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 March 31, 2023

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	**86-3391192**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1210 AvidXchange Lane Charlotte, NC 28206	**28206**
(Address of principal executive offices)	(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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to 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 May 8, 2023, the registrant had 201,249,369 shares of common stock, $0.001 par value per share, outstanding.

AvidXchange Holdings, Inc.
Form 10-Q
For the Quarterly Period Ended March 31, 2023
Table of Contents

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	As of March 31, 2023	As of December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 368,190	$ 350,563
Restricted funds held for customers	1,051,171	1,283,824
Marketable securities	63,543	110,986
Accounts receivable, net of allowances of $3,343 and $3,123, respectively	43,148	39,668
Supplier advances receivable, net of allowances of $1,575 and $1,872, respectively	9,997	10,016
Prepaid expenses and other current assets	15,118	12,561
Total current assets	1,551,167	1,807,618
Property and equipment, net	102,892	103,892
Operating lease right-of-use assets	2,444	2,343
Deferred customer origination costs, net	28,079	28,284
Goodwill	165,921	165,921
Intangible assets, net	95,364	98,749
Other noncurrent assets and deposits	4,391	5,189
Total assets	$ 1,950,258	$ 2,211,996
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 13,269	$ 13,453
Accrued expenses	52,059	73,535
Payment service obligations	1,051,171	1,283,824
Deferred revenue	11,802	12,063
Current maturities of lease obligations under finance leases	384	477
Current maturities of lease obligations under operating leases	1,639	1,380
Current maturities of long-term debt	6,425	6,425
Total current liabilities	1,136,749	1,391,157
Long-term liabilities		
Deferred revenue, less current	17,487	17,487
Contingent consideration, less current portion	70	70
Obligations under finance leases, less current maturities	62,107	61,974
Obligations under operating leases, less current maturities	4,384	4,657
Long-term debt	75,574	75,912
Other long-term liabilities	3,135	3,295
Total liabilities	1,299,506	1,554,552
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value; 50,000,000 shares authorized, no shares issued and outstanding as of March 31, 2023 and December 31, 2022	-	-
Common stock, $0.001 par value; 1,600,000,000 shares authorized as of March 31, 2023 and December 31, 2022; 201,028,992 and 199,433,998 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	201	199
Additional paid-in capital	1,641,376	1,632,080
Accumulated deficit	(990,825)	(974,835)
Total stockholders' equity	650,752	657,444
Total liabilities and stockholders' equity	$ 1,950,258	$ 2,211,996

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 March 31,	
	2023	2022
Revenues	$ 86,822	$ 71,203
Cost of revenues (exclusive of depreciation and amortization expense)	29,473	27,807
Operating expenses		
Sales and marketing	20,135	17,239
Research and development	23,122	20,072
General and administrative	22,627	18,688
Depreciation and amortization	8,586	7,718
Total operating expenses	74,470	63,717
Loss from operations	(17,121)	(20,321)
Other income (expense)		
Interest income	4,516	220
Interest expense	(3,315)	(4,977)
Other income (expense)	1,201	(4,757)
Loss before income taxes	(15,920)	(25,078)
Income tax expense	70	69
Net loss	$ (15,990)	$ (25,147)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.08)	$ (0.13)
Weighted average number of common shares used to compute net loss per share attributable to common stockholders, basic and diluted	199,900,920	197,017,555

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	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2022	199,433,998	$ 199	$ 1,632,080	$ (974,835)	$ 657,444
Exercise of stock options	123,168	-	366	-	366
Issuance of common stock upon vesting of restricted stock units, net of shares surrendered for taxes	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	201,028,992	$ 201	$ 1,641,376	$ (990,825)	$ 650,752

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balances at December 31, 2021	196,804,844	$ 197	$ 1,594,780	$ (871,922)	$ 723,055
Cumulative effect adjustment from adoption of new accounting standard for current estimated credit losses	-	-	-	(1,000)	(1,000)
Cumulative effect adjustment from adoption of new accounting standard related to stock-based compensation	-	-	629	(629)	-
Exercise of stock options	63,118	-	173	-	173
Issuance of common stock upon vesting of restricted stock units	758,701	1	(1)	-	-
Stock-based compensation expense	-	-	6,595	-	6,595
Stock-based compensation expense for Employee Stock Purchase Plan, or ESPP	-	-	196	-	196
Net loss	-	-	-	(25,147)	(25,147)
Balances at March 31, 2022	197,626,663	$ 198	$ 1,602,372	$ (898,698)	$ 703,872

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

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash flows from operating activities		
Net loss	$ (15,990)	$ (25,147)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization expense	8,586	7,718
Amortization of deferred financing costs	110	339
Provision for credit losses	550	1,073
Stock-based compensation	8,931	6,791
Accrued interest	503	599
Loss on fixed asset disposal	-	26
Accretion of investments held to maturity	(1,238)	(60)
Deferred income taxes	53	54
Changes in operating assets and liabilities		
Accounts receivable	(3,702)	(3,537)
Prepaid expenses and other current assets	(2,556)	(3,601)
Other noncurrent assets	1,205	(59)
Deferred customer origination costs	205	773
Accounts payable	(23)	(872)
Deferred revenue	(261)	(525)
Accrued expenses and other liabilities	(21,887)	(8,835)
Operating lease liabilities	(115)	(51)
Total adjustments	(9,639)	(167)
Net cash used in operating activities	(25,629)	(25,314)
Cash flows from investing activities		
Purchase of marketable securities held to maturity	(62,999)	(228,595)
Proceeds from maturity of marketable securities held to maturity	111,680	-
Purchases of equipment	(332)	(967)
Purchases of real estate	-	(767)
Purchases of intangible assets	(3,855)	(11,309)
Supplier advances, net	(310)	(2,048)
Net cash provided by (used in) investing activities	44,184	(243,686)
Cash flows from financing activities		
Proceeds from the issuance of long-term debt	-	1,170
Repayments of long-term debt	(406)	-
Principal payments on finance leases	(165)	(237)
Proceeds from issuance of common stock	366	173
Debt issuance costs	(624)	-
Payment of acquisition-related liability	(100)	-
Payment service obligations	(232,652)	(310,371)
Net cash used in financing activities	(233,581)	(309,265)
Net (decrease) increase in cash, cash equivalents, and restricted funds held for customers	(215,026)	(578,265)
Cash, cash equivalents, and restricted funds held for customers		
Cash, cash equivalents, and restricted funds held for customers, beginning of year	1,634,387	1,805,163
Cash, cash equivalents, and restricted funds held for customers, end of period	$ 1,419,361	$ 1,226,898
Supplementary information of noncash investing and financing activities		
Right-of-use assets obtained in exchange for new finance lease obligations	$ -	$ 57
Right-of-use assets obtained in exchange for new operating lease obligations	362	2,831
Property and equipment purchases in accounts payable and accrued expenses	14	4
Interest paid on notes payable	1,255	2,612
Interest paid on finance leases	1,448	1,421

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

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, homeowners associations, construction, financial services (including banks and credit unions), healthcare facilities, social services, education, and media.

