UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2022

or

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

For the transition period from __ to __

Commission file number 001-39627

Paya Holdings Inc.

(Exact Name of Registrant as Specified in Charter)

Delaware	**85-2199433**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

303 Perimeter Center North, Suite 600, Atlanta, Georgia 30346
(Address, including zip code, of principal executive offices)

(800) 261-0240
(Registrant's telephone number, including area code)

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common stock, par value $0.001 per share	PAYA	The Nasdaq Capital 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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

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 Act). Yes ☐ No ☒

There were 132,076,206 shares of Common Stock, par value $0.001 per share, issued and outstanding as of August 2, 2022.

Paya Holdings Inc.
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Quarterly Report on FORM 10-Q
June 30, 2022

Part I

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for the Company. Specifically, forward-looking statements may include statements relating to:

- operational, economic, political and regulatory risks, including those related to the war in Ukraine, heightened inflation, slower growth or recession, changes to fiscal and monetary policy, higher interest rates, currency fluctuations and challenges in the supply chain;
- natural disasters and other business disruptions including outbreaks of epidemic or pandemic disease;
- changes in demand within a number of key industry end-markets and geographic regions;
- failure to retain key personnel;
- our inability to recognize deferred tax assets and tax loss carry forwards;
- our future operating results fluctuating, failing to match performance or to meet expectations;
- unanticipated changes in our tax obligations;
- our obligations under various laws and regulations;
- the effect of litigation, judgments, orders or regulatory proceedings on our business;
- our ability to successfully acquire and integrate new operations;
- global or local economic and political movements;
- our ability to effectively manage our credit risk and collect on our accounts receivable;
- our ability to fulfill our public company obligations;
- any failure of our management information systems and data security;
- our ability to meet our debt service requirements and obligations;
- changes in the payment processing market in which Paya competes;
- changes in the vertical markets that Paya targets;
- risks relating to Paya's relationships within the payment ecosystem;
- risk that Paya may not be able to execute its growth strategies;
- risks relating to data security
- changes in accounting policies applicable to Paya;
- the risk that Paya may not be able to remediate the existing material weakness related to the income tax provision or develop and maintain effective internal controls; and
- other risks and uncertainties discussed in the section titled "Risk Factors," in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission.

These forward-looking statements are based on information available as of the date of this Quarterly Report on Form 10-Q and our management's current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date. We undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Item 1. Unaudited Consolidated Financial Statements

Paya Holdings Inc.
Consolidated Statements of Income and Other Comprehensive Income
(In thousands except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Revenue	$ 72,492	$ 63,984	$ 138,485	$ 119,239
Cost of services exclusive of depreciation and amortization	(35,741)	(30,199)	(66,984)	(56,336)
Selling, general & administrative expenses	(22,892)	(20,846)	(45,347)	(37,760)
Depreciation and amortization	(7,897)	(7,519)	(15,688)	(14,551)
Income from operations	5,962	5,420	10,466	10,592
Other income (expense)				
Interest expense	(3,188)	(3,822)	(6,177)	(7,865)
Other income	(183)	(8,467)	1,611	(7,975)
Total other expense	(3,371)	(12,289)	(4,566)	(15,840)
Income before income taxes	2,591	(6,869)	5,900	(5,248)
Income tax expense	(945)	3,715	(2,042)	3,139
Net income	$ 1,646	$ (3,154)	$ 3,858	$ (2,109)
Weighted average shares outstanding of common stock	126,389,325	127,213,455	126,387,058	122,511,009
Basic net income per share	$ 0.01	$ (0.02)	$ 0.03	$ (0.02)
Weighted average diluted shares outstanding of common stock	126,616,114	127,213,455	126,549,753	122,511,009
Diluted net income per share	$ 0.01	$ (0.02)	$ 0.03	$ (0.02)

See accompanying notes to the unaudited consolidated financial statements.

