held to maturity	(3,322)	(4,091)
Deferred income taxes	267	158
Changes in operating assets and liabilities		
Accounts receivable	(10,398)	(2,221)
Prepaid expenses and other current assets	(608)	(851)
Other noncurrent assets	(1,215)	1,369
Deferred customer origination costs	(14)	785
Accounts payable	(786)	4,679
Deferred revenue	(2,122)	(1,650)
Accrued expenses and other liabilities	(9,759)	(27,588)
Operating lease liabilities	(500)	(378)
Total adjustments	40,008	31,861
Net cash provided by (used in) operating activities	43,482	(10,991)
Cash flows from investing activities		
Purchase of marketable securities held to maturity	(120,996)	(262,994)
Proceeds from maturity of marketable securities held to maturity	90,006	277,428
Purchases of equipment	(1,505)	(1,001)
Purchases of intangible assets	(12,939)	(11,898)
Supplier advances, net	(6,222)	(1,309)
Net cash (used in) provided by investing activities	(51,656)	226
Cash flows from financing activities		
Repayments of long-term debt	(63,375)	(1,219)
Principal payments on finance leases	(223)	(435)
Proceeds from issuance of common stock	5,593	1,452
Proceeds from issuance of common stock under ESPP	1,220	1,178
Payment of debt issuance costs	(1,529)	(743)
Repurchases of common stock	(25,062)	-
Payment of acquisition-related liability	(100)	(100)
Payment service obligations	(424,376)	(57,607)
Net cash used in financing activities	(507,852)	(57,474)
Net decrease in cash, cash equivalents, and restricted funds held for customers	(516,026)	(68,239)
Cash, cash equivalents, and restricted funds held for customers		
Cash, cash equivalents, and restricted funds held for customers, beginning of year	1,985,630	1,634,387
Cash, cash equivalents, and restricted funds held for customers, end of period	\$ 1,469,604	\$ 1,566,148
Supplementary information of noncash investing and financing activities		
Property and equipment purchases in accounts payable and accrued expenses	\$ -	\$ 939
Right-of-use assets obtained in exchange for new financing lease obligations	-	81
Right-of-use assets obtained in exchange for new operating lease obligations	-	362
Interest paid on notes payable	3,270	3,889
Interest paid on finance leases	4,448	4,386
Cash paid for income taxes	393	212

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

AvidXchange Holdings, Inc.
Notes to the Unaudited Consolidated Financial Statements
(in thousands, except share and per share data)

1. Formation and Business of the Company

AvidXchange, Inc. was incorporated in the state of Delaware in 2000. In July 2021, the company consummated a reorganization by interposing a holding company between AvidXchange, Inc. and its stockholders. After the reorganization, all of the stockholders of AvidXchange, Inc. became stockholders of AvidXchange Holdings, Inc. and AvidXchange, Inc. became a wholly owned subsidiary of AvidXchange Holdings, Inc. To accomplish the reorganization, the company formed AvidXchange Holdings, Inc., which was incorporated in Delaware on January 27, 2021, and AvidXchange Merger Sub, Inc. (“Merger Sub”) as a wholly owned subsidiary of AvidXchange Holdings, Inc. The Company merged AvidXchange, Inc. with and into Merger Sub, with AvidXchange, Inc. as the surviving entity, by issuing identical shares of stock of AvidXchange Holdings, Inc. to the stockholders of AvidXchange, Inc. in exchange for their equity interest in AvidXchange, Inc.

The merger was considered a transaction between entities under common control. Upon the effective date of the reorganization, July 9, 2021, AvidXchange Holdings, Inc. recognized the assets and liabilities of AvidXchange, Inc. at their carrying values within its financial statements.

AvidXchange Holdings, Inc. and its wholly owned subsidiaries are collectively referred to as “AvidXchange” or “the Company” in the accompanying consolidated financial statements after the reorganization.

AvidXchange provides accounts payable (“AP”) automation software and payment solutions for middle market businesses and their suppliers. The Company provides solutions and services throughout North America spanning multiple industries including real estate, community association management, construction, financial services (including banks and credit unions), healthcare facilities, social services, education, media, and hospitality.

2. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The accompanying unaudited consolidated financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair statement of the Company’s financial position, results of operations, changes in stockholders’ equity, and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results to be expected for the year ending December 31, 2024 or for any other future annual or interim period. The unaudited consolidated balance sheet as of December 31, 2023 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by U.S. GAAP on an annual reporting basis. All significant intercompany accounts and transactions have been eliminated. There are no items of comprehensive income.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2023.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities as of and during the reporting period. The Company bases estimates and assumptions on historical experience when available and on various factors that it believes to be reasonable under the circumstances. Significant estimates reflected in these unaudited consolidated financial statements include, but are not limited to, the allowance for credit losses and returns, useful lives assigned to fixed and intangible assets, capitalization of internal-use software, deferral of customer origination costs, the fair value of intangible assets acquired in a business combination, the fair value of goodwill, and the recoverability of deferred income taxes. The Company assesses estimates on an ongoing basis; however, actual results could materially differ from those estimates.

Concentrations

Significant Services

A substantial portion of the Company’s revenue is derived from interchange fees earned on payment transactions processed as virtual commercial cards (“VCC”). The Company utilizes service providers to process these transactions. Revenue from one service provider represented 25% and 14% of total revenue for the three months ended September 30, 2024 and 2023, respectively, and 22% and 18% of total revenue for the nine months ended September 30, 2024 and 2023, respectively. Accounts receivable from this service provider represented 41% and 12% of accounts receivable, net as of September 30, 2024 and

AvidXchange Holdings, Inc.
Notes to the Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

December 31, 2023, respectively. Revenue from a second provider represented 21% and 31% of total revenue for the three months ended September 30, 2024 and 2023, respectively, and 24% and 29% of total revenue for the nine months ended September 30, 2024 and 2023, respectively. Accounts receivable from this second service provider represented 7% and 38% of accounts receivable, net as of September 30, 2024 and December 31, 2023, respectively.

Future regulation or changes by the card brand payment networks could have a substantial impact on interchange rates and the Company's revenue from VCC transactions. If interchange rates decline, whether due to actions by the card brand payment networks or future regulation, or if merchant/suppliers elect to receive payments that result in lower or no interchange revenue such as check or apply fees in consideration of accepting electronic forms of payment, the Company's total operating revenues, operating results, prospects for future growth and overall business could be materially affected. The Company's revenue from VCC transactions is also impacted by fees charged by service providers to process our VCC transactions.

Restructuring costs

During the fourth quarter of 2023, the Company initiated a restructuring plan to generate cost savings and improve effectiveness of the organization which resulted in a reduction in the Company's U.S. workforce. The plan was implemented in the fourth quarter of 2023 and completed in the second quarter of 2024. There were no restructuring costs recorded in the three months ended September 30, 2024. The Company recorded restructuring costs of \$1,157 in the nine months ended September 30, 2024, and \$3,037 cumulatively, from one-time severance charges in connection with this plan. Restructuring costs are included in general and administrative expenses in the consolidated statements of operations.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase that are not recorded as marketable securities to be cash equivalents. The carrying values of cash and cash equivalents approximate their fair values due to the short-term nature of these instruments. Cash in the Company's bank accounts may exceed federally insured limits.

Marketable Securities

Marketable securities consist of short-term investments in corporate bonds, commercial paper, certificates of deposits and various U.S. government backed securities. To reflect its intention, the Company classifies its marketable securities as held-to-maturity at the time of purchase. As a result, the marketable securities are recorded at amortized cost and any gains or losses realized upon maturity are reported in other income (expense) in the consolidated statements of operations.

Accounts Receivable, Supplier Advances and Allowance for Credit Losses

Accounts receivable represent amounts due from the Company's VCC service providers for interchange fees earned and from buyer customers who have been invoiced for the use of the Company's software offerings, but for whom payments have not been received. Accounts receivable from VCC service providers are presented net of an allowance for returns for transactions subsequently canceled that do not ultimately settle through the payment network. Accounts receivable from buyer customers are presented net of allowances for credit losses and returns. The Company estimates expected credit losses related to accounts receivable balances based on a review of available and relevant information including current economic conditions, projected economic conditions, historical loss experience, account aging, and other factors that could affect collectability. Expected credit losses are determined individually or collectively depending on whether the accounts receivable balances share similar risk characteristics. The allowance for returns for VCC transactions subsequently canceled are assessed at each period end and recognized as a reduction of revenue. The allowances for buyer customer's credit losses and returns are assessed at each period end and are recognized as bad debt expense within general and administrative expenses in the consolidated statements of operations and as a reduction of revenue, respectively. A buyer customer receivable is written off against the allowance when it is determined that all collection efforts have been exhausted and the potential for recovery is considered remote. Historically, losses related to customer nonpayment have been immaterial and most of the accounts receivable balances have been current.

Supplier advances receivable represent amounts that have been advanced as part of the AvidXchange's Payment Accelerator product but have not been collected. Advances are collected from the buyer customer once the buyer initiates the transfer of funds for the invoice that was previously advanced. If the buyer does not transfer the funds as expected, the Company is exposed to losses. The Company's experience with such delinquencies by buyer customers has been immaterial. Supplier advances receivable are stated net of expected credit losses. The Company estimates expected credit losses related to supplier advances receivable balances based on a review of available and relevant information including current economic conditions, projected economic conditions, historical loss experience, account aging, and other factors that could affect collectability. Expected credit losses are determined individually or collectively depending on whether the accounts receivable balances share similar risk characteristics. The allowance for credit losses for supplier advances is assessed at period end and the measurement of the allowance is included as a component of cost of revenues in the Company's consolidated statements of operations. Supplier

AvidXchange Holdings, Inc.
Notes to the Unaudited Consolidated Financial Statements
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advances receivable balances are charged against the allowance when the Company determines it is probable the receivable will not be recovered after collection efforts and legal actions have been exhausted. The Company classifies the fees charged to supplier customers as cash flows from operating activities with the remaining accelerated advancements and recoupments classified as cash flows from investing activities on a net basis within the consolidated statements of cash flows.

Restricted Funds Held for Customers and Payment Service Obligations

Restricted funds held for customers and the corresponding liability of payment service obligations represent funds that are collected from customers for payments to their suppliers. The Company determines the balances of restricted funds held for customers, and the corresponding payment services obligations, by reconciling cash held by financial institutions and the corresponding payments in transit at the end of each period. The balance of these obligations may fluctuate from period to period depending on the timing of the period end and the timing of when outstanding payments clear with financial institutions. The Company is registered as a money services business with the Financial Crimes Enforcement Network. Payment service obligations are comprised of outstanding daily transaction liabilities per state regulatory average daily transaction liability reporting requirements and other unregulated settlements with payees, which do not constitute a regulatory liability event under reporting requirements.