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 months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023 or for any other future annual or interim period. The unaudited consolidated balance sheet as of December 31, 2022 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, 2022.

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 21% and 29% of total revenue for the three months ended March 31, 2023 and 2022, respectively, and represented 35% and 28% of accounts receivable, net as of March 31, 2023 and December 31, 2022, respectively. A second provider represented 27% and 23% of total revenue for the three months ended March 31, 2023 and 2022, respectively, and represented 24% and 29% of accounts receivable, net as of March 31, 2023 and December 31, 2022, respectively.

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

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 short-term corporate bonds, commercial paper, 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 cancelled 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 cancelled 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 Invoice 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 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 report requirements and other unregulated settlements with payees, which do not constitute a regulatory liability event under reporting requirements.

(in thousands, except share and per share data)

	As of March 31, 2023	As of December 31, 2022
Outstanding Transaction Liabilities	$ 1,015,643	$ 1,242,155
Other unregulated settlements	35,528	41,669
Total payment service obligations	$ 1,051,171	$ 1,283,824

The Company historically transmitted buyer customer funds using a legacy model pursuant to which buyer customer funds are held in trust accounts that are 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 our 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 accounts was approximately $16,332 and $135,058 as of March 31, 2023 and December 31, 2022, respectively.

The Company has also 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. The Company has transitioned most payment transmission activity to the money transmitter license model.

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.

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, $1,695 and $1,611 were included in other noncurrent assets and $1,787 and $1,803 were included in noncurrent liabilities as of March 31, 2023 and December 31, 2022, respectively, on the Company's unaudited consolidated balance sheets.

(in thousands, except share and per share data)

Contingent Liabilities

Contingent liabilities require significant judgment in estimating potential losses for legal claims. We review 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 June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments, Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the guidance on the impairment of financial instruments by requiring measurement and recognition of expected credit losses for most financial assets, including trade receivables, and other instruments that are not measured at fair value through net income (the "CECL" framework). ASU 2016-13 was effective for public business entities for fiscal years beginning after December 15, 2019. Under the Company's prior status as an emerging growth company, the Company had delayed the adoption of ASU 2016-13. However, the Company lost its status as an emerging growth company on December 31, 2022, and ASU 2016-13 became effective for the Company as of January 1, 2022. On adoption, the Company recorded approximately $1,000 cumulative effect adjustment to accumulated deficit in connection with expected credit losses on its accounts receivable and supplier advances receivable. The adoption had an insignificant impact on the 2022 information presented in the Company's 2022 quarterly reports on Form 10-Q.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations* (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This standard requires contract assets and contract liabilities from contracts with customers that are acquired in a business combination to be recognized and measured as if the acquirer had originated the original contract. For public business entities, it was effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Entities should apply the provisions of the new standard prospectively to business combinations occurring on or after the effective date of the standard. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance did not have an impact on the Company's financial statements.

Accounting Pronouncements Issued but Not Yet Adopted

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. This update is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect the adoption of this update to have a material effect on its consolidated 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 March 31,	
	2023	**2022**
Software revenue	$ 26,968	$ 23,911
Payment revenue	59,181	46,468
Services revenue	673	824
Total revenues	$ 86,822	$ 71,203

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.

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

(in thousands, except share and per share data)

	As of March 31, 2023	As of December 31, 2022
Trade accounts receivable, net	$ 14,414	$ 14,152
Payment processing receivable, net	28,734	25,516
Accounts receivable, net	$ 43,148	$ 39,668
Contract liabilities	$ 29,289	$ 29,550

Significant changes in the contract liabilities balance are as follows:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenue recognized included in beginning of period balance	$ (3,224)	$ (2,780)
Cash received, excluding amounts recognized as revenue during the period	2,963	2,255

The tables below present a summary of changes in the Company's allowance for doubtful accounts for the three months ended March 31, 2023 and 2022:

	Accounts Receivable		
	Allowance for Credit Losses	Allowance for Returns	Supplier Advances Receivable Allowance
Allowance for credit losses, December 31, 2022	$ 1,539	$ 1,584	$ 1,872
Amounts charged to contra revenue, cost of revenues and expenses	200	200	-
Amounts written off as uncollectable	(87)	-	(648)
Recoveries of amounts previously written off	-	-	351
Deduction released to revenue	-	(93)	-
Allowance for credit losses, March 31, 2023	$ 1,652	$ 1,691	$ 1,575

	Accounts Receivable		
	Allowance for Credit Losses	Allowance for Returns	Supplier Advances Receivable Allowance
Allowance for credit losses, December 31, 2021	$ 442	$ 1,841	$ 1,105
Adjustment to allowance on adoption of ASU 2016-13	400	-	600
Amounts charged to contra revenue, cost of revenues and expenses	216	-	550
Amounts written off as uncollectable	-	-	(707)
Recoveries of amounts previously written off	-	-	251
Deduction released to revenue	-	(150)	-
Allowance for credit losses, March 31, 2022	$ 1,058	$ 1,691	$ 1,799

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.

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 five years and contain fixed maintenance fees that are considered fixed price guarantees. Remaining performance obligation consisted of the following:

(in thousands, except share and per share data)

	Current		Noncurrent		Total	
As of March 31, 2023	$	15,246	$	22,218	$	37,464
As of December 31, 2022		15,143		22,546		37,689

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, both 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 March 31,			
	2023		2022	
Capitalized sales commissions and implementation costs	$	2,838	$	2,076
Amortization of deferred contract costs				
Costs to obtain contracts included in sales and marketing expense	$	1,474	$	1,323
Costs to fulfill contracts included in cost of revenue		1,569		1,526

4. Loss Per Common Share

Diluted loss per common share is the same as basic loss per common share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company’s net loss.

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 March 31,	
Anti-Dilutive Common Share Equivalents	2023	2022
Stock options	8,755,890	7,732,126
Restricted stock units	11,592,608	8,201,696
Employee stock purchase plan	168,769	89,442
Total anti-dilutive common share equivalents	20,517,267	16,023,264

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

	Three Months Ended March 31,			
	2023		2022	
Numerator:				
Net loss	$	(15,990)	$	(25,147)
Net loss attributable to common stockholders	$	(15,990)	$	(25,147)
Denominator:				
Weighted-average common shares outstanding, basic and diluted		199,900,920		197,017,555
Net loss per common share, basic and diluted	$	(0.08)	$	(0.13)

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 currently available to the Company for similar debt issues. The fair value approximates the carrying value of long-term debt.

(in thousands, except share and per share data)

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.