Paya Holdings Inc.
Consolidated Balance Sheets
(In thousands except share data)
(Unaudited)

	June 30, 2022		December 31, 2021	
Assets				
Current assets:				
Cash and cash equivalents	$	147,312	$	146,799
Trade receivables, net		28,494		23,163
Prepaid expenses		2,775		2,407
Income taxes receivable		—		460
Other current assets		3,712		922
Total current assets before funds held for clients		182,293		173,751
Funds held for clients		92,489		99,815
Total current assets	$	274,782	$	273,566
Non-current assets:				
Property and equipment, net		14,164		14,011
Goodwill		225,081		221,117
Intangible assets, net		131,807		136,708
Operating lease ROU assets, net of amortization		3,351		4,495
Other non-current assets		987		1,149
Total Assets	$	650,172	$	651,046
Liabilities and stockholders' equity				
Current liabilities:				
Trade payables		2,770		3,127
Accrued liabilities		15,904		13,686
Accrued revenue share		11,631		11,002
Income taxes payable		969		—
Current operating lease liabilities		1,253		1,302
Other current liabilities		3,347		3,422
Total current liabilities before client funds obligations		35,874		32,539
Client funds obligations		91,211		99,125
Total current liabilities	$	127,085	$	131,664
Non-current liabilities:				
Deferred tax liability, net		10,116		11,723
Long-term debt		240,994		241,872
Tax receivable agreement liability		19,178		19,502
Non-current lease liabilities		3,131		3,941
Other non-current liabilities		418		419
Total liabilities	$	400,922	$	409,121
Stockholders' Equity:				
Common stock, $0.001 par value; 500,000,000 authorized; 132,071,925 and 132,059,879 issued and outstanding as of June 30, 2022 and December 31, 2021, respectively		132		132
Additional Paid-in-Capital		259,453		255,986

Accumulated deficit	(10,335)	(14,193)
Total stockholders’ equity	249,250	241,925
Total liabilities and stockholders’ equity	$ 650,172	$ 651,046

See accompanying notes to the unaudited consolidated financial statements.

Paya Holdings Inc.
Consolidated Statements of Changes in Stockholders' Equity
(In thousands except share data)
(Unaudited)

	Common stock				
	Shares	**Amount**	**Additional paid-in-capital**	**Accumulated deficit**	**Total stockholders' equity**
Balance at December 31, 2020	116,697,441	$ 12	$ 129,453	$ (13,433)	$ 116,032
Net income	—	—	—	1,045	1,045
Stock-based compensation - Class C incentive units	—	—	259	—	259
Stock-based compensation - Common stock	—	—	451	—	451
Equity offering	10,000,000	1	116,970	—	116,971
Cumulative effect of adoption of new accounting standard	—	—	—	51	51
Warrant exercise	51	—	1	—	1
Balance at March 31, 2021	126,697,492	$ 13	$ 247,134	$ (12,337)	$ 234,810
Net income	—	—	—	(3,154)	(3,154)
Stock based compensation - Class C incentive units	—	—	74	—	74
Stock based compensation - Common stock	—	—	790	—	790
Equity offering	—	—	(206)	—	(206)
Reclassification	—	113	(113)	—	—
Shares issued for acquisition	682,892	1	7,499	—	7,500
Balance at June 30, 2021	127,380,384	$ 127	$ 255,178	$ (15,491)	$ 239,814
Balance at December 31, 2021	132,059,879	$ 132	$ 255,986	$ (14,193)	$ 241,925
Net income	—	—	—	2,212	2,212
Stock-based compensation - Class C incentive units	—	—	231	—	231
Stock-based compensation - Common stock	—	—	1,271	—	1,271
Shares issued under equity compensation plan	7,234	—	—	—	—
Balance at March 31, 2022	132,067,113	$ 132	$ 257,488	$ (11,981)	$ 245,639
Net income	—	—	—	1,646	1,646
Stock-based compensation - Class C incentive units	—	—	193	—	193
Stock-based compensation - Common stock	4,812	—	1,786	—	1,786

Shares issued under equity compensation plan	—	—	(14)	—	(14)
Balance at June 30, 2022	132,071,925	$ 132	$ 259,453	$ (10,335)	$ 249,250

See accompanying notes to the unaudited consolidated financial statements.