	As of September 30, 2024	As of December 31, 2023
Outstanding Transaction Liabilities	\$ 1,115,745	\$ 1,568,280
Other unregulated settlements	38,535	10,376
Total payment service obligations	\$ 1,154,280	\$ 1,578,656

The Company historically transmitted buyer customer funds using a legacy model pursuant to which buyer customer funds were held in trust accounts that were maintained and operated by a trustee pending distribution to suppliers in accordance with instructions provided through the Company's platform. The Company is not the trustee or beneficiary of the trusts which hold these buyer deposits; accordingly, the Company does not record these assets and offsetting liabilities on its consolidated balance sheets. The Company has largely phased out this model although certain banks that resell its products and services continue to leverage a similar structure. The Company contractually earns interest on funds held for certain buyers. The amount of Company and bank customer funds held in all trust-related and similar accounts was approximately \$21,925 and \$6,269 as of September 30, 2024 and December 31, 2023, respectively.

The Company has transitioned most payment transmission activity to the money transmitter license model and obtained a money transmitter license in all states which require licensure. This model enables AvidXchange to provide commercial payment services to businesses through its "for the benefit of customer" bank accounts, also known as FBO, that are restricted for such purposes. The restricted funds held for customers are restricted for the purpose of satisfying the customer's supplier obligations and are not available for general business use by the Company. The Company maintains these funds in liquid cash accounts and contractually earns interest on these funds held for customers. These funds are recognized as a restricted cash asset and a corresponding liability is recorded for payments due to their suppliers on the Company's consolidated balance sheets. Restricted funds held for customers are included in the cash and cash equivalents on the consolidated statements of cash flows.

Stock-Based Compensation

Compensation cost for stock-based awards issued to employees and outside directors, including stock options and restricted stock units ("RSUs"), is measured at fair value on the date of grant.

The fair value of stock options is estimated using a Black-Scholes option-pricing model, while the fair value of RSUs is determined using the fair value of the Company's underlying common stock. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period of the award. Stock-based compensation expense for RSUs with performance conditions is recognized over the requisite service period on an accelerated-basis as long as the performance condition in the form of a specified liquidity event is probable to occur. In the case of equity issued in lieu of cash bonus, expense is recognized in the period the cash bonus was earned.

Nonqualified Deferred Compensation Plan

The Company adopted a nonqualified, deferred compensation plan effective October 1, 2015, which is an unfunded plan created for the benefit of a select group of management or highly compensated employees. The purpose of the plan is to attract and retain key employees by providing them with an opportunity to defer receipt of a portion of their compensation. It is exempt from the participation, vesting, funding, and fiduciary requirements set forth in Title I of the Employee Retirement Income Security Act of 1974, as amended. Deferred amounts are not subject to forfeiture and are deemed invested among investment funds offered under the nonqualified deferred compensation plan, as directed by each participant.

AvidXchange Holdings, Inc.
Notes to the Unaudited Consolidated Financial Statements
(in thousands, except share and per share data)

The Company has established a 'rabbi trust' that serves as an investment to shadow the deferred compensation plan liability. The assets of the rabbi trust primarily consist of trust-owned life insurance policies which are recorded at cash surrender value and are included in other noncurrent assets. The change in cash surrender value of the life insurance policies in the rabbi trust is recorded in other income (expense) on the Company's unaudited consolidated statements of operations. The assets of the rabbi trust are general assets of the Company and as such, would be subject to the claims of creditors in the event of bankruptcy or insolvency. The related deferred compensation liabilities are included in other long-term liabilities.

The Company has recorded these assets and liabilities at their fair value. In association with this plan, \$2,823 and \$1,866 were included in other noncurrent assets and \$2,429 and \$2,398 were included in noncurrent liabilities as of September 30, 2024 and December 31, 2023, respectively, on the Company's unaudited consolidated balance sheets.

Contingent Liabilities

Contingent liabilities require significant judgment in estimating potential losses for legal claims. The Company reviews significant new claims and litigation for the probability of an adverse outcome. Estimates are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will materially exceed the recorded provision. Contingent liabilities are often resolved over long periods of time. Estimating probable losses requires analysis of multiple forecasts that often depend on judgments about potential actions by third parties such as regulators, and the estimated loss can change materially as individual claims develop.

New Accounting Pronouncements

Recently Adopted Accounting Standards

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*. The amendments in this update that apply to public business entities clarify the accounting for leasehold improvements associated with common control leases. The adoption of this guidance on January 1, 2024 did not have an impact on the Company's consolidated financial statements.

Accounting Pronouncements Issued but Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, which requires significant additional disclosures about income taxes, primarily focused on the disclosure of income taxes paid and the rate reconciliation table. The new guidance will be applied prospectively (with retrospective application permitted) and is effective for calendar year-end public business entities in the 2025 annual period and in 2026 for interim periods, with early adoption permitted. The Company is assessing the impact of this guidance on its financial statements.

In November 2024, the FASB issued ASU 2024-03, *Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. This standard is intended to require more detailed disclosures about specified categories of expenses included in certain expense captions presented on the face of the income statement. This ASU is effective for fiscal years beginning after December 15, 2026, and for interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. The amendments may be applied either (1) prospectively to financial statements issued for reporting periods after the effective date of this ASU or (2) retrospectively to all prior periods presented in the financial statements. The Company is assessing the impact of this guidance on its financial statements.

3. Revenue from Contracts with Customers

Disaggregation of Revenue

The table below presents the Company's revenues disaggregated by type of services performed.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Software revenue	\$ 30,664	\$ 28,919	\$ 90,266	\$ 83,135
Payment revenue	80,697	68,485	230,082	190,894
Services revenue	1,411	1,276	3,154	2,627
Total revenues	<u>\$ 112,772</u>	<u>\$ 98,680</u>	<u>\$ 323,502</u>	<u>\$ 276,656</u>

Contract Assets and Liabilities

The Company's rights to payments are not conditional on any factors other than the passage of time, and as such, the Company does not have any contract assets. Contract liabilities consist primarily of advance cash receipts for services (deferred revenue) and are recognized as revenue when the services are provided.

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The table below presents information on accounts receivable and contract liabilities.

	As of September 30, 2024	As of December 31, 2023
Trade accounts receivable, net	\$ 22,825	\$ 16,261
Payment processing receivable, net	33,277	30,428
Accounts receivable, net	\$ 56,102	\$ 46,689
Contract liabilities	\$ 25,471	\$ 27,593

Significant changes in the contract liabilities balance are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue recognized included in beginning of period balance	\$ (2,120)	\$ (3,351)	\$ (8,733)	\$ (8,264)
Cash received, excluding amounts recognized as revenue during the period	2,733	1,656	6,611	6,613

The tables below present a summary of changes in the Company's allowances for credit losses and returns for the nine months ended September 30, 2024 and 2023:

	Accounts Receivable		Supplier Advances Receivable Allowance
	Allowance for Credit Losses	Allowance for Returns	
Allowance balance, December 31, 2023	\$ 2,142	\$ 2,089	\$ 1,333
Amounts charged to contra revenue, cost of revenues and expenses	1,016	(200)	1,127
Amounts written off as uncollectable	(309)	-	(1,593)
Recoveries of amounts previously written off	-	-	797
Deduction released to revenue	-	-	-
Allowance balance, September 30, 2024	<u>\$ 2,849</u>	<u>\$ 1,889</u>	<u>\$ 1,664</u>

	Accounts Receivable		Supplier Advances Receivable Allowance
	Allowance for Credit Losses	Allowance for Returns	
Allowance balance, December 31, 2022	\$ 1,539	\$ 1,584	\$ 1,872
Amounts charged to contra revenue, cost of revenues and expenses	945	375	210
Amounts written off as uncollectable	(484)	(1)	(1,701)
Recoveries of amounts previously written off	-	-	932
Deduction released to revenue	-	(92)	-
Allowance balance, September 30, 2023	<u>\$ 2,000</u>	<u>\$ 1,866</u>	<u>\$ 1,313</u>

Transaction Price Allocated to Remaining Performance Obligations

Transaction price allocated to the remaining performance obligations represents contracted revenue that has not yet been recognized. These revenues are subject to future economic risks including customer cancellations, bankruptcies, regulatory changes and other market factors.

The Company applies the practical expedient in ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), paragraph 606-10-50-14(b) and does not disclose information about remaining performance obligations related to transaction and processing services that qualify for recognition in accordance with paragraph 606-10-55-18 of Topic 606. These contracts contain variable consideration for stand-ready performance obligations for which the exact quantity and mix of transactions to be processed are contingent upon buyer or supplier request. These contracts also contain fixed fees and non-refundable upfront fees; however, these amounts are not considered material to total consolidated revenue.

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The Company's remaining performance obligation consists of contracts with financial institutions who are using the ASCEND solution. These contracts generally have a duration of two to five years and contain fixed maintenance fees that are considered fixed price guarantees. Remaining performance obligation consisted of the following:

	Current	Noncurrent	Total
As of September 30, 2024	\$ 15,073	\$ 20,252	\$ 35,325
As of December 31, 2023	15,031	20,403	35,434

Contract Costs

The Company incurs incremental costs to obtain a contract, as well as costs to fulfill a contract with buyer customers that are expected to be recovered. These costs consist primarily of sales commissions incurred if a contract is obtained, and customer implementation related costs.

The Company utilizes a portfolio approach when estimating the amortization of contract acquisition and fulfillment costs. These costs are amortized on a straight-line basis over the expected benefit period of generally five years, which was determined by taking into consideration customer attrition rates, estimated terms of customer relationships, useful lives of technology, industry peers, and other factors. The amortization of contract fulfillment costs associated with implementation activities are recorded as cost of revenues in the Company's consolidated statements of operations. The amortization of contract acquisition costs associated with sales commissions that qualify for capitalization is recorded as sales and marketing expense in the Company's consolidated statements of operations. Costs to obtain or fulfill a contract are classified as deferred customer origination costs in the Company's consolidated balance sheets.

The following tables present information about deferred contract costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	Capitalized sales commissions and implementation costs	\$ 3,016	\$ 3,045	\$ 9,496
Amortization of deferred contract costs				
Costs to obtain contracts included in sales and marketing expense	\$ 1,615	\$ 1,550	\$ 4,858	\$ 4,489
Costs to fulfill contracts included in cost of revenue	\$ 1,528	\$ 1,564	4,623	4,718

4. Income (Loss) Per Common Share

The following common share equivalent securities have been excluded from the calculation of weighted average common shares outstanding because the effect is anti-dilutive for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Anti-Dilutive Common Share Equivalents				
Stock options	402,042	8,252,768	186,582	8,252,768
Restricted stock units	816,531	10,114,472	285,127	10,114,472
Employee stock purchase plan	-	168,002	-	168,002
Total anti-dilutive common share equivalents	<u>1,218,573</u>	<u>18,535,242</u>	<u>471,709</u>	<u>18,535,242</u>

Basic and diluted net income (loss) per common share is calculated as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income (loss)	\$ 4,047	\$ (8,091)	\$ 3,474	\$ (42,852)
Net income (loss) attributable to common stockholders	<u>\$ 4,047</u>	<u>\$ (8,091)</u>	<u>\$ 3,474</u>	<u>\$ (42,852)</u>
Denominator:				
Weighted-average common shares outstanding, basic	207,235,954	202,526,844	206,389,565	201,338,550
Weighted-average effect of potentially dilutive securities:				
Stock options	787,733	-	1,205,661	-
Restricted stock units	951,460	-	2,067,965	-
Employee stock purchase plan	<u>40,514</u>	<u>-</u>	<u>58,667</u>	<u>-</u>
Weighted-average common shares outstanding, diluted	209,015,661	202,526,844	209,721,858	201,338,550
Net income (loss) per common share, basic	<u>\$ 0.02</u>	<u>\$ (0.04)</u>	<u>\$ 0.02</u>	<u>\$ (0.21)</u>
Net income (loss) per common share, diluted	<u>\$ 0.02</u>	<u>\$ (0.04)</u>	<u>\$ 0.02</u>	<u>\$ (0.21)</u>

5. Fair Value Measurements

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade and supplier advances receivables, assets of the rabbi trust, AP, deferred compensation liabilities, and debt. The carrying amount of cash, trade and supplier advances receivables, and AP approximate fair value due to the short-term maturity. The estimated fair value of long-term debt is based on borrowing rates available during the period to the Company for similar debt issues. The fair value approximated the carrying value of long-term debt at the report date.