	As of March 31, 2023			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents				
Money market mutual funds (1)	$ 197,442	$ -	$ -	$ 197,442
Rabbi trust-owned life insurance policies (at cash surrender value) (2)	-	1,695	-	1,695
Total assets	$ 197,442	$ 1,695	$ -	$ 199,137
Other long-term liabilities				
Deferred compensation (2)	$ -	$ 1,787	$ -	1,787
Total liabilities	$ -	$ 1,787	$ -	$ 1,787

	As of December 31, 2022			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents				
Money market mutual funds (1)	$ 147,149	$ -	$ -	$ 147,149
Rabbi trust-owned life insurance policies (at cash surrender value) (2)	-	1,611	-	1,611
Total assets	$ 147,149	$ 1,611	$ -	$ 148,760
Other long-term liabilities				
Deferred compensation (2)	$ -	$ 1,803	$ -	1,803
Total liabilities	$ -	$ 1,803	$ -	$ 1,803

(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 represent 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.

(in thousands, except share and per share data)

6. Marketable Securities

Marketable securities consist of corporate bonds, commercial paper, and U.S. Treasury and agency bonds, and are classified as held-to-maturity. Investments held in marketable securities had contractual maturities of between one and four months as of March 31, 2023. 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 March 31, 2023 and December 31, 2022. The following presents information about the Company's marketable securities:

	As of March 31, 2023					
Sector	**Amortized Cost**	**Allowance for credit losses**	**Net Amortized Cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair Value**
Financial	$ 21,146	$ -	$ 21,146	$ -	$ (12)	$ 21,134
Government	42,397	-	42,397	8	-	42,405
Total	$ 63,543	$ -	$ 63,543	$ 8	$ (12)	$ 63,539

	As of December 31, 2022					
Sector	**Amortized Cost**	**Allowance for credit losses**	**Net Amortized Cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair Value**
Financial	$ 80,831	$ -	$ 80,831	$ 8	$ (32)	$ 80,807
Government	15,071	-	15,071	5	-	15,076
Industrial	15,084	-	15,084	-	(3)	15,081
Total	$ 110,986	$ -	$ 110,986	$ 13	$ (35)	$ 110,964

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 March 31, 2023	**As of December 31, 2022**
Aggregate fair value of investments with unrealized losses (1)	$ 21,134	$ 59,595
Aggregate amount of unrealized losses	(12)	(35)

(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 March 31,	
Capitalized software development costs	**2023**	**2022**
Capitalized	$ 3,855	$ 4,544
Amortized	3,616	2,541

(in thousands, except share and per share data)

	March 31, 2023			
	Weighted Average Useful Life	Gross Amount	Accumulated Amortization	Net Amount
Internally developed software	3 Years	$ 89,778	$ (63,277)	$ 26,501
Non-compete	4 Years	6,194	(2,494)	3,700
Technology	7 Years	45,791	(27,281)	18,510
Customer relationships	9 Years	72,512	(31,396)	41,116
Trade name	10 Years	7,748	(2,211)	5,537
Total intangible assets		$ 222,023	$ (126,659)	$ 95,364

	December 31, 2022			
	Weighted Average Useful Life	Gross Amount	Accumulated Amortization	Net Amount
Internally developed software	3 Years	$ 85,923	$ (59,661)	$ 26,262
Non-compete	4 Years	6,194	(2,079)	4,115
Technology	7 Years	45,791	(26,314)	19,477
Customer relationships	9 Years	72,512	(29,327)	43,185
Trade name	10 Years	7,748	(2,038)	5,710
Total intangible assets		$ 218,168	$ (119,419)	$ 98,749

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

	Three Months Ended March 31,	
	2023	2022
Total amortization expense associated with identifiable intangible assets	$ 7,239	$ 6,134

Goodwill

There were no changes in goodwill during the three months ended March 31, 2023.

8. Leases and Leasing Commitments

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

	Three Months Ended March 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows for finance leases	$ 165	$ 237
Operating cash flows for finance leases	1,448	1,421
Operating cash flows for operating leases	547	505
Right of use assets obtained in exchange for new lease obligations:		
Finance lease liabilities	-	57
Operating lease liabilities	362	2,831

The components of lease expense were as follows:

	Three Months Ended March 31,	
Lease expense	2023	2022
Finance lease expense:		
Amortization of right-of-use assets	$ 531	$ 670
Interest on lease liabilities	1,641	1,623
Operating lease expense	432	454
Short-term lease expense	-	160
Variable lease expense	53	35
Total lease expense	$ 2,657	$ 2,942

(in thousands, except share and per share data)

9. Long-Term Debt

Long-term debt as of March 31, 2023 and December 31, 2022:

	As of March 31, 2023	As of December 31, 2022
Term loan facility	$ 64,594	$ 65,000
Promissory note payable for land acquisition	18,700	18,700
Total principal due	83,294	83,700
Current portion of promissory note	(6,425)	(6,425)
Unamortized portion of debt issuance costs	(1,295)	(1,363)
Long-term debt	$ 75,574	$ 75,912

On December 29, 2022 the Company, through its wholly-owned subsidiary, AvidXchange, Inc., entered into a credit agreement (the "2022 Credit Agreement") with KeyBank National Association ("KeyBank") to replace in its entirety its previous senior secured credit facility. The outstanding balances of the previous senior secured credit facility were repaid with the Company's cash balances and the proceeds from borrowing under the 2022 Credit Agreement. The 2022 Credit Agreement has a term of five years and consists of a 5-year revolving credit facility (the "2022 Revolver") and a five-year term loan facility (the "2022 Term Loans").

Under the 2022 Credit Agreement and subject to specific conditions, the Company may request, and the lenders have the right, but not the obligation, to increase the 2022 Revolver or add an additional term loan facility by an aggregate amount (for all such increases) not to exceed $50,000 as of March 31, 2023.

In January 2023, the Company increased the credit available on its 2022 Revolver by $20,000 to an aggregate borrowing capacity of $30,000, thereby increasing the aggregate borrowing capacity of the 2022 Credit Agreement to $95,000. This increase in borrowing capacity reduced the amount by which the Company may request future increases of the 2022 Revolver or term loan facility from $70,000 to $50,000.

The 2022 Credit Agreement has a term of five years and makes available to the Company facilities in an aggregate amount of $95,000 and consists of:

- $30,000 pursuant to the 2022 Revolver; and
- $65,000 pursuant to the 2022 Term Loans.

Letters of credit may be issued by KeyBank pursuant to the 2022 Credit Agreement and the availability under the 2022 Revolver will be reduced by any outstanding letters of credit. As March 31, 2023, borrowing availability under the 2022 Revolver was reduced by the then current amount of the letter of credit dated October 1, 2019 which was issued by KeyBank to secure the Company's obligation to make payments under the lease for the Company's headquarters building in Charlotte, North Carolina. The amount of the letter of credit was $6,072 as of March 31, 2023.