Paya Holdings Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash flows from operating activities:		
Net income	$ 3,858	$ (2,109)
Depreciation & amortization expense	15,688	14,551
Deferred taxes	(1,607)	(3,414)
Bad debt expense	563	658
Stock-based compensation	3,481	1,574
Change in tax receivable agreement liability	268	(448)
Change in fair value of derivative	(2,483)	—
Non-cash lease expense	1,161	694
Amortization of debt issuance costs	484	444
Loss on debt extinguishment	—	6,187
Changes in assets and liabilities, net of impact of business acquisitions:		
Trade receivables	(5,809)	(4,581)
Prepaid expenses	(341)	(227)
Other current assets	(307)	3
Other non-current assets	65	(77)
Trade payables	(358)	(916)
Accrued liabilities	1,069	1,222
Accrued revenue share	608	1,830
Income tax payable/receivable, net	1,429	(3,004)
Other current liabilities	(86)	57
Lease liabilities	(753)	(661)
Other non-current liabilities	(1)	(27)
Net cash provided by operating activities	$ 16,929	$ 11,756
Cash flows from investing activities:		
Purchases of property and equipment	(2,656)	(3,669)
Purchases of customer lists	(5,285)	(8,665)
Acquisition of business, net of cash received	(6,034)	(18,289)
Net cash (used in) investing activities	$ (13,975)	$ (30,623)
Cash flows from financing activities:		
Payments on non-current debt	(1,250)	(228,677)
Borrowings under non-current debt	—	250,000
Payment of debt issuance costs	—	(6,390)
Proceeds from equity offering	—	116,764
Repurchase of restricted stock to satisfy tax withholding obligations	(14)	—
Payment on tax receivable agreement liability	(592)	—
Movements in cash held on behalf of customers, net	(3,272)	9,422
Net cash provided by (used in) financing activities	$ (5,128)	$ 141,119
Net change in cash and cash equivalents	(2,174)	122,252
Cash and cash equivalents, beginning of period	198,391	63,408
Cash and cash equivalents, end of period	$ 196,217	$ 185,660
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	147,312	135,573
Restricted cash included in funds held for clients	48,905	50,087
Total cash, cash equivalents, and restricted cash	$ 196,217	$ 185,660

Supplemental disclosures:				
Cash interest paid	$	5,568	$	7,308
Cash taxes paid, including estimated payments	$	2,219	$	2,958
Non-cash investing activity:				
Non-cash primary stock issuance related to Paragon acquisition	$	—		7,500

See accompanying notes to the unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements
(In Thousands, unless otherwise noted)

1. Organization, basis of presentation and summary of accounting policies

Organization

Paya Holdings Inc. (“we,” “us,” “Paya” or the “Company”), a Delaware corporation, conducts operations through its wholly-owned subsidiaries. These operating subsidiaries are comprised of Paya, Inc., Paya EFT, Inc., Stewardship Technology, Inc., First Mobile Trust, LLC, The Payment Group, LLC, Blue Parasol Group, LLC (Paragon Payment Solutions), and JS Innovations LLC (VelocIT).

The Company is an independent integrated payments platform providing card, ACH, and check payment processing solutions via software to middle-market businesses in the United States. Paya’s solutions integrate with customers’ core business software to enable payments acceptance, reconcile invoice detail, and post payment information to their core accounting system.

The Company is headquartered in Atlanta, Georgia and also has operations in Reston, VA, Fort Walton Beach, FL, Mount Vernon, OH, and Dallas, TX.

Basis of presentation

The Company’s unaudited consolidated financial statements have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim financial information. As permitted under accounting principles generally accepted in the United States of America (“U.S. GAAP”), certain notes and other information have been omitted from the interim unaudited consolidated financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC.