In accordance with applicable accounting standards, the Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The following is a brief description of those three levels:

- Level 1 Observable inputs such as quoted market prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3 Unobservable inputs that reflect the reporting entity's own assumptions. The fair value for such assets and liabilities is generally determined using pricing models, discounted cash flow methodologies, or similar techniques that incorporate the assumptions a market participant would use in pricing the asset or liability.

When more than one level of input is used to determine the fair value, the financial instrument is classified as Level 1, 2 or 3 according to the lowest level input that has a significant impact on the fair value measurement. The Company performs a review of the fair value hierarchy classification on an annual basis. Changes in the observability of valuation inputs may result in a reclassification of certain financial assets or financial liabilities within the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgment.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis using the above categories, as of the periods presented.

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Description	As of September 30, 2024			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market mutual funds ⁽¹⁾	\$ 60,510	\$ -	\$ -	\$ 60,510
Rabbi trust-owned life insurance policies (at cash surrender value) ⁽²⁾	-	2,823	-	2,823
Total assets	\$ 60,510	\$ 2,823	\$ -	\$ 63,333
Other long-term liabilities				
Deferred compensation	\$ -	\$ 2,429	\$ -	2,429
Total liabilities	\$ -	\$ 2,429	\$ -	\$ 2,429

Description	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market mutual funds ⁽¹⁾	\$ 226,715	\$ -	\$ -	\$ 226,715
Rabbi trust-owned life insurance policies (at cash surrender value) ⁽²⁾	-	1,866	-	1,866
Total assets	\$ 226,715	\$ 1,866	\$ -	\$ 228,581
Other long-term liabilities				
Deferred compensation	\$ -	\$ 2,398	\$ -	2,398
Total liabilities	\$ -	\$ 2,398	\$ -	\$ 2,398

- (1) Money market funds are classified as cash equivalents in the Company's unaudited consolidated balance sheets. As short-term, highly liquid investments readily convertible to known amounts of cash with remaining maturities of three months or less at the time of purchase, the Company's cash equivalent money market funds have carrying values that approximate fair value.
- (2) Fair value of insurance policies represents their cash surrender value based on the underlying investments in the account which is determined based on quoted prices for identical or similar financial instruments in active markets.

6. Marketable Securities

Marketable securities consist of corporate bonds, commercial paper, certificates of deposit, and U.S. Treasury and agency debt, and are classified as held-to-maturity. Investments held in marketable securities had contractual maturities of less than 13 months as of September 30, 2024. As the Company invests in short-term and high credit quality marketable securities, the Company expects to receive fixed par value without any loss of principle at the maturity of each security. Therefore, an allowance for expected credit losses is not recognized as of September 30, 2024 and December 31, 2023. The following presents information about the Company's marketable securities:

Sector	As of September 30, 2024					
	Amortized Cost	Allowance for Credit Losses	Net Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Financial	\$ 56,251	\$ -	\$ 56,251	\$ 73	\$ (3)	\$ 56,321
Industrial	22,706	-	22,706	10	(1)	22,715
Total	\$ 78,957	\$ -	\$ 78,957	\$ 83	\$ (4)	\$ 79,036

Sector	As of December 31, 2023					
	Amortized Cost	Allowance for Credit Losses	Net Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Financial	\$ 44,645	\$ -	\$ 44,645	\$ -	\$ (14)	\$ 44,631
Total	\$ 44,645	\$ -	\$ 44,645	\$ -	\$ (14)	\$ 44,631

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The fair value of marketable securities in the Government major security type is classified as a Level 1 in the Company's fair value hierarchy described in Note 5. The fair values of the remaining major security types are classified as Level 2.

The following table presents information about the Company's investments that were in an unrealized loss position and for which an other-than-temporary impairment has not been recognized in earnings:

	As of September 30, 2024	As of December 31, 2023
Aggregate fair value of investments with unrealized losses ⁽¹⁾	22,391	\$ 33,578
Aggregate amount of unrealized losses	(4)	(14)

(1) Investments have been in a continuous loss position for less than 12 months

7. Intangible Assets and Goodwill

Intangible Assets

The following table presents information about capitalized software development costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Capitalized software development costs				
Capitalized	\$ 4,852	\$ 4,165	\$ 12,939	\$ 11,898
Amortized	4,443	3,910	13,310	11,194

	As of September 30, 2024		
	Gross Amount	Accumulated Amortization	Net Amount
Internally developed software	\$ 114,248	\$ (87,965)	\$ 26,283
Non-compete	6,194	(4,352)	1,842
Customer relationships	72,512	(43,809)	28,703
Technology	45,791	(33,077)	12,714
Trade name	7,748	(3,257)	4,491
Total intangible assets	\$ 246,493	\$ (172,460)	\$ 74,033

	As of December 31, 2023		
	Gross Amount	Accumulated Amortization	Net Amount
Internally developed software	\$ 101,471	\$ (74,655)	\$ 26,816
Non-compete	6,194	(3,738)	2,456
Customer relationships	72,512	(37,601)	34,911
Technology	45,791	(30,178)	15,613
Trade name	7,748	(2,739)	5,009
Total intangible assets	\$ 233,716	\$ (148,911)	\$ 84,805

Total amortization expense associated with identifiable intangible assets was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Total amortization expense associated with identifiable intangible assets	\$ 7,856	\$ 7,533	\$ 23,549	\$ 22,064

Impairment and write-off of intangible assets

Impairment and write-off expense related to internally developed software projects was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Impairment and write-off of intangible assets	\$ -	\$ -	\$ 162	\$ -

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Goodwill

There were no changes in goodwill during the nine months ended September 30, 2024.

8. Leases and Leasing Commitments

Supplemental cash flow information related to the Company's operating and finance leases was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:				
Financing cash flows for finance leases	\$ 73	\$ 130	\$ 223	\$ 435
Operating cash flows for finance leases	1,494	1,472	4,448	4,386
Operating cash flows for operating leases	536	562	1,682	1,668
Right of use assets obtained in exchange for new lease obligations:				
Finance lease liabilities	-	-	-	81
Operating lease liabilities	-	-	-	362

The components of lease expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Lease expense				
Finance lease expense:				
Amortization of right-of-use assets	\$ 538	\$ 292	\$ 1,694	\$ 1,352
Interest on lease liabilities	1,658	1,647	4,966	4,934
Operating lease expense	361	426	1,183	1,290
Variable lease expense	109	99	257	206
Total lease expense	\$ 2,666	\$ 2,464	\$ 8,100	\$ 7,782

9. Long-Term Debt

Long-term debt as of September 30, 2024 and December 31, 2023:

	As of September 30, 2024	As of December 31, 2023
Term loan facility	\$ -	\$ 63,375
Promissory note payable for land acquisition	13,900	13,900
Total principal due	13,900	77,275
Current portion of term loan and promissory notes	(4,800)	(6,425)
Unamortized portion of debt issuance costs	-	(1,090)
Long-term debt	\$ 9,100	\$ 69,760

On August 8, 2024, the Company, through its wholly-owned subsidiaries, AvidXchange, Inc. and AFV Commerce, Inc. (the "Borrowers"), entered into a credit agreement (the "2024 Amended and Restated Credit Agreement") with KeyBank National Association ("KeyBank") to amend and restate in its entirety its previous senior secured credit facility (as amended, the "2022 Credit Agreement"), dated as of December 29, 2022. The Company repaid all amounts outstanding under the term loan facility under the 2022 Credit Agreement upon closing the 2024 Amended and Restated Credit Agreement. The 2024 Amended and Restated Credit Agreement has a term of five years and consists of a \$150,000 5-year revolving credit facility (the "2024 Revolver").

Under the 2024 Amended and Restated Credit Agreement and subject to specific conditions, the Company may request, and the lenders have the right, but not the obligation, to increase the 2024 Revolver or add a term loan facility by an additional amount (for all such increases) not to exceed \$150,000, for a total aggregate amount of \$300,000. The 2024 Revolver may be used for working capital, for refinancing existing indebtedness, and for other general corporate purposes.

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Letters of credit may be issued by KeyBank pursuant to the 2024 Amended and Restated Credit Agreement in an aggregate face amount up to \$30,000 and the availability under the 2024 Revolver will be reduced by any outstanding letters of credit. As of September 30, 2024, no letters of credit were outstanding.

The maturity date for the 2024 Revolver is August 8, 2029. Interest only payments are required during the term, with the outstanding principal balance due in full upon maturity. Interest is payable quarterly. The Company may voluntarily pre-pay all or any part of the 2024 Revolver along with accrued interest and any applicable breakage costs, without premium or penalty.

Interest on the loans under the 2024 Amended and Restated Credit Agreement is equal to the daily simple secured overnight financing rate ("SOFR"), term SOFR or a base rate, plus an applicable margin. The applicable margin is between 2.0% and 2.5% for daily simple SOFR and term SOFR loans (plus a SOFR adjustment of 0.1%), and between 1.0% and 1.5% for base rate loans. The applicable margin fluctuates based on a leverage ratio that reflects the Company's consolidated funded indebtedness to the Company's consolidated EBITDA. The Company may elect one-, three- or six-month interest periods in connection with term SOFR. The base rate is equal to the higher of KeyBank's prime rate, the federal funds effective rate plus 0.5%, or one-month term SOFR plus 1.0%. For purposes of the 2024 Amended and Restated Credit Agreement, daily simple SOFR, term SOFR and the base rate will never be less than 0.5%.

The 2024 Amended and Restated Credit Agreement contains certain customary representations and warranties and affirmative and negative covenants. The affirmative covenants require the Company to provide the lenders with certain financial statements, budgets, compliance certificates and other documents and reports and to comply with certain laws. The negative covenants restrict the Company's ability to incur additional indebtedness, create additional liens on its assets, make certain investments, dispose of its assets or engage in a merger or other similar transaction or engage in transactions with affiliates, which are subject, in each case, to the various exceptions and conditions described in the 2024 Amended and Restated Credit Agreement. The negative covenants further restrict the Company's ability to make certain restricted payments, including the payment of dividends in certain circumstances and repurchase of common equity in excess of \$50,000 shares in any fiscal year.