In addition, under the 2022 Credit Agreement, the Company may request, and the lenders have the right, but not the obligation to, increase the 2022 Revolver or add an additional term loan facility by an aggregate amount (for all such increases) not to exceed $50,000, subject to specified conditions.

As of March 31, 2023, the aggregate amount available to borrow under the 2022 Credit Agreement was $23,928. As of March 31, 2023, the effective interest rate of the 2022 Term Loans was 7.46%.

Proceeds from the 2022 Term Loans and corporate cash were used to pay in full all outstanding debt and expenses under the previous senior secured credit facility, and the 2022 Revolver may be used to fund working capital and for general corporate purposes.

The maturity date for the 2022 Revolver and 2022 Term Loans is December 29, 2027. The Company may voluntarily pre-pay all or any part of the 2022 Revolver or 2022 Term Loans without premium or penalty, subject to concurrent payments of accrued and unpaid interest and any applicable breakage costs.

Interest on the loans under the 2022 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 2.5% and 3.0% for daily simple SOFR and term SOFR loans (plus a SOFR adjustment between 0.1% and 0.25%), and between 1.5% and 2.0% for base rate loans. The applicable margin fluctuates based on the ratio of debt under the 2022 Credit Agreement to the Company’s consolidated software revenue. 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 2022 Credit Agreement, daily simple SOFR, term SOFR and the base rate will never be less than 0.5%.

The principal amount of the 2022 Term Loans amortizes at a rate of 2.5% per year for the first two years and 5% per year for the last three years, payable in equal quarterly installments. Additional principal payments are due in certain circumstances, and subject to certain limitations, including upon a sale of assets or upon receipt of proceeds of casualty insurance or condemnation.

The 2022 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 2022 Credit Agreement. The negative covenants further restrict the Company's ability to make certain restricted payments, including the payment of dividends in certain limited circumstances.

The 2022 Credit Agreement also contains three financial covenants, measured on a consolidated basis. First, there must be liquidity (which is defined as availability under the 2022 Revolver, plus unrestricted cash) that is more than the greater of (1) $35,000, and (2) 35% of the Total Commitment Amount (as defined in the 2022 Credit Agreement). Second, as of the end of each quarter, total revenue on a trailing four-quarter basis must be greater than the requirements set forth in the 2022 Credit Agreement. Third, for each period of four consecutive quarters ending on December 31, 2024, and at the end of each fiscal quarter thereafter, Consolidated EBITDA (as defined in the 2022 Credit Agreement) must not be less than $10,000. The Company was in compliance with its financial debt covenants as of March 31, 2023.

The 2022 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 acceleration of the maturity of all loans and to take all actions permitted to be taken by a secured creditor with respect to the collateral for the 2022 Credit Agreement and under applicable law.

The obligations under the 2022 Credit Agreement are secured by:

- substantially all of the tangible and intangible assets of the Company and its material subsidiaries, except for client funds, client funds accounts (as such terms are defined in the 2022 Credit Agreement) and existing real estate, and
- the capital stock of the Company's material subsidiaries.

Under the previous senior secured credit facility, the certain wholly-owned subsidiaries of the Company were co-borrowers, with the Company's parent holding company as the guarantor. By contrast, under the 2022 Credit Agreement, the Company's wholly-owned subsidiary, AvidXchange, Inc., is the only borrower, and AvidXchange, Inc.'s parent holding company and certain subsidiaries of AvidXchange, Inc. are co-guarantors.

Revolving Credit Facility

There was no balance outstanding under either revolving credit facility as of March 31, 2023 or December 31, 2022. The Company is required to pay on a quarterly basis a commitment fee of 0.3% per annum with respect to the amount of the 2022 Revolver.

Deferred Financing Costs

The Company has $792 and $385 in deferred financing costs included in other noncurrent assets and deposits, and $1,295 and $1,363 of deferred financing costs associated with its term loans recorded net of long-term debt as of March 31, 2023 and December 31, 2022, respectively.

Amortization of deferred financing costs was $110 and $339 the three months ended March 31, 2023 and 2022, respectively, which is presented in the consolidated statements of operations as interest expense.

Land Promissory Note

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 $18,700 as of March 31, 2023 and will be paid in three 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.

(in thousands, except share and per share data)

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 March 31, 2023, the Company had reserved a total of 47,840,003 of its 1,600,000,000 shares of common stock for future issuance as follows:

	As of March 31, 2023
Outstanding stock options	8,755,890
Restricted stock units	11,592,608
Available for future issuance under stock award plans	21,048,674
Available for future issuance under employee stock purchase plan	6,442,831
Total common shares reserved for future issuance	47,840,003

11. Stock-Based Compensation

Upon the adoption of ASU 2016-09 on January 1, 2022, the Company elected to recognize forfeitures as they occur. Previously, the Company estimated forfeitures based on historical experience. The change in accounting policy resulted in the recognition of a cumulative effect adjustment to the Company's accumulated deficit as of January 1, 2022 in the amount of $629.

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, 2023, the number of shares of common stock available to issue under the 2021 Plan automatically increased by 9,971,700 shares. As of March 31, 2023, the Company had 21,048,674 shares 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, 2023, the number of shares of common stock reserved for issuance under the ESPP automatically increased by 1,994,340. As of March 31, 2023, the number of shares of common stock reserved for issuance under the ESPP was 6,442,831.

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 three months ended March 31, 2023 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, 2022	7,131,150	$ 8.37	7.61	$ 16,849
Granted	1,748,480	9.00		
Exercised	(123,168)	2.99		
Cancelled	(572)	3.79		
Balance as of March 31, 2023	8,755,890	$ 8.57	7.94	$ 7,773
Vested and exercisable	3,933,036	$ 7.57	6.70	$ 7,587

As of March 31, 2023, the total unamortized stock-based compensation expense related to the unvested stock options was $19,179, which the Company expects to amortize over a weighted average period of 2.9 years.

(in thousands, except share and per share data)

Restricted Stock Units

RSUs have a vesting period generally of one, two and 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 are also subject to a performance condition upon a predefined liquidity event such as an IPO or a change in control. 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 three months ended March 31, 2023 was as follows:

	Restricted Stock Units	
	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance as of December 31, 2022	7,877,598	$ 9.07
Granted	5,339,033	8.94
Released	(1,471,826)	8.82
Cancelled	(152,197)	9.33
Balance as of March 31, 2023	11,592,608	$ 9.02

As of March 31, 2023, the total unamortized stock-based compensation expense related to the unvested RSUs was $91,121, which the Company will amortize over a weighted average period of 3.2 years upon satisfaction of the performance condition.