In management’s opinion, the consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the Company’s financial position, results of operations and cash flows. The results of operations for any interim period are not necessarily indicative of the operating results that may be expected for the full fiscal year ending December 31, 2022 or any future period.

Use of estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future. The more significant estimates made by management relate to the determination of the fair value of intangible assets acquired in a business combination, allowance for credit losses, income taxes, tax receivable agreement liability, and impairment of intangibles and long-lived assets.

Principles of Consolidation

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

Upon acquisition of a company, we determine if the transaction is a business combination defined by ASC 805, which is accounted for using the acquisition method of accounting. Under the acquisition method, once control is obtained of a business, the assets acquired, and liabilities assumed, including amounts attributed to noncontrolling interests, are recorded at fair value. We use our best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities, specifically intangible assets such as internal use software, tradenames and trademarks, and customer relationships. The determination of the fair values is based on estimates and judgments made by management with the assistance of a third-party valuation firm. Significant assumptions for intangible assets include the discount rate, projected revenue growth rates and margin, customer retention factors, obsolescence rates and royalty rate used to calculate the expected future cash flows. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Measurement period adjustments are reflected at the time identified, up through the conclusion of the measurement period, which is the time at which all information for determination of the values of assets acquired and liabilities assumed is received and is not to exceed one year from the acquisition date. We may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. Qualitative factors that contribute to the recognition of goodwill include certain intangible assets that are not recognized as separate identifiable intangible assets.

Additionally, uncertain tax positions and tax-related valuation allowances are initially recorded in connection with a business combination as of the acquisition date. We continue to collect information and reevaluate these estimates and assumptions periodically and record any adjustments to preliminary estimates to goodwill, provided we are within the measurement period. If outside of the measurement period, any subsequent adjustments are recorded to the consolidated statement of income and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments with a maturity of ninety days or less at the time of purchase. The fair value of our cash and cash equivalents approximates carrying value. At times, cash and cash equivalents exceed the amount insured by the Federal Deposit Insurance Corporation.

Concentration of credit risk

Our cash, cash equivalents, trade receivables, funds receivable and customer accounts are potentially subject to concentration of credit risk. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. No individual customers represented more than 10% of the Company's revenue. Generally, these deposits may be redeemed upon demand, and therefore, bear minimal default risk.

Trade receivables, net

Trade receivables are recorded at net realizable value, which includes allowances for credit losses. The Company estimates an allowance for credit losses related to balances that it estimates it cannot collect from merchants. These uncollectible amounts relate to chargebacks, uncollectible merchant fees, and ACH transactions that have been rejected subsequent to the payout date. The Company uses a loss-rate method, which utilizes historical write-off data, to estimate expected credit losses relating to uncollectible accounts. The allowance for credit losses was $1,316 and $1,449 at June 30, 2022 and December 31, 2021, respectively.

Prepaid expenses

Prepaid expenses primarily consist of insurance, software licenses and other prepaid supplier invoices.

Other current assets

Other current assets primarily consist of current deferred debt issuance costs related to the line of credit, other receivables, and equipment inventory.

Funds held for clients and client funds obligation

Funds held for clients and client funds obligations result from the Company’s processing services and associated settlement activities, including settlement of payment transactions. Funds held for clients represent assets that are restricted for use solely for the purposes of satisfying the obligations to remit funds relating to the Company’s processing services, which are classified as client funds obligations on our consolidated balance sheets. Funds held for clients are generated principally from merchant services transactions and are comprised of both settlements’ receivable and cash as of period end. Certain merchant settlement assets that relate to settlement obligations accrued by the Company are held by partner banks. The Company classified funds held for clients as a current asset since these funds are held solely for the purpose of satisfying the client funds obligations.

The Company records corresponding settlement obligations for amounts payable to merchants and for payment instruments not yet presented for settlement as client funds obligations. Client funds obligations represent the Company's contractual obligations to remit funds to satisfy clients' settlement obligations. The client funds obligations represent liabilities that will be repaid within one year of the balance sheet date. Differences in the funds held for clients and client funds obligation are due to timing differences between when transactions are settled and when payment instruments are presented for settlement and are considered to be immaterial. The changes in settlement assets and obligations are presented on a net basis within financing activities in the consolidated statements of cash flows.