The 2024 Amended and Restated Credit Agreement also contains several financial covenants, measured on a consolidated basis. First, during the period commencing with the fiscal quarter ended June 30, 2024 through June 30, 2025, (a) there must be liquidity (which is defined as availability under the 2024 Revolver, plus unrestricted cash) that is more than the greater of (1) \$35,000 and (2) 35% of the Revolving Amount, as defined in the 2024 Amended and Restated Credit Agreement, (b) as of the end of each such quarter, total revenue on a trailing four-quarter basis must be greater than the requirements set forth in the 2024 Amended and Restated Credit Agreement, and (c) for each period of four consecutive quarters, Consolidated EBITDA, as defined in the 2024 Amended and Restated Credit Agreement, must not be less than \$10,000. Second, during the period commencing with the fiscal quarter ending September 30, 2025 until maturity, (i) the Leverage Ratio, as defined in the 2024 Amended and Restated Credit Agreement, must not exceed 3.00 to 1.00 at the end of each fiscal quarter and (ii) the Interest Coverage Ratio, as defined in the 2024 Amended and Restated Credit Agreement, must not be less than 3.00 to 1.00 at the end of each fiscal quarter. The Leverage Ratio must not exceed 3.50 to 1.00 during certain periods following an acquisition of a certain size. The Company was in compliance with its financial debt covenants as of September 30, 2024.

The 2024 Amended and Restated Credit Agreement also includes certain customary events of default. If an event of default occurs and is continuing, the lenders are entitled to take various actions, including the charging of a default rate of interest, accelerating the maturity of all loans and taking all actions permitted to be taken by a secured creditor with respect to the collateral for the 2024 Amended and Restated Credit Agreement and under applicable law.

The obligations under the 2024 Amended and Restated Credit Agreement are secured by:

- substantially all of the tangible and intangible assets of the Company and its material subsidiaries, except for existing real estate, client funds, client funds accounts, and other excluded accounts (as such terms are defined in the 2024 Amended and Restated Credit Agreement), and
- the capital stock of the Company's material subsidiaries.

Under the 2024 Amended and Restated Credit Agreement, the Company's wholly-owned subsidiaries, AvidXchange, Inc. and AFV Commerce, Inc., are the only borrowers, and AvidXchange Holdings, Inc. and certain subsidiaries of AvidXchange, Inc. and AFV Commerce, Inc. are co-guarantors.

Revolving Credit Facility

There was no balance outstanding under the 2024 Revolver as of September 30, 2024. The Company is required to pay on a quarterly basis a commitment fee of between 0.25% and 0.3% per annum as determined by the Leverage Ratio, with respect to the amount of the 2024 Revolver during the term of the agreement.

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Deferred Financing Costs

Costs incurred with entering into the 2024 Amended and Restated Credit Agreement were deferred and amortized over the five-year term of the agreement. Of the remaining deferred costs associated with the 2022 Credit Agreement, \$1,081 were written off and included in general and administrative expense in the three and nine months ended September 30, 2024. The Company has \$1,832 and \$604 in deferred financing costs included in other noncurrent assets and deposits, and \$0 and \$1,090 of deferred financing costs associated with its term loans recorded net of long-term debt as of September 30, 2024 and December 31, 2023, respectively.

Amortization of deferred financing costs was \$98 and \$106 for the three months ended September 30, 2024 and 2023, respectively, and \$310 and \$326 for the nine months ended September 30, 2024 and 2023, respectively, which is presented in the consolidated statements of operations as interest expense.

Land Promissory Notes

The Company has two promissory notes executed in connection with the purchase of land parcels and improvements adjacent to its Charlotte, North Carolina headquarters campus. The aggregate outstanding principal amount was \$13,900 as of September 30, 2024 and will be paid in two remaining equal annual payments of \$4,800 and a final annual payment of \$4,300, plus accrued interest at 6.75%.

10. Stockholders' Equity

The holders of common stock are entitled to one vote for each share.

Authorized Shares

The Company is authorized to issue 1,600,000,000 shares of common stock, \$0.001 par value per share, and 50,000,000 shares of preferred stock, \$0.001 par value per share.

Common Stock

At September 30, 2024, the Company had reserved a total of 52,312,253 of its 1,600,000,000 shares of common stock for future issuance as follows:

	As of September 30, 2024
Outstanding stock options	7,422,922
Restricted stock units	10,127,567
Available for future issuance under stock award plans	26,812,935
Available for future issuance under employee stock purchase plan	7,948,829
Total common shares reserved for future issuance	<u>52,312,253</u>

Share Repurchase Program

In August 2024, our board of directors authorized the repurchase of up to \$100,000 of our outstanding shares of common stock (the "Share Repurchase Program"). Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, including pursuant to a Rule 10b5-1 plan. The timing, price, and volume of the repurchases will be executed based on various market and legal factors, and subject to a \$50,000 cap in any fiscal year pursuant to the terms of the 2024 Amended and Restated Credit Agreement. The share repurchase program will terminate upon the earlier of December 31, 2025 or the date on which the maximum dollar amount has been expended, but is subject to suspension, modification, or termination at any time at the Company's discretion.

During the three and nine months ended September 30, 2024, the Company repurchased and subsequently retired 3,104,312 shares of common stock for \$25,062, including \$62 of fees, under the Share Repurchase Program. The total price of the shares repurchased and related transaction costs are reflected as a reduction of common stock and additional paid-in capital on the Company's consolidated balance sheets. As of September 30, 2024, \$75,000 remained available for future share repurchases under the Share Repurchase Program.

AvidXchange Holdings, Inc.
Notes to the Unaudited Consolidated Financial Statements
(in thousands, except share and per share data)

11. Stock-Based Compensation

Stock Plans

The Company maintains its 2021 Long-Term Incentive Plan ("2021 Plan") under which it grants stock awards to its employees, directors and non-employee third parties. On January 1, 2024, the number of shares of common stock available to issue under the 2021 Plan automatically increased by 10,204,201 shares. As of September 30, 2024, the Company had 26,812,935 shares of common stock allocated to the 2021 Plan, but not yet issued or granted as an award.

The Company also maintains its 2021 Employee Stock Purchase Plan ("ESPP"), under which eligible employees may purchase the Company's common stock through accumulated payroll deductions. On January 1, 2024, the number of shares of common stock reserved for issuance under the ESPP automatically increased by 2,040,840. As of September 30, 2024, the number of shares of common stock reserved for issuance under the ESPP was 7,948,829.

Stock Options

Stock options granted under the Company's current and prior equity incentive plans have various vesting periods ranging from fully-vested on the date of grant to vesting over a period of three or four years. The term for each incentive stock option under these plans is ten years from the grant date, or five years for a grant to a ten percent owner optionee, in each case assuming continued employment. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model.

Stock option activity for the nine months ended September 30, 2024 was as follows:

	Stock Options			
	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance as of December 31, 2023	8,175,088	\$ 8.64	7.22	\$ 31,135
Granted	346,935	12.34		
Exercised	(838,428)	6.68		
Cancelled	(182,723)	8.57		
Expired	(77,950)	11.95		
Balance as of September 30, 2024	7,422,922	\$ 9.00	6.76	\$ 5,471
Vested and exercisable	5,149,863	\$ 8.77	6.21	\$ 5,418

As of September 30, 2024, the total unamortized stock-based compensation expense related to the unvested stock options was \$8,809, which the Company expects to amortize over a weighted average period of 2.1 years.

Restricted Stock Units

RSUs have a vesting period generally of one to four years. Any unvested RSUs are forfeited upon termination of employment. The grant date value of RSUs is equal to the closing price of the Company's stock on the date of grant, or, if not a trading day, the closing price of the previous trading day.

RSUs granted prior to the Company's IPO have a term of seven years, or three years for time vested RSUs after termination of employment and were also subject to a performance condition upon a predefined liquidity event such as an IPO or a change in control. The performance condition was satisfied upon completion of the Company's IPO. Prior to the IPO, RSUs were valued at the estimated value of a share of common stock at the date of grant.

RSU activity for the nine months ended September 30, 2024 was as follows:

	Restricted Stock Units	
	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance as of December 31, 2023	8,919,024	\$ 8.98
Granted	5,478,481	12.21
Released	(3,532,198)	9.15
Cancelled	(737,740)	9.83
Balance as of September 30, 2024	10,127,567	\$ 10.60

AvidXchange Holdings, Inc.
Notes to the Unaudited Consolidated Financial Statements
(in thousands, except share and per share data)

As of September 30, 2024, the total unamortized stock-based compensation expense related to the unvested RSUs was \$92,158, which the Company will amortize over a weighted average period of 2.8 years.

Stock-Based Compensation Expense

Stock-based compensation expense from stock options and RSUs, reduced for actual forfeitures, was included in the following line items in the accompanying consolidated statement of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of revenues	\$ 1,615	\$ 1,109	\$ 4,399	\$ 3,437
Sales and marketing	1,364	1,212	3,915	3,747
Research and development	2,944	2,976	9,526	8,175
General and administrative	5,700	5,746	16,666	15,214
Total	<u>\$ 11,623</u>	<u>\$ 11,043</u>	<u>\$ 34,506</u>	<u>\$ 30,573</u>

Employee Stock Purchase Plan

Stock-based compensation expense for the ESPP is based on the estimated fair value of the option to purchase shares at a discount and uses grant date inputs including the purchase discount, expected contributions and stock price. Total ESPP expense recorded in the Company's consolidated statements of operations was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
ESPP expense	\$ 227	\$ 186	\$ 622	\$ 608

12. Commitments and Contingencies

Cybersecurity Incident

The Company completed its investigation of its April 2023 cybersecurity incident in the fourth quarter of 2023. The Company has tendered claims for certain expenses incurred in connection with this event. The extent to which the Company's insurance will cover such expenses was substantially complete as of June 30, 2024. Insurance recoveries are recorded as a reduction of general and administrative expense. The Company incurred \$302 in professional and legal fees, net of recoveries, related to this cyber incident in the nine months ended September 30, 2024 and \$1,918 and \$5,535 in the three and nine months ended September 30, 2023, respectively.

13. Income Taxes

The Company's effective tax rate for the three months ended September 30, 2024 and 2023 was 9.6% and (1.7)%, respectively. The Company's effective tax rate for the nine months ended September 30, 2024 and 2023 was 16.3% and (0.8)%, respectively. The Company's effective tax rate is driven by current state income taxes in taxable jurisdictions and changes in the Company's valuation allowances relative to pretax earnings.

14. Subsequent Events

On October 31, 2024, the Company issued 187,544 shares of common stock under its employee stock purchase plan at a purchase price of \$7.16 per share representing a 15% discount on the closing price of \$8.42 on the ending date of the offering period for an aggregate of \$1,343. The purchase price is based on the lower of the fair market value of the Company's common stock at the grant date or purchase date.

On November 8, 2024, the Board of Directors approved the fourth installment of 165,729 shares of common stock to a philanthropic partner, Foundation for the Carolinas and its affiliate, Community Investments Foundation, as a charitable contribution in connection with an agreement between the parties dated October 1, 2021. Pursuant to this agreement, we intend to provide annual ongoing grants of 10% of the pledged shares for a period of ten years, subject in each case to the approval of our board of directors.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the unaudited interim financial statements and notes thereto included in this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto for the year ended December 31, 2023 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2023.