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 March 31,	
	2023	2022
Cost of revenues	$ 1,017	$ 925
Sales and marketing	1,135	876
Research and development	2,219	1,764
General and administrative	4,290	3,030
Total	$ 8,661	$ 6,595

Employee Stock Purchase Plan

Stock-based compensation expense from the ESPP was $270 and $196 during the three months ended March 31, 2023 and 2022, respectively. ESPP expense 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.

12. Commitments and Contingencies

Letters of Credit

As of March 31, 2023, the Company has an irrevocable standby letter of credit outstanding that acts as collateral with respect to the lease of the Company's Charlotte corporate headquarters with an availability of approximately $6,072 for which the Company pays a fee of 2.5% to 3.0% per annum, primarily based on the ratio of debt under the 2022 Credit Agreement to the Company's consolidated software revenue. The letter of credit reduces the borrowing capacity under the 2022 Revolver. It renews annually and expires on December 1, 2023.

13. Income Taxes

The Company's effective tax rate for each of the three months ended March 31, 2023 and 2022, was less than one percent, primarily as a result of estimated tax losses for the fiscal year-to-date offset by the increase in the valuation allowance in the net operating loss carryforwards. Tax expense includes current tax expense for estimated state income taxes and noncurrent federal taxes related to non-deductibility of goodwill in the future.

14. Subsequent Events

Commitments and Contingencies

In early April 2023, the Company detected a cybersecurity incident as part of its routine security monitoring protocols. In response to the incident, the Company launched an investigation with the support of leading cybersecurity experts, reached out to law enforcement and has taken and will continue to take actions to implement additional safeguards.

The Company's solutions are operational, and customer transactions continue to be processed through the Company's systems. However, the Company's efforts to respond to the incident and to implement additional safeguards and enhance the Company's security have resulted and may continue to result in temporary disruptions to certain features or products.

The investigation, which is ongoing as of the date of filing of this quarterly report on Form 10-Q, has so far revealed that the incident affected certain of AvidXchange's systems and that some data from these systems was exfiltrated. The Company is aware that one or more threat actors have published files they claim to have taken from the Company's systems. Upon reviewing the files published online, the Company learned that the threat actor(s) published, among other materials, some credentials for internal Company applications and credentials for a specific application used by a small number of customers. The Company temporarily took the application used by customers offline, contacted impacted customers, reset impacted credentials and took other related security measures. The Company posted notice of the event on its website and is continuously reviewing and evaluating the situation and the Company's notification and disclosure obligations as additional information becomes available.

Beginning in the second fiscal quarter of 2023, the Company has incurred significant costs associated with the cybersecurity incident. The Company expects that it will continue to experience increased costs related to its threat response and its actions to implement additional safeguards. The Company maintains cyber insurance and will likely seek reimbursement for certain of the expenses incurred in connection with this event, although the extent to which its insurance will cover such expenses remains uncertain. The Company is unable at this time to reasonably estimate the possible loss or range of loss and no liability has been recorded related to the incident as of March 31, 2023.

Share Issuance

On May 1, 2023, the Company issued 194,508 shares of common stock under its employee stock purchase plan at a purchase price of $6.10 per share representing a 15% discount on the closing price of $7.18 on the date of purchase for an aggregate of $1,186. 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.

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, 2022 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, 2022.

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 deep domain expertise in select verticals and over 205 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 SAP Concur. Our referral and indirect channel partnerships provide us greater reach across the market to access a variety of buyers.

We have a highly visible revenue model based on the durability of our buyer relationships and the recurring nature of the revenues we earn. 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):

	Three Months Ended March 31,	
Disaggregation of Revenue:	**2023**	**2022**
Software revenue	$ 26,968	$ 23,911
Payment revenue	59,181	46,468
Services revenue	673	824
Total revenues	$ 86,822	$ 71,203

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

Throughout 2023, we have continued to see the impact of several macroeconomic events on our business and on our buyers and suppliers. These events have included, but are not limited to, general economic conditions including increased volatility in the U.S. banking market as a result of several highly publicized distressed or closed banks, a higher than normal level of inflation in the U.S. economy, fears of a possible recession, ongoing supply chain disruptions, and geopolitical tensions including those resulting from the conflict between Russia and Ukraine. While we continue to be encouraged by leading indicators in our sales process, the ongoing uncertainty created by these macroeconomic events could continue to have a negative impact on purchasing decisions by certain buyers, new sales and longer sales cycles. These events have made it and may continue to make it more difficult for us to acquire new buyers and to close new sales opportunities which in turn adversely impacts revenue growth in future periods.

In particular, the long-term impacts of inflation on the economy and our business remain unclear. On the one hand, our revenue could be positively impacted by inflation as the value of our customer's payments could rise, increasing our payment volume and the base on which we earn interchange revenue. Also, inflationary pressure could be a catalyst for sales acceleration associated with increased interest by potential customers in automating back-office processing. Additionally, the Federal Reserve has raised interest rates in an effort to reduce inflation. These rate increases have in turn increased the interest we earn on funds held for buyers, which we recognize as payment revenue. Conversely, the impact of inflationary pressures on the macro economy could slow the spending of our customers and decrease payment volume. Inflation could also negatively impact our operating costs by increasing costs incurred by us to operate our business due to higher costs from our vendors and increased personnel costs, some of which we may not be able to recoup from our customers. The impact of inflation on our business and on our buyers and suppliers in future periods remains highly uncertain, as does the Federal Reserve’s response to these conditions. We may not see these impacts of inflation in future periods, which could lead to difficulty in comparing our current consolidated financial results to our results in future reporting periods.

In addition, increased volatility in the domestic banking sector can impact access to liquidity for our buyers and suppliers and strategic partners, and we continue to closely monitor this situation and the potential impacts this volatility may have on our business. buyers, suppliers, and strategic partners.

Cybersecurity Incident

In early April 2023, we detected a cybersecurity incident as part of our routine security monitoring protocols. In response to the incident, we launched an investigation with the support of leading cybersecurity experts, reached out to law enforcement and have taken and will continue to take actions to implement additional safeguards.

Our solutions are operational, and we continue to process customer transactions through our systems. However, our efforts to respond to the incident and to implement additional safeguards and enhance our security have resulted and may continue to result in temporary disruptions to certain features or products.

The investigation, which is ongoing as of the date of filing of this quarterly report on Form 10-Q, has so far revealed that the incident affected certain of AvidXchange’s systems and that some data from these systems was exfiltrated. We are aware that one or more threat actors have published files they claim to have taken from our systems. Upon reviewing the files published online, we learned that the threat actor(s) published, among other materials, some credentials for internal Company applications and credentials for a specific application used by a small number of customers. We temporarily took the application used by customers offline, contacted impacted customers, and reset impacted credentials and took other related security measures. We posted notice of the event on our website and we are continuously reviewing and evaluating the situation and our notification and disclosure obligations as additional information becomes available.