The composition of funds held for clients was as follows:

	June 30, 2022	December 31, 2021
Funds held for clients		
Cash held to satisfy client funds obligations	$ 48,905	$ 51,592
Receivables held to satisfy client funds obligations	43,584	48,223
Total	$ 92,489	$ 99,815

Property and equipment, net

Property and equipment, is stated at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. These lives are 3 years for computers and equipment, 5 years for furniture, fixtures, and office equipment, and the lesser of the asset useful life or remaining lease term for leasehold improvements. Also, the Company capitalizes software development costs and website development costs incurred in accordance with ASC 350-40, *Internal Use Software.* The useful lives are 3 to 5 years for internal-use software. Repair and maintenance costs are expensed as incurred and included in selling, general and administrative expenses on the consolidated statements of income and other comprehensive income.

Leases

On January 1, 2021, the Company adopted Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) using the modified retrospective transition approach. We applied the new standard to all material leases existing at the date of initial application. Refer to the discussion under Note 11 Commitments and Contingencies.

We determine if a contract is a leasing arrangement at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Right-of-use (ROU) assets and lease liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. The Company calculates the present value of future payments by using an estimated incremental borrowing rate, which approximates the rate at which the Company would borrow, on a secured basis and over a similar term. ROU assets represent our right to control the use of an identified asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We use the incremental borrowing rate on the commencement date in determining the present value of our lease payments. We recognize operating lease expense for our operating leases on a straight-line basis over the lease term.

The Company's lease agreements may contain variable costs such as common area maintenance, insurance, real estate taxes, or other costs. Variable lease costs are expensed as incurred on the consolidated statements of income.

Impairment of long-lived assets

The Company evaluates the recoverability of its long-lived assets in accordance with the provisions of ASC 360, Property, Plant and Equipment ("ASC 360"). ASC 360 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. There was no impairment of long-lived assets recognized in any period presented in the consolidated financial statements.

Goodwill and other intangible assets, net

Goodwill represents the premium paid over the fair value of the net tangible and identifiable intangible assets acquired in the Company's business combinations. The Company evaluates goodwill and intangible assets in accordance with ASC 350, Goodwill and Other Intangible Assets ("ASC 350"). ASC 350 requires goodwill to be either qualitatively or quantitatively assessed for impairment annually (or more frequently if impairment indicators arise) for each reporting unit. The Company tests goodwill and intangible assets annually for impairment, and at interim periods, using a qualitative approach. Our annual evaluation assesses qualitative factors to determine whether it is more likely than not the fair value is less than the carrying value of the asset. If the Company is unable to conclude that goodwill and intangible assets, net are not impaired during its qualitative assessment, the Company will perform a quantitative assessment by estimating the fair value of the assets and comparing the fair value to the carrying value. As of June 30, 2022 and 2021, it was more likely than not that the fair value of goodwill and intangible assets, net exceeded their carrying value and as such, there was no goodwill impairment recognized in either period presented in the consolidated financial statements.

Intangible assets with finite lives consist of internal use software, trade names, customer lists and customer relationships and are amortized on a straight-line basis over their estimated useful lives. From time to time, the Company acquires customer lists from sales agents in exchange for an upfront cash payment. The purchase of customer lists are treated as asset acquisitions, resulting in recording an intangible asset at cost on the date of acquisition. The acquired customer lists intangible assets have a useful life of 5 years. Factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the intangible asset may be impaired, the Company makes an assessment of the recoverability of the net book value of the asset over its remaining useful life. If this assessment indicates that the intangible asset is not recoverable, based on the estimated undiscounted future cash flows of the asset over the remaining amortization period, the Company reduces the net book value of the related intangible asset to fair value and may adjust the remaining amortization period.