Cautionary Note Regarding Forward Looking Statements

The following discussion and other parts of this Quarterly Report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future operating results and financial position, our business strategy and plans, market growth, and our objectives for future operations, may constitute forward-looking statements. These statements are often identified by the use of words such as "believe," "may," "will," "estimate," "potential," "continue," "anticipate," "intend," "expect," "could," "would," "project," "plan," "target," and similar expressions or variations. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A under the heading "Risk Factors." The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

You should read this Quarterly Report on Form 10-Q, and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC, with the understanding that our actual future results, performance, and events and circumstances may be materially different from what we expect.

In this Quarterly Report on Form 10-Q, the words "we," "our," "us," "AvidXchange," and "our Company" refer to AvidXchange, Inc. prior to our reorganization, and to AvidXchange Holdings, Inc. and its consolidated subsidiaries following the reorganization, unless the context requires otherwise.

Overview

AvidXchange was founded in 2000 to serve the AP automation needs of the middle market. In 2012, in response to customer demand for more efficient payment methods, we launched the AvidPay Network. Since 2012, we have had substantial growth, both organic and through a series of strategic acquisitions allowing us to expand in the markets that we serve and enter new ones.

Our Business and Revenue Model

We sell our solutions through a hybrid go-to-market strategy that includes direct and indirect channels. Our direct sales force leverages their domain expertise in select verticals and over 270 referral relationships with integrated software providers, financial institutions and other partners to identify and attract buyers that would benefit from our AP software solutions and the AvidPay Network. Our indirect channel includes reseller partners and other strategic partnerships such as Mastercard, through MasterCard's B2B Hub, which includes Fifth Third Bank and Bank of America, and other financial institutions, such as KeyBank, and third-party software providers such as MRI Software, RealPage and Sage Software. Our referral and indirect channel partnerships provide us greater reach across the market to access a variety of buyers.

Our revenues are recurring in nature and are derived from multiple sources, predominantly through software revenue from our buyers and revenue from payments made to their suppliers. The table below represents our revenues disaggregated by type of service performed (in thousands):

Disaggregation of Revenue:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Software revenue	\$ 30,664	\$ 28,919	\$ 90,266	\$ 83,135
Payment revenue	80,697	68,485	230,082	190,894
Services revenue	1,411	1,276	3,154	2,627
Total revenues	\$ 112,772	\$ 98,680	\$ 323,502	\$ 276,656

Software revenue, payment revenue and services revenue are described below in the section titled "Components of Results of Operations."

Macroeconomic Environment's Impact on Revenue

Despite the resiliency exhibited by aspects of the U.S economy during the first nine months of 2024, we believe that certain of our customers continue to exhibit caution in their purchasing decisions. More broadly, we believe that certain of the verticals or sub-components of those verticals in which we operate have been and continue to be more adversely impacted by the macroeconomic environment, which contrasts with the broader but measured improvement in overall economic sentiment.

Tempered spending by prospects and customers impacts us two ways. First, tempered spending and a focus on costs can impact payment volumes, payment amounts, and payment type mix. The business metrics that best reflect this impact include transaction yield and total payment volume. Second, cautious spending impacts sales and is reflected, in part, in our software revenue as well as the number of invoices that we process. The business metric that best reflects this impact can be found in transactions processed.

In the short term, while we believe that we will benefit from improving overall economic sentiment in the coming quarters, we also believe that we will be better positioned to gauge inflections in sentiment among our customer verticals after the uncertainties of the current political cycle and broader macroeconomic environment are behind us.

As for the changing interest rate environment, when rates were higher during the earlier part of the year, our payment revenue and interest income, resulting from the funds we held for buyers, were positively impacted. Interest income, which is a component of our payment revenue, was negatively impacted when the Federal Reserve cut interest rates earlier this year and will continue to be negatively impacted should the Federal Reserve elect to continue to cut interest rates. Such changes could also lead to difficulty in comparing our current consolidated financial results to our results in future reporting periods.

Key Financial and Business Metrics

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

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2024	2023		2024	2023	
Transactions Processed	20,177,994	19,175,866	5.2%	59,228,276	56,253,181	5.3%
Transaction Yield	\$ 5.59	\$ 5.15	8.5%	\$ 5.46	\$ 4.92	11.0%
Total Payment Volume (in millions)	\$ 21,479	\$ 19,627	9.4%	\$ 61,963	\$ 56,040	10.6%

Transactions processed

We believe that transactions processed is an important measure of our business because it is a key indicator of the use by both buyers and suppliers of our solutions and our ability to generate revenue, since a majority of our revenue is generated based on transactions processed. We define transactions processed as the number of invoice transactions and payment transactions, such as invoices, purchase orders, checks, ACH payments and VCCs, processed through our platform during a particular period.

Transaction yield

We believe that transaction yield is an important measure of the value of our solutions to buyers and suppliers as we scale. We define transaction yield as the total revenue during a particular period divided by the total transactions processed during such period.

Total payment volume

We believe total payment volume is an important measure of our AvidPay Network business as it quantifies the demand for our payment services. We define total payment volume as the dollar sum of buyers' AP payments paid to their suppliers through the AvidPay Network during a particular period.

Components of Results of Operations

Revenue

We generate revenue from the following sources: (i) software, (ii) payments, and (iii) services.

Software Revenue

We generate software revenue from our buyers primarily through (i) fees calculated based on the number of invoices and payment transactions processed and (ii) recurring maintenance and SaaS fees. Software revenue is typically billed to and paid by our buyers on a monthly basis. Our software offerings, many of which are built for specific verticals, address the needs of buyers and together they comprise our suite of predominately cloud-based solutions designed to manage invoices and automate the AP function. We generally sign multi-year contracts with buyers and revenue is recognized over the term of the contract. We also

generally receive initial upfront implementation fees and software maintenance fees for ongoing support, which are recognized ratably over the term of the applicable support period.

Payment Revenue

We generate revenue from the payments our buyers make to their suppliers through (i) offering electronic payment solutions to suppliers, (ii) fees charged to suppliers from our invoice payment accelerator product, and (iii) interest on funds held for buyers pending disbursement.

Our electronic payment solutions currently include VCC and an enhanced ACH payment product, or AvidPay Direct, which eliminate paper checks and increase the speed of payment to the supplier. AvidPay Direct also provides suppliers with enhanced remittance data allowing the supplier to reconcile the payment and the underlying invoice. VCC revenues result from interchange fees applied to the spend processed and are recorded net of fees and incentives. AvidPay Direct revenue is based on a per transaction fee that we charge to suppliers that generally includes a cap and is based on the spend per payment and is recorded net of incentives.

Our invoice payment accelerator product, Payment Accelerator, provides certain suppliers with the opportunity to better manage cash flows and receive payments even faster by allowing suppliers to receive advance payment on qualifying invoices. Revenues are generated on a per transaction basis for each payment that is advanced. We currently fund the accelerated payment of invoices from our balance sheet.

Interest income represents interest received from buyer deposits held during the payment clearing process. We receive interest on funds held through our contractual relationship with our buyers, which we recognize as payment revenue. The rate we earn on buyer funds is difficult to predict in the short and long term and will continue to be impacted by the Federal Reserve's monetary policy and any adjustments that are made in response to inflation. Due to the elevated levels of inflation in the U.S. economy, and the resulting increases in interest rates, we experienced an increase in revenues generated on funds held during the payment clearing process during 2022, 2023 and 2024. This level of interest income on buyer deposits may not be sustainable in future years or in nearer term periods depending on the Federal Reserve's future actions. The Federal Reserve is expected by many to reduce interest rates in near to mid-term future periods, which would in turn have a negative impact on our payment revenue although the extent to which rates will be reduced, if at all, and the specific timing of the rate cuts remains highly uncertain.

Our media payments business includes customers that are involved in political advertising in the U.S. Revenue from these customers is cyclical as it is connected to U.S. election advertising spend which tends to increase during significant election years, such as mid-term and presidential elections. As 2024 is a presidential election year, we expect an increase in the payments associated with political advertising in connection with the presidential election cycle in 2024, compared to 2023 which was not a significant election year.

We utilize service providers to process a substantial portion of our payment revenue that is derived from interchange fees earned on payment transactions processed as VCCs. A large percentage of our revenue is processed by a small number of providers and our revenue is also dependent on the rates we are able to negotiate with these providers. See Note 2 "Summary of Significant Accounting Policies" of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for disclosures regarding this concentration.

Services Revenue

Services revenue includes fees charged to process buyer change in service requests.

Total Revenue

We expect our total revenue to increase year over year due to an increase in the number of transactions processed, and the number of buyers and suppliers using the AvidPay Network, and that payment revenue should comprise a greater proportion of total revenue as the volume of transactions on the AvidPay Network continue to increase.

Cost of Revenues and Operating Expenses

Cost of Revenues

Cost of revenues includes personnel related costs, which include direct compensation, fringe benefits, short- and long-term incentive plans and stock-based compensation expense. Cost of revenues includes teams responsible for buyer and supplier onboarding and setup, invoice processing, payment operations, money movement execution, and customer service. Personnel costs also include internal labor associated with the employees who monitor the performance and reliability of our buyer and supplier solutions and the underlying delivery infrastructure (i.e., application and data hosting administration, product support and escalations, payment monitoring and settlement functions).

Cost of revenues also includes external expenses that are directly attributed to the processing of invoice and payment transactions. These expenses include the cost of scanning and indexing invoices, printing checks, postage for mailing checks, expenses for processing payments (ACH, check, and wires), bank fees associated with buyer deposits held during the payment

clearing process, and other transaction execution costs. Additionally, cost of revenues includes fees paid to third parties for the use of their technology, data hosting services, customer relationship management tools used in the delivery of our services or in support of the delivery infrastructure, and adjustments to the allowance for uncollectible advancements processed through Payment Accelerator. Lastly, cost of revenues includes estimates for treasury losses that occur in treasury operations. Treasury losses include various unrecoverable internal payment processing errors that occur in the ordinary course of business, such as duplicate payments, overpayments, payments to the wrong party and reconciliation errors.

We have elected to exclude amortization expense of capitalized developed software and acquired technology, as well as allocations of fixed asset depreciation expense and facility expenses from cost of revenues.

We expect our cost of revenues as a percentage of revenue to decrease as we continue to realize operational efficiencies and shift more of our transactions to electronic payments.

Sales and Marketing

Sales and marketing consists primarily of costs related to our direct sales force and partner channels that are incurred in the process of setting up go-to-market strategies, generating leads, building brand awareness and acquiring new buyers and suppliers, including efforts to convert suppliers from paper check payments to electronic forms of payments and efforts to enroll them into the Payment Accelerator solution.

Personnel costs include salaries, wages, direct and amortized sales commissions, fringe benefits, short- and long-term incentive plans and stock-based compensation expense. Most of the commissions paid to the direct sales force are incremental based upon invoice and payment volume from the acquisition of a new buyer and are deferred and amortized ratably over an estimated benefit period of five years.

The partner ecosystem consists of reseller, referral and accounting system partners. Compensation paid to referral and accounting system partners in exchange for the referral and marketing efforts of the partner is classified as sales and marketing expense.