Beginning in the second fiscal quarter of 2023, we have incurred significant costs associated with the cybersecurity incident. We expect that we will continue to experience increased costs related to our threat response and our actions to implement additional safeguards. We maintain cyber insurance and will likely seek reimbursement for certain of these expenses incurred in connection with this event, although the extent to which our insurance will cover such expenses remains uncertain. We are unable at this time to reasonably estimate the possible loss or range of loss and no liability has been recorded related to the incident as of March 31, 2023. Refer to Note 14 to our Unaudited Consolidated Financial Statements for additional information concerning the incident.

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 March 31,		
	2023	2022	Percentage Change
Transactions Processed	18,257,696	16,852,489	8.3 %
Transaction Yield	$ 4.76	$ 4.23	12.5 %
Total Payment Volume (in millions)	$ 17,738	$ 15,197	16.7 %

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 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 factoring 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 factoring product, Invoice 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 purchase 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 current high 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 in recent periods. 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.

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. In 2022, we experienced growth in our media payments business due to spending associated with the 2022 mid-term elections. Due to the intermittent nature of the U.S. election cycle, we expect a significant decrease in these revenues during fiscal year 2023.

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 continues 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 Invoice 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.

Our long-term strategy to transition to public cloud services and decommission on-premise infrastructure hosted in co-located datacenters was substantially completed in the second quarter of 2022.

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 Invoice 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.

We expect our sales and marketing expenses to increase in absolute dollars while remaining fairly consistent as a percentage of revenue as we continue to expand our market presence, grow our customer base, and continue to develop new offerings to sell to our buyers and suppliers. We are focused on the efficient deployment of marketing resources to drive our sales efforts and expect to continue to increase marketing activities over the coming periods.

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. General and administrative expenses are reduced by incentives we have received from state and local government agencies as part of various local job development investment grants.

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 to increase in absolute dollars over the shorter term as we continue to build out our infrastructure to support our operations as a public company, and to support a larger customer base. We also expect our general and administrative expenses to increase in absolute dollars over the shorter term as we address cybersecurity threats and implement additional safeguards.

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., non-compete agreements, customer relationships, technology, and trade name) 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. Additionally in periods before our IPO, other income (expense) included changes in the fair value of our derivative instrument, which required adjustments to fair value each reporting period.

Income Tax Expense (Benefit)
Income tax expense (benefit) consists of federal and state 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 March 31, 2023	Three Months Ended March 31, 2022
Revenues	$ 86,822	$ 71,203
Cost of revenues (exclusive of depreciation and amortization expense)	29,473	27,807
Operating expenses		
Sales and marketing	20,135	17,239
Research and development	23,122	20,072
General and administrative	22,627	18,688
Depreciation and amortization	8,586	7,718
Total operating expenses	74,470	63,717
Loss from operations	(17,121)	(20,321)
Other income (expense)		
Interest income	4,516	220
Interest expense	(3,315)	(4,977)
Other income (expense)	1,201	(4,757)
Loss before income taxes	(15,920)	(25,078)
Income tax expense	70	69
Net loss	$ (15,990)	$ (25,147)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.08)	$ (0.13)
Weighted average number of common shares used to compute net loss per share attributable to common stockholders, basic and diluted	199,900,920	197,017,555

Comparison of the Three Months Ended March 31, 2023 and 2022

Revenues

	Three Months Ended March 31,		Period-to-Period Change	
	2023	2022	Amount	Percentage
		(in thousands)		
Revenues	$ 86,822	$ 71,203	$ 15,619	21.9 %

The increase in revenues was largely comprised of an increase in payment revenue of $12.7 million, or 27.4%, 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 a rising interest rate environment. 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 due to the Federal Reserve raising rates in response to the higher than normal level of inflation in the U.S. economy. Payment revenue from interest increased $5.9 million to $7.1 million in the first quarter of 2023 from $1.2 million in the first quarter of 2022. These increases in payment transaction volume were offset by decreases in volume in media payments associated with political media spend, due to prior increases from the 2022 mid-term elections which did not occur in the current period, which resulted in a decrease of $0.8 million. Software revenue increased by $3.1 million, or 12.8%, primarily driven by increased invoice and payment transaction volume from new and existing customers as well as price increases.

Cost of Revenues

	Three Months Ended March 31,					
	2023		2022		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
				(in thousands)		
Cost of revenues (excluding depreciation and amortization expense)	$ 29,473	33.9 %	$ 27,807	39.1 %	$ 1,666	6.0 %

The increase in cost of revenues (excluding depreciation and amortization expense) was due primarily to an increase in employee costs of $1.1 million, including an increase in stock-based compensation of $0.1 million. We also experienced increases in IT infrastructure costs, including cloud hosting fees and software costs, of $0.9 million primarily related to our transition of services from data centers to cloud hosting. Additionally, we experienced increases in invoice and check processing fees of $0.4 million and consulting and contract labor of $0.3 million. These increases were partially offset by a decrease of $0.4 million for misdirected payments primarily due to higher costs in the comparable period and a $0.5 million decrease in the reserve for Invoice Accelerator purchased invoices compared to the prior year.

Operating Expenses

	Three Months Ended March 31,					
	2023		2022		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
			(in thousands)			
Sales and marketing	$ 20,135	23.2 %	$ 17,239	24.2 %	$ 2,896	16.8 %
Research and development	23,122	26.6 %	20,072	28.2 %	3,050	15.2 %
General and administrative	22,627	26.1 %	18,688	26.2 %	3,939	21.1 %
Depreciation and amortization	8,586	9.9 %	7,718	10.8 %	868	11.2 %

Sales and Marketing Expenses

The increase in sales and marketing expenses was due primarily to an increase of $2.0 million in employee costs (net of capitalized sales commissions), including an increase in stock-based compensation of $0.3 million. We experienced increases in partner commissions of $0.3 million as well as an increase in travel expenses of $0.3 million and an increase in IT infrastructure and software costs of $0.2 million related to our transition of services from data centers to cloud hosting.

Research and Development Expenses

Research and development expenses increased primarily due to increased employee costs of $3.2 million. The investments in our platform are intended to increase the quality, reliability and efficiency of our technology. The increase in employee costs relates to both headcount and compensation increases and includes an increase of stock-based compensation of $0.5 million and a decrease of annual bonus accrual of $0.3 million. We experienced an additional increase of $0.6 million in IT infrastructure. These increases were offset, in part, by a $1.5 million net decrease in costs associated with engaging consultants and contractors. We also experienced an additional increase of $0.7 million from a lower amount of costs capitalized in the current period compared to the prior period.