The Company evaluates its intangible assets with finite lives for indications of impairment whenever events or changes in circumstances indicate that the net book value may not be recoverable. There were no indicators of impairment identified nor was impairment recognized in intangible assets in any period presented in the consolidated financial statements.

Long-term debt and issuance costs

Eligible debt issuance costs associated with the Company's credit facilities are deferred and amortized to interest expense over the term of the related debt using the effective interest method. Debt issuance costs associated with Company's term debt are presented on the Company's consolidated balance sheets as a direct reduction in the carrying value of the associated debt liability.

Revenue

The Company’s business model provides payment services, card processing, and ACH, to merchants through enterprise or vertically focused software partners, direct sales, reseller partners, other referral partners, and a limited number of financial institutions. The Company recognizes processing revenues on bankcard merchant accounts and ACH merchant accounts at the time merchant transactions are processed, and periodic fees over the period the service is performed. See Note 2, Revenue recognition for more information on the Company's revenue recognition policy.

Cost of services exclusive of depreciation and amortization

Cost of services includes card processing costs, ACH costs, and other fees paid to card networks, and equipment expenses directly attributable to payment processing and related services to merchants. These costs are recognized as incurred. Cost of services also includes revenue share amounts paid to reseller and referral partners. These expenses are recognized as transactions are processed. Accrued revenue share represent amounts earned during the period but not yet paid at the end of the period.

Selling, general and administrative expenses

Selling, general and administrative expenses consist primarily of salaries, wages, commissions, marketing costs, professional services costs, technology costs, occupancy costs of leased space, and bad debt expense. Stock-based compensation expense is also included in this category.

Depreciation & Amortization

Depreciation and amortization consist primarily of amortization of intangible assets, mainly including customer relationships, internal-use software, customer lists, trade names and to a lesser extent depreciation on our investments in property, equipment, and software. We depreciate and amortize our assets on a straight-line basis in accordance with our accounting policies. These lives are 3 years for computers and equipment and acquired internal-use software, 5 years for furniture, fixtures, and office equipment, and the lesser of the asset useful life or remaining lease term for leasehold improvements. Repair and maintenance costs are expensed as incurred and included in selling, general and administrative expenses on the consolidated statements of income and other comprehensive income. Customer lists and customer relationships are amortized over a period of 5-15 years, developed technology 5-10 years, and trade names 5-25 years.

Derivative financial instruments

The Company accounts for its derivative instruments in accordance with ASC 815, *Derivatives and Hedging*. ASC 815 establishes accounting and reporting standards for derivative instruments requiring the recognition of all derivative instruments as assets or liabilities in the Company’s consolidated balance sheets at fair value. The Company records its derivative instruments as assets or liabilities, depending on its rights or obligations under the applicable derivative contract. Changes in fair value are recognized in earnings in the affected period.

The Company uses an interest rate cap contract to manage risk from fluctuations in interest rates on its Term Loan. Interest rate caps involve the receipt of variable-rate amounts beyond a specified strike price over the life of the agreement without exchange of the underlying principal amount. The interest rate cap is not designated as a hedging instrument. Changes in the fair value of the interest rate cap are recorded through other income (expense) in the consolidated statement of income and other comprehensive income, other current assets and other current liabilities on the consolidated balance sheets, and in changes in other current assets in the consolidated statement of cash flows.

Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts, using currently enacted tax rates. The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company recognizes a tax benefit for uncertain tax positions if the Company believes it is more likely than not that the position will be upheld on audit based solely on the technical merits of the tax position. The Company evaluates uncertain tax positions after the consideration of all available information. Such tax positions must initially and subsequently be estimated as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authorities, assuming full knowledge of the position and relevant facts. The Company's policy is to recognize any interest and penalties related to income taxes as income tax expense in the relevant period.

Fair-Value Measurements

The Company follows ASC 820, Fair Value Measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The determination of fair value is based on the principal or most advantageous market in which the Company could participate and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. Also, determination of fair value assumes that market participants will consider the highest and best use of the asset.

The Company uses the hierarchy prescribed in ASC 820 for fair value measurements, based on the available inputs to the valuation and the degree to which they are observable or not observable in the market.