In addition, we focus on generating awareness of our platform and products through a variety of sponsorships, user conferences, trade shows, and integrated marketing campaigns. Costs associated with these efforts, including travel expenses, external consulting services, and various technology applications are included in sales and marketing as well.

While we expect to continue to increase marketing activities over the coming periods, we are focused on efficient deployment of these marketing resources, and as a result we expect our sales and marketing expenses to experience modest growth in absolute terms in the near term.

Research and Development

Research and development efforts focus on the development of new products and business intelligence tools or the enhancements of existing products and applications, as well as large scale infrastructure projects that improve the underlying architecture of our technology.

The main contributors of research and development costs are (i) personnel related expenses, including fringe benefits, short- and long-term incentive plans and stock-based compensation expense, and (ii) fees for outsourced professional services. We capitalize certain internal and external development costs that are attributable to new products or new functionality of existing products and amortize such costs to depreciation and amortization on a straight-line basis over an estimated useful life, which is generally three years.

We also incur research and development costs attributable to the use of software tools and technologies required to facilitate our research and development activities. Examples of such costs include fees paid to third parties to host lower technical environments and the associated virtual machine ware fees paid to support agile development efforts, and fees paid for software tools and licenses used in quality control testing and code deployment activities.

We expect our research and development expense to increase in absolute dollars but to decrease as a percentage of revenue over the longer term as we are able to efficiently deploy our development resources against a larger revenue base.

General and Administrative

General and administrative expenses consist primarily of our finance, human resources, legal and compliance, facilities, information technology, administration, and information security organizations. Significant cost contributors are (i) personnel expenses, including fringe benefits, short- and long-term incentive plans and stock-based compensation expense, and (ii) costs of software applications, including end user computing solutions, and various technology tools utilized by these organizations. Occupancy expenses, which include personnel, rent, maintenance and property tax costs are not allocated to other components of the statements of operations and remain in general and administrative expenses.

While we expect our general and administrative expenses to decrease as a percentage of revenue over the longer term, we expect our general and administrative expenses may increase from time to time in absolute dollars over the shorter term as we continue to build out our infrastructure to support our operations and implement additional safeguards and cybersecurity enhancements.

General and administrative expenses include costs incurred from time to time related to events and transactions not directly attributable to operations. For example, during 2023, general and administrative expenses include costs incurred in connection with a cybersecurity incident as well as insurance recoveries. Additionally, general and administrative expenses also include restructuring costs incurred in connection with planned reductions of our U.S. workforce. Restructuring costs consist of one-time severance charges to be paid to affected employees.

Impairment and Write-Off of Intangible Assets

Impairment and write-off of intangible assets is the reduction from carrying value to fair value for assets or asset groups whose carrying value is not recoverable and also includes charges determined based on our estimation of the amount of obsolescence of previously capitalized software development costs.

Depreciation and Amortization

Depreciation and amortization expense includes depreciation of property and equipment over the estimated useful life of the applicable asset, as well as amortization of acquired intangibles (i.e., technology, customer list and tradename) with a useful life between 3 and 15 years, and amortization of capitalized software development costs with an estimated benefit of 3 years.

Other Income (Expense)

Other income (expense) consists primarily of interest expense on our bank borrowings and headquarters finance leases, offset by interest income on non-customer corporate funds.

Income Tax Expense (Benefit)

Income tax expense (benefit) consists of federal and state current and deferred income taxes.

Results of Operations

The following table sets forth our results of operations for the periods presented (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues	\$ 112,772	\$ 98,680	\$ 323,502	\$ 276,656
Cost of revenues (exclusive of depreciation and amortization expense)	30,429	30,767	91,188	90,461
Operating expenses				
Sales and marketing	21,102	18,735	60,799	58,946
Research and development	25,125	24,754	76,037	72,616
General and administrative	25,769	25,002	72,664	75,345
Impairment and write-off of intangible assets	-	-	162	-
Depreciation and amortization	9,092	9,051	27,607	26,515
Total operating expenses	81,088	77,542	237,269	233,422
Income (loss) from operations	1,255	(9,629)	(4,955)	(47,227)
Other income (expense)				
Interest income	5,837	5,100	18,378	14,820
Interest expense	(2,614)	(3,428)	(9,274)	(10,106)
Other income	3,223	1,672	9,104	4,714
Income (loss) before income taxes	4,478	(7,957)	4,149	(42,513)
Income tax expense	431	134	675	339
Net income (loss)	\$ 4,047	\$ (8,091)	\$ 3,474	\$ (42,852)
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.02	\$ (0.04)	\$ 0.02	\$ (0.21)
Diluted	\$ 0.02	\$ (0.04)	\$ 0.02	\$ (0.21)
Weighted average number of common shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	207,235,954	202,526,844	206,389,565	201,338,550
Diluted	209,015,661	202,526,844	209,721,858	201,338,550

Comparison of the Three Months Ended September 30, 2024 and 2023

Revenues

	Three Months Ended September 30,		Period-to-Period Change	
	2024	2023	Amount	Percentage
	(in thousands)			
Revenues	\$ 112,772	\$ 98,680	\$ 14,092	14.3 %

The increase in revenues was largely comprised of an increase in payment revenue of \$12.2 million, or 17.8%, driven primarily by increased electronic payments on the AvidPay Network due to the addition of new and existing buyer payment transaction volume and an increase in payment yield, that resulted, in part, from increased interest rates over the prior year period. Payment revenue and payment yield were positively impacted by interest on funds held for customers as the rate earned on those funds increased during the period compared to rates earned in the prior year period. Payment revenue from interest increased \$2.0 million to \$12.7 million in the third quarter of 2024 from \$10.6 million in the third quarter of 2023. Software revenue increased by \$1.7 million, or 6.0%, primarily driven by increased invoice and payment transaction volume from new and existing customers as well as increases in certain subscription-based revenue. The prior year period included an out of period adjustment of a \$1.5 million increase to revenue, primarily comprised of an increase in software revenue of \$1.1 million and an increase in services revenue of \$0.5 million, offset by a decrease in payment revenue of \$0.1 million.

Cost of Revenues

	Three Months Ended September 30,		Period-to-Period Change	
	2024	2023	Amount	Percentage
	(in thousands)			
Cost of revenues (excluding depreciation and amortization expense)	\$ 30,429	\$ 30,767	\$ (338)	(1.1)%

The decrease in cost of revenues (excluding depreciation and amortization expense) was due primarily to decreases in employee costs of \$1.6 million due to decreased headcount (explained in Sales and Marketing below) and savings of \$0.5 million in consulting and contract labor costs as a result of transitioning to new vendors. These decreases were partially offset by increases in invoice and check processing fees of \$0.7 million and increases in IT infrastructure costs of \$0.2 million. Additionally, misdirected payments increased \$0.3 million and Payments Accelerator reserve increased \$0.3 million.

Operating Expenses

	Three Months Ended September 30,		Period-to-Period Change	
	2024	2023	Amount	Percentage
	(in thousands)			
Sales and marketing	\$ 21,102	\$ 18,735	\$ 2,367	12.6 %
Research and development	25,125	24,754	371	1.5 %
General and administrative	25,769	25,002	767	3.1 %
Depreciation and amortization	9,092	9,051	41	0.5 %

Sales and Marketing Expenses

The increase in sales and marketing expenses was primarily driven by increases in employee costs of \$1.7 million and marketing costs of \$0.6 million. The increase in employee costs reflects the shift in responsibility of certain teammates to increase utilization and adoption of our software. These increases were partially offset by a decrease in consulting costs of \$0.2 million as we discontinued services of certain vendors.

Research and Development Expenses

Research and development expenses increased primarily due to costs associated with engaging consultants and contractors of \$2.0 million. These increases were partially offset by decreases in employee costs of \$1.2 million related to a decrease in headcount and lower rate of bonus accrual compared to the prior year period. An additional decrease of \$0.7 million was attributable to an increase in amount capitalized for software development costs.

General and Administrative Expenses

The increase in general and administrative expense is primarily attributable to a \$1.1 million increase in reserve for credit losses compared to the prior year period which also benefited from a reserve release. We experienced additional increases in IT

infrastructure costs of \$0.8 million related to several enhancement initiatives and \$0.3 million related to staffing and consulting services. These increases were offset by a decrease of \$0.7 million of net costs incurred in the prior year period in connection with the cybersecurity incident that was detected in April 2023. Additionally, we incurred \$1.1 million of costs from the write-off of debt issuance costs from amending and restating our credit facility in the current period that were more than offset by a loss contingency of \$1.6 million related to a potential commercial dispute recognized in the prior year period.

We do not expect additional recoveries or significant costs related to the cybersecurity incident will be incurred in future periods.

Depreciation and Amortization

Depreciation and amortization increased in absolute terms primarily due to the amortization of intangible assets associated with capitalized software development costs.

Other Income (Expense)

	Three Months Ended September 30,				Period-to-Period Change	
	2024		2023			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	<i>(in thousands)</i>					
Other Income (Expense)	\$ 3,223	2.9%	\$ 1,672	1.7%	\$ 1,551	92.8%

Other income increased due to an increase in interest income of \$0.7 million and a decrease in interest expense of \$0.8 million that resulted from repaying our term loan during the period.

Income Tax Expense

	Three Months Ended September 30,				Period-to-Period Change	
	2024		2023			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	<i>(in thousands)</i>					
Income tax expense	\$ 431	0.4%	\$ 134	0.1%	\$ 297	221.6%

The provision for income taxes is driven by current state income taxes in taxable jurisdictions and changes in the Company's valuation allowances relative to pretax earnings.

Comparison of the Nine Months Ended September 30, 2024 and 2023

Revenues

	Nine Months Ended September 30,		Period-to-Period Change	
	2024	2023	Amount	Percentage
	<i>(in thousands)</i>			
Revenues	\$ 323,502	\$ 276,656	\$ 46,846	16.9%

The increase in revenues was largely comprised of an increase in payment revenue of \$39.2 million, or 20.5%, driven primarily by increased electronic payments on the AvidPay Network due to the addition of new and existing buyer payment transaction volume and an increase in payment yield, that resulted, in part, from increased interest rates over the prior year period. Payment revenue and payment yield were positively impacted by interest on funds held for customers as the rate earned on those funds increased during the period compared to rates earned in the prior year period. Payment revenue from interest increased \$10.6 million to \$37.5 million in the first nine months of 2024 from \$26.9 million in the first nine months of 2023. Software revenue increased by \$7.1 million, or 8.6%, primarily driven by increased invoice and payment transaction volume from new and existing customers as well as increases in certain subscription-based revenue.

Cost of Revenues

	Nine Months Ended September 30,					
	2024		2023		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Cost of revenues (excluding depreciation and amortization expense)	\$ 91,188	28.2%	\$ 90,461	32.7%	\$ 727	0.8%

The increase in cost of revenues (excluding depreciation and amortization expense) was due primarily to increases in invoice and check processing fees of \$2.3 million, increases in IT infrastructure costs of \$1.0 million, and an increase in Payments Accelerator reserve of \$0.9 million, partially offset by costs savings in consulting and contract labor of \$2.0 million as a result of transitioning to new vendors and decreases in employee costs of \$1.6 million (explained in Sales and Marketing below).