General and Administrative Expenses

The increase in general and administrative expenses is attributable to a $3.3 million increase in employee costs, including increases in stock-based compensation of $1.3 million and annual bonus accrual of $0.3 million. We also experienced an increase of $0.2 million in professional, accounting and consulting fees, contract labor, and insurance costs. We experienced an additional increase of $0.5 million in IT infrastructure. These increases were offset, in part, by a reduction in transaction costs of $0.2 million attributable to deal-related costs incurred in the prior year period. General and administrative expenses in the second quarter of 2023 are expected to reflect significant increases in costs related to our threat response and our implementation of additional safeguards in connection with our recent cybersecurity incident. Because this incident was detected in April 2023, general and administrative expenses for this quarter do not reflect any related expenses.

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 March 31,					
	2023		2022		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
			(in thousands)			
Other Income (Expense)	$ 1,201	1.4 %	$ (4,757)	(6.7)%	$ 5,958	(125.2)%

Other income increased primarily due to an increase in interest income of $4.3 million and a decrease in interest expense of $1.7 million.

Income Tax Expense

	Three Months Ended March 31,					
	2023		2022		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
			(in thousands)			
Income tax (benefit) expense	$ 70	0.1 %	$ 69	0.1 %	$ 1	1.4 %

The provision for income taxes relates primarily to state income taxes and noncurrent federal taxes related to the non-deductibility of goodwill in the future.

Liquidity and Capital Resources

We do not currently generate positive cash flow through our operations. We have 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 overallotment option and after deducting underwriting discounts and commissions of $40.4 million and offering expenses of approximately $11.8 million. As of March 31, 2023, our principal sources of liquidity are our unrestricted cash and cash equivalents of $368.2 million, marketable securities of $63.5 million, and funds available under our term loan and revolving credit facilities, which we collectively refer to as the 2022 Credit Agreement, which we entered into in December 2022. In January 2023, we increased the borrowing capacity of the 2022 Credit Agreement which resulted in an additional $20.0 million borrowing capacity on our revolving line of credit. As of March 31, 2023, our unused committed capacity under the 2022 Credit Agreement was $23.9 million comprised of a revolving commitment.

We believe that our unrestricted cash, cash equivalents, marketable securities, and funds available under our 2022 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 2022 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:	Three Months Ended March 31, 2023	2022
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	$ (25,629)	$ (25,314)
Investing activities	44,184	(243,686)
Financing activities	(233,581)	(309,265)
Net decrease in cash and cash equivalents, and restricted funds held for customers	$ (215,026)	$ (578,265)

Net Cash 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 used in operating activities slightly increased to $25.6 million during the three months ended March 31, 2023 from $25.3 million during the three months ended March 31, 2022 due primarily to an increase in revenue and an improved net income offset by changes in working capital, primarily due to variations in timing of payment of accrued expenses.

Net Cash Provided by (Used in) 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 Invoice Accelerator product.

Net cash provided by investing activities increased to $44.2 million during the three months ended March 31, 2023 compared to use of $243.7 million during the three months ended March 31, 2022, primarily driven by the timing of purchases and maturities in our portfolio of held-to-maturity marketable securities as well as the acquisition in the prior year period of a customer list and non-compete agreement in our media payments market.

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, and borrowings and repayments of long-term debt.

Net cash used in financing activities was $233.6 million during the three months ended March 31, 2023 compared to $309.3 million during the three months ended March 31, 2022, due primarily to variations in the inflows and outflows from payment service obligations of our customers.

Outstanding Debt

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

	As of March 31, 2023	As of December 31, 2022
Term loan facility	$ 64,594	$ 65,000
Promissory note payable for land acquisition	18,700	18,700
Total principal due	83,294	83,700
Current portion of promissory note	(6,425)	(6,425)
Unamortized portion of debt issuance costs	(1,295)	(1,363)
Long-term debt	$ 75,574	$ 75,912

Credit Facilities
On December 29, 2022, we entered into a credit agreement to replace our previous credit facility. In January 2023, we expanded the borrowing capacity of this agreement by $20 million. As of March 31, 2023, the aggregate available borrowing capacity under this agreement was $23.9 million. We were in compliance with our financial covenants as of March 31, 2023. 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 Note
We have a promissory note 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 three months ended March 31, 2023, 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.

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 $1,051.2 million as of March 31, 2023 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.

The Company historically transmitted buyer customer funds using a legacy model pursuant to which buyer customer funds are held in trust accounts that are 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 our 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 accounts was approximately $16.3 million and $135.1 million at March 31, 2023 and December 31, 2022, respectively. Having obtained a money transmitter license in all states which require licensure, the Company is providing commercial payment services to businesses through its “for the benefit of customer” bank accounts that are restricted for such purposes and is continuing to work towards transitioning away from the legacy trust model.

Contractual Obligations

There were no material changes in our contractual obligations and commitments during the three months ended March 31, 2023 from the contractual obligations and commitments disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. 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, 2022 as filed with the SEC on March 1, 2023.

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 March 31, 2023.

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 accounts. We are entitled to any interest earned on the investment of all buyer funds.

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, commercial paper, investment grade corporate bonds and money market funds. As of March 31, 2023, we held marketable securities with an amortized cost basis of $63.5 million and money market funds with an aggregate value of $197.4 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, money market funds that invest in investment grade securities, or other cash equivalents, including certificates of deposit. As of March 31, 2023, 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 3.41% during the first three months of fiscal year 2023 from 1.32% during fiscal year 2022. Based on current investment practices, an increase in the Federal Funds interest rate of 100 basis points would have changed our interest income in the first three months of fiscal year 2023 from our investment of operating cash by approximately $0.6 million and our interest on buyer funds assets by approximately $2.8 million based upon the average balances for the first three months of fiscal year 2023 of $453.7 million in operating cash investments and $897.8 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 March 31, 2023 and December 31, 2022, we had outstanding borrowings on variable rate debt of $64.6 million and $65.0 million, respectively. A 100 basis points increase in the variable rate would have resulted in incremental interest expense of $0.2 million during the three months ended March 31, 2023.

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, the minimum credit quality of any 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 12 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 Invoice 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 for advance payment and also monitor the credit quality of suppliers.

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 began processing a substantial portion of these transactions through a second provider during 2022. Revenue from each of these two suppliers was greater than 10% of our total revenue. 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 March 31, 2023, 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 (OCC) 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 on that evaluation, and as a result of the material weakness described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2023, our disclosure controls and procedures were not effective at the reasonable assurance level.

In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weakness in our internal control over financial reporting, the unaudited consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

Previously Identified Material Weakness in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 the following material weakness, which still existed as of the end of the period covered by this report:

- We lack a sufficient complement of personnel with an appropriate level of accounting knowledge, training, and experience to appropriately analyze, record and disclose accounting matters timely and accurately.