The three levels of the hierarchy are as follows:

Level 1 Inputs—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date;

Level 2 Inputs—Inputs are quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted prices, but that are observable for the asset or liability (e.g., interest rates; yield curves); and inputs that are derived principally from or corroborated by observable market data by correlation or by other means (i.e., market corroborated inputs); and

Level 3 Inputs—Unobservable inputs for the asset or liability used to measure fair value. These inputs reflect the Company’s own assumptions about what other market participants would use in pricing the asset or liability. These are based on the best information available and can include the Company's own data.

Recently Issued Pronouncements Not Yet Adopted

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning an interim period that includes or is subsequent to March 12, 2020, or prospectively from the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic, the amendments must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. The Company may apply ASU 2020-04 as its contracts referenced in London Interbank Offered Rate (“LIBOR”) are impacted by reference rate reform. The Company is currently evaluating the effect of ASU 2020-04 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. As a result, an impairment charge will be recorded based on the excess of a reporting unit's carrying amount over its fair value. The amendments of this ASU are effective for reporting periods beginning after December 15, 2022. Early adoption of this ASU is permitted for interim and annual impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements.

2. Revenue recognition

The Company follows ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606") and performs a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

At contract inception, the Company assesses the goods and services promised in its contracts with customers and identifies performance obligations for each promise to transfer to the customer a good or service that is distinct. The Company's performance obligation relating to its payment processing services revenue is to provide continuous access to the Company's system to process as much as its customers require. Since the number or volume of transactions to be processed is not determinable at contract inception, the Company's payment processing services consist of variable consideration under a stand-ready service of distinct days of service that are substantially the same with the same pattern of transfer to the customer. As such, the stand-ready obligation is accounted for as a single-series performance obligation whereby the variability of the transaction value is satisfied daily as the performance obligation is performed. In addition, the Company applies the right to invoice practical expedient to payment processing services as each performance obligation is recognized over time and the amounts invoiced are reflective of the value transferred to the customer.

The Company uses each day as a time-based measure of progress toward satisfaction of the single performance obligation of each contract. This method most accurately depicts the pattern by which services are transferred to the merchant, as performance depends on the extent of transactions processed for that merchant on a given day. Likewise, consideration to which the Company expects to be entitled is determined according to our efforts to provide service each day.

ASC 606 requires disclosure of the aggregate amount of the transaction price allocated to unsatisfied performance obligations; however, as permitted by the standard, the Company has elected to exclude from this disclosure any contracts with an original duration of one year or less and any variable consideration that meets specified criteria. As discussed above, the Company's core performance obligation is a stand-ready obligation comprised of a series of distinct days of service, and revenue related to this performance obligation is generally billed and recognized as the services are performed. The variable consideration allocated to this performance obligation meets the specified criteria for disclosure exclusion. The aggregate fixed consideration portion of customer contracts with an initial contract duration greater than one year is not material.

We do not have any material contract assets or liabilities for any period presented and we did not recognize any impairments of any contract assets or liabilities for the three and six months ended June 30, 2022 and 2021, respectively.

The Company generates its revenue from three revenue sources which include Transaction based revenue, Service based fee revenue and Equipment revenue and are defined below:

Transaction based revenue

Transaction based revenue represents revenue generated from transaction fees based on volume, including interchange fees and convenience based fees. The Company generates transaction based revenue from fees charged to merchants for card-based processing volume and ACH transactions. Transaction based revenues are recognized on a net basis equal to the full amount billed to the bankcard merchant, net of interchange fees and assessments. Interchange fees are fees paid to card-issuing banks and assessments paid to payment card networks. Interchange fees are set, and collected, by credit card networks based on various factors, including the type of bank card, card brand, merchant transaction processing volume, the merchant's industry and the merchant's risk profile and are recognized at the time merchant transactions are processed. Transaction based revenue was recorded net of interchange fees and assessments of $135,341 and $257,948 for the three and six months ended June 30, 2022, respectively. Transaction based revenue was recorded net of interchange fees and assessments of $123,244 and $227,762 for the three and six months ended June 30, 2021 respectively.