Operating Expenses

	Nine Months Ended September 30,					
	2024		2023		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Sales and marketing	\$ 60,799	18.8%	\$ 58,946	21.3%	\$ 1,853	3.1%
Research and development	76,037	23.5%	72,616	26.2%	3,421	4.7%
General and administrative	72,664	22.5%	75,345	27.2%	(2,681)	(3.6)%
Impairment and write-off of intangible assets	162	0.1%	-	0.0%	162	100.0%
Depreciation and amortization	27,607	8.5%	26,515	9.6%	1,092	4.1%

Sales and Marketing Expenses

The increase in sales and marketing expenses was primarily driven by increases in employee costs of \$1.9 million and marketing expenses of \$0.5 million. The primary driver for the increase in employee costs relates to the shift in responsibility of certain teammates to increase utilization and adoption of our software. Additionally, amortization expense of deferred sales commissions increased \$0.4 million and partner commissions increased \$0.2 million. These increases were partially offset by decreases in consulting costs of \$0.8 million as we discontinued services of certain vendors and a decrease in travel expense of \$0.2 million.

Research and Development Expenses

Research and development expenses increased primarily due to costs associated with engaging consultants and contractors of \$2.0 million and increases in employee costs of \$1.6 million. We experienced additional increases of \$0.8 million in IT infrastructure and other costs. These increases were partially offset by decreases of \$1.0 million attributable to an increase in the amount capitalized for software development costs.

General and Administrative Expenses

The decrease in general and administrative expense is primarily attributable to the cybersecurity incident that was detected in April 2023. During the first nine months of 2024 we recorded \$0.9 million more recoveries from cybersecurity insurance than the prior year period and we experienced a decrease in costs related to the cybersecurity incident of \$5.2 million as the prior year period incurred a significant amount of expense associated with our initial threat response. An additional decrease of \$1.6 million is attributable to an accrual made in the prior year period related to a potential commercial dispute. These decreases were partially offset by increases in employee costs of \$0.6 million, IT infrastructure costs of \$1.9 million, and legal and professional fees of \$0.3 million. Additionally, we incurred \$1.1 million of costs from the write-off of debt issuance costs from renegotiating our credit facility in the third quarter of 2024 as well as \$1.2 million in non-reoccurring restructuring costs during 2024.

We do not expect additional recoveries or significant costs related to the cybersecurity incident will be incurred in future periods.

Impairment and Write-off of Intangible Assets

The impairment and write-off of intangible assets during the nine months ended September 30, 2024 relates to internally developed software projects.

Depreciation and Amortization

Depreciation and amortization increased in absolute terms primarily due to the amortization of intangible assets associated with capitalized software development costs.

Other Income (Expense)

	Nine Months Ended September 30,					
	2024		2023		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
Other Income (Expense)	\$ 9,104	2.8%	\$ 4,714	1.7%	\$ 4,390	93.1%

Other income increased primarily due to an increase in interest income of \$3.6 million and a decrease in interest expense of \$0.8 million that resulted from repaying our term loan during the period.

Income Tax Expense

	Nine Months Ended September 30,					
	2024		2023		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
Income tax (benefit) expense	\$ 675	0.2%	\$ 339	0.1%	\$ 336	99.1%

The provision for income taxes is driven by current state income taxes in taxable jurisdictions and changes in the Company's valuation allowances relative to pretax earnings.

Liquidity and Capital Resources

Prior to the second quarter of 2024, we did not historically generate positive cash flow through our operations. We have historically financed our operations and capital expenditures primarily through sales of common and preferred stock, through borrowings under our credit facilities, as described below, and through our IPO that was completed in October 2021, which resulted in net proceeds of \$621.4 million, including the exercise of the over-allotment option and after deducting underwriting discounts and commissions of \$40.4 million and offering expenses of approximately \$11.8 million. As of September 30, 2024, our principal sources of liquidity are our unrestricted cash and cash equivalents of \$315.3 million, marketable securities of \$79.0 million, and funds available under our revolving credit facility, which we refer to as the 2024 Amended and Restated Credit Agreement, which we entered into in August 2024. As of September 30, 2024, our unused committed capacity under the 2024 Amended and Restated Credit Agreement was \$150.0 million comprised of a revolving commitment.

We believe that our unrestricted cash, cash equivalents, marketable securities, and funds available under our 2024 Amended and Restated Credit Agreement will be sufficient to meet our working capital requirements for at least the next twelve months. To the extent existing cash, marketable securities, cash from operations, and amounts available for borrowing under the 2024 Amended and Restated Credit Agreement are insufficient to fund future activities, we may need to raise additional capital. In the future, we may attempt to raise additional capital through the sale of equity securities or through equity-linked or debt financing arrangements. If we raise additional capital by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional capital by the incurrence of additional indebtedness, we may be subject to increased fixed payment obligations and could also 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. Our ability to raise additional debt may be limited by applicable regulatory requirements as a licensed money transmitter that require us to meet certain net worth requirements. Any future indebtedness we incur may result in terms that could be unfavorable to equity investors. There can be no assurances that we will be able to raise additional capital. The inability to raise capital would adversely affect our ability to achieve our business objectives.

Cash Flows

Below is a summary of our consolidated cash flows:

Selected Cash Flow Data:	Nine Months Ended September 30,	
	2024	2023
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ 43,482	\$ (10,991)
Investing activities	(51,656)	226
Financing activities	(507,852)	(57,474)
Net decrease in cash and cash equivalents, and restricted funds held for customers	\$ (516,026)	\$ (68,239)

Net Cash Provided by (Used in) Operating Activities

Our primary source of cash provided by our operating activities is from our software and payment revenue. Our primary uses of cash in our operating activities include payments for employee salary and related costs, payments to third party service providers to execute our payment transactions, sales and marketing costs, and other general corporate expenditures.

Net cash provided by operating activities improved to \$43.5 million during the nine months ended September 30, 2024 from \$11.0 million used in operating activities during the nine months ended September 30, 2023 due primarily to an increase in revenue and an improvement from net loss to net income offset by changes in working capital, primarily due to variations in timing of payment of accrued expenses.

Net Cash (Used in) Provided by Investing Activities

Cash flows related to our investing activities consist primarily of the maturity and purchases of marketable securities, purchases of property and equipment, purchases of intangible assets, capitalization of internal-use software, and supplier advances related to our Payment Accelerator product.

Net cash used in investing activities increased to \$51.7 million during the nine months ended September 30, 2024 compared to \$0.2 million provided by investing activities during the nine months ended September 30, 2023, primarily driven by differences in the timing of purchases and maturities in our portfolio of held-to-maturity marketable securities.

Net Cash Used in Financing Activities

Cash flows related to our financing activities consist primarily of changes in restricted buyer fund deposits related to buyer payment transactions, exercise of stock options, principal payments on financing leases, borrowings and repayments of long-term debt, and share repurchases.

Net cash used in financing activities was \$507.9 million during the nine months ended September 30, 2024 compared to \$57.5 million during the nine months ended September 30, 2023, due primarily to variations in the inflows and outflows from payment service obligations of our customers as well as repayment of debt and share repurchases.

Outstanding Debt

Below is a summary of our outstanding debt (in thousands):

	As of September 30, 2024	As of December 31, 2023
Term loan facility	\$ -	\$ 63,375
Promissory note payable for land acquisition	13,900	13,900
Total principal due	13,900	77,275
Current portion of term loan and promissory notes	(4,800)	(6,425)
Unamortized portion of debt issuance costs	-	(1,090)
Long-term debt	<u>\$ 9,100</u>	<u>\$ 69,760</u>

Credit Facilities

On August 8, 2024, we entered into an agreement to amend and restate our previous credit facility. As a result, we repaid the outstanding amount of the term loan and expanded the borrowing capacity of the revolving line of credit. As of September 30, 2024, the aggregate available borrowing capacity under this agreement was \$150.0 million, which may be increased, subject to specific conditions, by an additional amount (for all such increases) not to exceed \$150.0 million, for a total aggregate amount of \$300.0 million.

We were in compliance with our financial covenants as of September 30, 2024. Refer to Note 9 of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional details about our credit facilities.

Land Promissory Notes

We have promissory notes in connection with land and improvements adjacent to our Charlotte, North Carolina headquarters campus. Refer to Note 9 of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information on our promissory notes.

Issuances of Common Stock

During the nine months ended September 30, 2024, we issued shares of common stock under our existing stock plans. Refer to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for details.

Share Repurchases

In August 2024, our board of directors authorized the repurchase of up to \$100.0 million of our outstanding shares of common stock. During the three and nine months ended September 30, 2024, we repurchased and subsequently retired 3,104,312 shares

of common stock for \$25.1 million. Refer to Note 10 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional details.

Payment Obligations

We process payments for our customers. As part of our payment product offering, we have recorded payment service obligations in our consolidated balance sheets of \$1,154.3 million as of September 30, 2024 and an offsetting asset of restricted funds held for customers. This balance is short-term in nature and represents our obligation to pay our customers' suppliers as directed by our customers.

We historically transmitted buyer customer funds using a legacy model pursuant to which buyer customer funds were held in trust accounts that were maintained and operated by a trustee pending distribution to suppliers in accordance with instructions provided through our platform. After buyers' funds were deposited in a trust account, we initiated payment through external payment networks whereby the buyers' funds were distributed from the trust to the appropriate supplier. We are not the trustee or beneficiary of the trusts which hold these buyer deposits; accordingly, we do not record these assets and offsetting liabilities on our consolidated balance sheets. We have largely transitioned away from the trust model although certain banks that resell our products and services continue to leverage a similar structure. We contractually earn interest on funds held for certain buyers. The amount of Company and bank customer funds held in all trust-related and similar accounts was approximately \$21.9 million and \$6.3 million as of September 30, 2024 and December 31, 2023, respectively.

Contractual Obligations

There were no material changes in our contractual obligations and commitments during the nine months ended September 30, 2024 from the contractual obligations and commitments disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023. See Note 8 of the notes to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding contractual obligations and commitments.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported revenue generated, and reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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 Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on February 29, 2024.

Recent Accounting Pronouncements

See Note 2 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of September 30, 2024.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our overall investment portfolio is comprised of (i) our operating cash and (ii) buyer funds. Our operating cash includes cash received from revenues generated, the sale of common and preferred stock and increased borrowings. Buyer funds are funds that have been collected from buyers, but not yet remitted to the applicable supplier. The funds are held in either company-owned accounts, which are subject to applicable state money transmitter laws, or in trust-related accounts. We are generally entitled to retain any interest earned on the investment of buyer funds as specified by our contractual arrangements with our buyers.

Our operating cash may be invested in accordance with our cash investment policy. Under that policy, we invest with the objective of preserving capital while optimizing yield. Permissible investments include U.S. Treasury instruments, U.S. Government Agency securities, Government-Sponsored Enterprise securities, corporate bonds, commercial paper, certificates of deposit, and money market funds. As of September 30, 2024, we held marketable securities with an amortized cost basis of \$79.0 million and money market funds with an aggregate value of \$60.5 million. The remaining amount of operating cash was held in interest-bearing demand deposit accounts.