This material weakness resulted in material misstatements related to our preferred stock, additional-paid-in-capital accounts, and the classification of cash flows from operating and investing activities as of and for the year ended December 31, 2019, which resulted in the restatement of the 2019 consolidated financial statements, errors identified and corrected in the aforementioned accounts as of and for the periods ended December 31, 2020 and June 30, 2021, and in immaterial misstatements related to our cost of revenues, sales and marketing expense, research and development expense, general and administrative expense, and additional-paid-in-capital accounts, which resulted in the revision of our December 31, 2020 and June 30, 2021 financial statements. Additionally, this material weakness could result in a misstatement of substantially all of our accounts or disclosures that such material weakness could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation Plan for Material Weakness

As of the date of this Quarterly Report on Form 10-Q we have completed the following steps of our remediation plan.

- While we have hired an experienced SEC reporting leader with prior IPO, technical accounting, and financial reporting experience, as well as additional technical accounting resources with public company experience to assess complex technical accounting and reporting matters, we continue to hire additional technical accounting resources with public company experience to enhance our accounting and financial reporting function.
- We will engage third-party resources to supplement our resources and current processes where needed.

After integrating these professionals into our control environment, and once they have demonstrated the ability to perform their responsibilities for a sufficient period of time, including the execution of controls for which they are responsible, we expect that the remediation of the material weakness will be completed.

(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 March 31, 2023, 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.

We are supplementing Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on March 1, 2023 (the “Annual Report”). The following risk factors should be read in conjunction with the risk factors set forth in that Annual Report.

The cybersecurity incident that we detected in early April 2023, or other cyber incidents that we may encounter in the future, may have a material adverse impact on our business and results of operations.

In early April 2023, we detected a cybersecurity incident as part of our routine security monitoring protocols. In response to the incident, we launched an investigation with the support of leading cybersecurity experts, reached out to law enforcement and have taken and will continue to take actions to implement additional safeguards.

The investigation, which is ongoing as of the date of filing of this quarterly report on Form 10-Q, has so far revealed that the incident affected certain of AvidXchange’s systems and that some data from these systems was exfiltrated. We are aware that one or more threat actors have published files they claim to have taken from our systems. Upon reviewing the files published online, we learned that the threat actor(s) published, among other materials, some credentials for internal Company applications and credentials for a specific application used by a small number of customers. We temporarily took the application used by customers offline, contacted impacted customers, reset impacted credentials and took other related security measures. We posted notice of the event on our website and we are continuously reviewing and evaluating the situation and our notification and disclosure obligations as additional information becomes available.

Beginning in the second fiscal quarter of 2023, we expect to incur significant costs associated with our threat response and our actions to implement additional safeguards related to this incident. We maintain cyber insurance and will likely seek reimbursement for certain of the expenses incurred in connection with this event, although the extent to which our insurance will cover such expenses, remains uncertain. As our investigation remains ongoing, we are currently unable to reasonably estimate the possible loss or range of loss related to this incident, and no related liability has been recorded as of March 31, 2023.

Any perceived or actual breach of security, regardless of how it occurs or the extent of the breach, could have a significant impact on our reputation as a trusted brand, cause us to lose existing partners or other customers, prevent us from obtaining new partners and other customers, require us to expend significant funds to remedy problems caused by breaches and implement measures to prevent further breaches, and expose us to legal risk and potential liability including those resulting from governmental or regulatory investigations, class action litigation, and costs associated with remediation, such as fraud monitoring and forensics. Accordingly, our recent cybersecurity incident or other cyber incidents that we may encounter in the future may have a material adverse impact on our business and results of operations.

We maintain cash deposits in excess of federally insured limits. Adverse developments affecting financial institutions, including bank failures, could adversely affect our liquidity and financial performance.

Our overall investment portfolio is generally comprised of (i) our operating cash and (ii) buyer funds. Our operating cash includes cash received from revenues generated and existing cash on the balance sheet. Buyer funds are funds that have been collected from buyers, but not yet remitted to the applicable supplier.

Our operating cash is 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, commercial paper, investment grade corporate bonds, money market funds, and interest-bearing demand deposit accounts.

Our buyer funds are invested with safety of principal, liquidity, and diversification as the primary objectives. 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, money market funds that invest in investment grade securities, or other cash equivalents, including certificates of deposit. As of March 31, 2023, 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 (OCC) and is a subsidiary of a bank holding company subject to regulation, supervision, and examination by the Federal Reserve.

Beginning in the first quarter of 2023, the U.S. banking market has experienced increased volatility as a result of several highly publicized distressed or closed banks, the most significant of these being Silicon Valley Bank and First Republic Bank. As we regularly maintain cash deposits, including buyer funds, that exceed the applicable FDIC insurance limits, this volatility exposes us to increased risk. While we do not currently maintain private insurance to mitigate this risk, an such insurance may not be available on commercially reasonable terms or at all, we seek to mitigate this risk by monitoring financial institutions that we conduct business with and endeavor to maintain cash balances at large well-capitalized financial institutions. Although we have not realized any losses as a result of this increased market volatility, we continue to closely monitor this situation and the potential risks posed to our operating cash and buyer funds. Nonetheless, we may be exposed to the risk of those financial institutions' potential insolvency or failure and 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. In the event of the failure of one or more financial institutions with whom we do business, we could incur significant liquidity risks or losses that could negatively impact our result of operations and financial position.

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 from Initial Public Offering of Common Stock

On October 12, 2021, our Registration Statement on Form S-1, as amended (Reg. No. 333-259632), was declared effective in connection with the IPO of our common stock, pursuant to which we issued and sold 26,400,000 shares of common stock, par value $0.001 per share. The price per share to the public was $25.00. Gross proceeds from the IPO were $660.0 million and net proceeds, after deducting (i) underwriters’ discounts and commissions and (ii) offering expenses of approximately $12.1 million, were approximately $608.3 million. Following the sale of these shares, the offering terminated. Shares of our common stock began trading on the Nasdaq Global Select Market on October 13, 2021.

On October 15, 2021, we used $169.0 million of the net proceeds to redeem the shares of redeemable preferred stock issuable upon conversion of our senior preferred stock.

On November 15, 2021, the underwriters notified us of the partial exercise of the overallotment option. Upon closing on November 18, 2021, we issued 544,928 shares of common stock at the offering price of $25.00 per share and received net proceeds of $12.8 million after deducting underwriters' discounts and commissions.

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.

Issuer Repurchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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
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 Document	—	—	—	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	—	—	—	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	—	—	—	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	—	—	—	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	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: May 10, 2023	By: /s/ Joel Wilhite
	Joel Wilhite
	Chief Financial Officer
	(Authorized Signatory and Principal Financial and Accounting Officer)

Exhibit 31.1

**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 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: May 10, 2023

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

Exhibit 31.2

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 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: May 10, 2023

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

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXCUTIVE 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 March 31, 2023 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: May 10, 2023

/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)