Our buyer funds assets are invested with safety of principal, liquidity, and diversification as the primary objectives. Consistent with these objectives, we also seek to maximize interest income and to minimize the volatility of interest income with emphasis on

liquidity. Pursuant to our investment policy and subject to applicable law, buyer funds may be invested in U.S. Treasury securities, U.S. Government Agency securities, or other cash equivalents, including certificates of deposit and time deposits. As of September 30, 2024, all buyer funds have been invested in interest-bearing demand deposit accounts.

We are exposed to interest-rate risk relating to our investment portfolio, which consists principally of interest-bearing demand deposit accounts as well as investments made in accordance with our cash investment policy. We recognize interest earned from buyer funds assets as revenue. We generally do not pay interest to buyers. Factors that influence the rate of interest we earn include the short-term market interest rate environment and the weighting of balances by security type. The annualized interest rate earned on our investment of operating cash and funds held for buyers increased to 5.04% during the first nine months of fiscal year 2024 from 4.39% during fiscal year 2023. Based on current investment practices, an increase in the interest rate of 100 basis points would have changed our interest income in the first nine months of fiscal year 2024 from our investment of operating cash by approximately \$2.9 million and our interest on buyer funds assets by approximately \$8.1 million based upon the average balances for the first nine months of fiscal year 2024 of \$452.6 million in operating cash investments and \$1,006.8 million in buyer funds investments, respectively. In addition to interest rate risks, we also have exposure to risks associated with changes in laws and regulations that may affect buyer fund balances. For example, a change in regulations that restricts the permissible investment alternatives for buyer funds may reduce our interest earned revenue.

We are also exposed to interest-rate risk relating to existing variable rate bank borrowings. As of September 30, 2024 and December 31, 2023, we had outstanding borrowings on variable rate debt of \$0 and \$63.4 million, respectively. A 100 basis points increase in the variable rate would have resulted in incremental interest expense of \$0.4 million during the nine months ended September 30, 2024.

Our interest-rate risk will continue to be impacted by the Federal Reserve's monetary policy and response to the higher than normal level of inflation in the U.S. economy.

Credit Risk

We may be exposed to credit risk in connection with our investments, as our cash on deposit, including buyer funds, regularly exceed Federal Deposit Insurance Company ("FDIC") limits. We limit credit risk by diversifying our portfolio, including a requirement that no more than 5% of invested funds may be held in the issues of a single corporation. Additionally, absent certain limited exceptions, the minimum credit quality of any fixed income investment shall be not less than an '(A-) or (A3)' rating equivalent from any single rating services based on ratings by any of Standard and Poor's Ratings Services, Moody's Investors Service, or Fitch Investor Services. The maximum maturity of any security in the portfolio shall not exceed 24 months. The weighted average maturity of the portfolio shall not exceed 36 months. In addition, maximum maturities of individual securities are further limited by the security type and cash segment of the investment. We are also exposed to credit risk related to the timing of payments made from buyer funds collected. We typically remit buyer funds to our buyers' suppliers in advance of having good or confirmed funds collected from our buyers. Our buyers generally have three days to dispute transactions and if we remit funds in advance of receiving confirmation that no dispute was initiated by our buyer, then we could suffer a credit loss. We mitigate this credit exposure by leveraging our data assets to make credit underwriting decisions about whether to accelerate disbursements, managing exposure limits, and various controls in our operating systems.

There can be no assurance that our deposits in excess of the FDIC or other comparable insurance limits will be backstopped by the U.S. government, or that any bank or financial institution with which we do business will be able to obtain needed liquidity from other banks, government institutions or by acquisition in the event of a failure or liquidity crisis. While we do not currently maintain private insurance to mitigate this risk, we seek to mitigate this risk by monitoring financial institutions that we conduct business with and endeavoring to maintain our cash balances at large well-capitalized financial institutions.

We are also exposed to risks associated with our Payment Accelerator product, in which our supplier customers can accelerate the receipt of payment for outstanding invoices before our buyers initiate the transfer of funds. If those invoices are not approved or the buyer does not transfer the requisite funds then we are exposed to the risk of not being able to recoup our advances to the supplier. We mitigate this risk through data analytics to determine which invoices are available and appropriate for advance payment.

Liquidity Risk

As part of our buyer funds investment strategy, we use the daily collection of funds from our buyers to satisfy other unrelated buyer funds obligations. We minimize the risk of not having funds collected from a buyer available at the time the buyer's obligation becomes due by collecting the buyer's funds in advance of the timing of payment of the buyer's obligation. As a result of this practice, we have consistently maintained the required level of buyer funds assets to satisfy all of our obligations.

Concentration Risk

A substantial portion of our revenue is derived from interchange fees earned on payment transactions processed from VCC service providers. Prior to 2022, our interchange fees were processed primarily through a single provider. To mitigate this

concentration risk, we have expanded the number of processor suppliers. Revenue from two of these suppliers was greater than 10% of our total revenue, individually. Refer to Note 2 of our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding this concentration.

Future regulation or changes by the payment networks could have a substantial impact on our revenue from VCC transactions. If interchange rates decline, whether due to actions by the payment networks, merchant/suppliers availing themselves of lower rates, or future regulation, our total operating revenues, operating results, prospects for future growth and overall business could be materially affected.

We are also exposed to concentration risk associated with buyer funds that we hold in Company-owned accounts, which are subject to applicable state money transmitter laws, and in trust accounts. As of September 30, 2024, all buyer funds have been invested in interest-bearing demand deposit accounts. The majority of these demand accounts are maintained at one institution which is a full-service, FDIC-insured national bank supervised by the Office of the Comptroller of the Currency and is a subsidiary of a bank holding company subject to regulation, supervision, and examination by the Federal Reserve. As indicated above, while we do not currently maintain private insurance to mitigate this risk, we seek to mitigate this risk by monitoring financial institutions that we conduct business with and endeavoring to maintain our cash balances at large well-capitalized financial institutions.

ITEM 4. Controls and Procedures.

(a) 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 Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of September 30, 2024, to reasonably ensure that information required to be disclosed and filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified, and that management will be timely alerted to material information required to be included in our periodic reports filed with the Securities and Exchange Commission.

(b) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter ended September 30, 2024, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we have been and will continue to be subject to legal proceedings and claims. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition, or cash flows. Defending such proceedings is costly and can impose a significant burden on management and employees. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. Risk Factors.

There have been no material changes to the risk factors associated with our business previously disclosed in "Item 1A. Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2023.

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

(a) Unregistered Sales of Equity Securities

None.

(b) Use of Proceeds**Use of Proceeds**

On October 15, 2021, we completed our IPO. All shares sold were registered pursuant to a registration statement on Form S-1, as amended (File No. 333-259632), declared effective by the SEC on October 12, 2021.

There have been no material changes in the planned use of proceeds from the IPO from those described in our Final Prospectus. We have invested a portion of the funds received in short-term, interest bearing, investment-grade securities.

(b) Purchases of Equity Securities by the Company**Purchases of Equity Securities by the Company**

In August 2024, our board of directors authorized the repurchase of up to \$100 million of our outstanding shares of common stock (the "Share Repurchased Program"). Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, including pursuant to a Rule 10b5-1 plan. The timing, price, and volume of the repurchases will be executed based on various market and legal factors, and subject to a \$50 million cap in any fiscal year pursuant to the terms of the 2024 Amended and Restated Credit Agreement. The share repurchase program will terminate upon the earlier of December 31, 2025 or the date on which the maximum dollar amount has been expended, but is subject to suspension, modification, or termination at any time at the Company's discretion.

The following table provides shares repurchase activity during the three months ended September 30, 2024:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Maximum Dollar Value of Shares that May Yet be Purchased Under the Plan
July 1, 2024 - July 31, 2024	-	\$ -	-	\$ -
August 1, 2024 - August 31, 2024	1,060,000	\$ 8.10	1,060,000	\$ 91,413,358
September 1, 2024 - September 30, 2024	2,044,312	\$ 8.03	2,044,312	\$ 75,000,006
Total	3,104,312		3,104,312	\$ 75,000,006

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.**(c) Trading Plans of Directors and Executive Officers**

	Action	Date	Trading Agreement		Total Shares to be Sold	Expiration Date
			Rule 10b5-1*	Non-Rule 10b5-1**		
Angelic Gibson, Chief Information Officer, Senior Vice President	Terminate	August 29, 2024	X		45,000	Not applicable
Angelic Gibson, Chief Information Officer, Senior Vice President	Adopt	August 29, 2024	X		45,000	June 30, 2025
Michael Praeger, Chief Executive Officer and Chairman of the Board	Adopt	August 27, 2024	X		258,883	May 16, 2025

* Intended to satisfy the affirmative defense of Rule 10b5-1(c)

** Not intended to satisfy the affirmative defense of Rule 10b5-1(c)

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference (Unless Otherwise Indicated)			
		Form	File	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated as of March 4, 2021, by and among AvidXchange Holdings, Inc., AvidXchange Holdings Merger Sub, Inc., and AvidXchange, Inc.	S-1	333-259632	2.1	September 17, 2021
3.1	Restated Certificate of Incorporation of AvidXchange Holdings, Inc.	8-K	001-40898	3.1	October 15, 2021
3.2	Second Amended and Restated Bylaws of AvidXchange Holdings, Inc.	8-K	001-40898	3.1	September 15, 2022
4.1	Form of Common Stock Certificate	S-1/A	333-259632	4.1	October 1, 2021
4.2	Eighth Amended and Restated Investor Rights Agreement, dated July 9, 2021, by and among AvidXchange Holdings, Inc. and certain holders identified therein	S-1	333-259632	10.1	September 17, 2021
10.1	Amended and Restated Credit and Security Agreement, dated as of August 8, 2024, among AvidXchange, Inc., AFV Commerce, Inc., the Lenders named therein, KeyBank National Association, as Administrative Agent and Issuing Lender, KeyBanc Capital Markets Inc., JPMorgan Chase Bank, N.A. and MUFG Bank, Ltd., as Joint Lead Arrangers and Joint Booker Runners.	8-K	001-40898	10.1	August 9, 2024
31.1	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.	—	—	—	Filed herewith
31.2	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.	—	—	—	Filed herewith
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	Furnished herewith
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.	—	—	—	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents	—	—	—	Filed herewith
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	—	—	—	Filed herewith

SIGNATURES

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

AvidXchange Holdings, Inc.

Date: November 8, 2024

By: /s/ Joel Wilhite
Joel Wilhite
Chief Financial Officer
(Authorized Signatory and Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Michael Praeger, certify that:

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

Date: November 8, 2024

/s/ Michael Praeger
Michael Praeger
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Joel Wilhite, certify that:

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

Date: November 8, 2024

/s/ Joel Wilhite
Joel Wilhite
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Michael Praeger, Chief Executive Officer (principal executive officer) of AvidXchange Holdings, Inc. (the "Company"), and Joel Wilhite, Chief Financial Officer (principal financial and accounting officer) of the Company, each hereby certify that, to the best of their knowledge:

1. The Quarterly Report on Form 10-Q for the period ended September 30, 2024 of the Company, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a)/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 8, 2024

/s/ Michael Praeger
Michael Praeger
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

/s/ Joel Wilhite
Joel Wilhite
Chief Financial Officer
(Principal Financial and Accounting Officer)