Service based fee revenue

Service based fee revenue represents revenue generated from recurring and periodic service fees. The Company generates service based fee revenue from charging a service fee, a fee charged to the client for facilitating bankcard processing, which is recognized on a gross basis. The Company also generates service based fees related to ACH inclusive of monthly support fees and monthly statement fees.

Equipment revenue

Equipment revenue comprises sales of equipment which primarily consists of payment terminals.

The Company generates its revenue from two segments which are Integrated Solutions and Payment Services and are defined below:

Integrated Solutions

Our Integrated Solutions segment represents the delivery of our credit and debit card payment solutions, and to a lesser extent, ACH processing solutions to customers via integrations with software partners across our strategic vertical markets. Our Integrated Solutions partners include vertical focused front-end Customer Relationship Management software providers as well as back-end Enterprise Resource Planning and accounting solutions.

Payment Services

Our Payment Services segment represents the delivery of card payment processing solutions to our customers through resellers, as well as ACH, check, and gift card processing. Card payment processing solutions in this segment do not originate via a software integration but still utilize Paya's core technology infrastructure. ACH, check, and gift card processing may or may not be integrated with third-party software.

The following table presents the Company's revenue disaggregated by segment and by source as follows:

	Integrated Solutions			
	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2022	**2021**	**2022**	**2021**
Revenue from contracts with customers				
Transaction based revenue	$ 43,746	$ 37,032	$ 82,165	$ 67,225
Service based fee revenue	2,770	2,486	5,705	5,116
Equipment revenue	78	46	192	114
Total revenue	$ 46,594	$ 39,564	$ 88,062	$ 72,455

	Payment Services			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue from contracts with customers				
Transaction based revenue	$ 21,415	$ 20,137	$ 41,287	$ 38,209
Service based fee revenue	4,447	4,251	9,055	8,524
Equipment revenue	36	32	81	51
Total revenue	$ 25,898	$ 24,420	$ 50,423	$ 46,784

3. Business combinations

JS Innovations LLC transaction overview

On January 19, 2022, the Company closed on the acquisition of JS Innovations LLC (VelocIT) which provides fully integrated, omnichannel payment solutions to accounting and ERP partners. The acquisition was accounted for as a business combination as defined by ASC 805, and the aggregate purchase price was $7,079 consisting of $6,079 cash paid at closing and $1,000 cash to be paid in January 2023, which is recorded in accrued liabilities on the consolidated balance sheets. Transaction costs related to the acquisition of VelocIT totaled $397 and are recorded in selling, general and administrative expenses on the consolidated statement of income and other comprehensive income for 2022.

Goodwill of $3,964 is estimated to result from the acquisition and is partially deductible for tax purposes. The measurement period remains open as of June 30, 2022 as we continue to refine our estimates for assets acquired and liabilities assumed.

The following table summarizes the estimated acquisition date fair value of the assets acquired and liabilities assumed by the Company and resulting goodwill as of June 30, 2022:

Assets	
Current Assets:	
Cash and cash equivalents	$ 45
Trade receivables, net	85
Prepaid expenses	28
Total current assets	$ 158
Other assets:	
Goodwill	3,964
Intangible assets, net	$ 3,000
Total assets	$ 7,122
Liabilities	
Current liabilities:	
Accrued liabilities	21
Accrued revenue share	22
Total current liabilities	43
Total liabilities	$ 43
Net assets	$ 7,079

Paragon Payment Solutions transaction overview

On April 23, 2021, the Company closed the acquisition of Paragon Payment Solutions ("Paragon"), which was accounted for as a business combination as defined by ASC 805. The aggregate purchase price was $26,624, consisting of $19,124 in cash and $7,500 of common stock.

Goodwill of $14,780 resulted from the acquisition and is partially deductible for tax purposes. Intangible assets not recognized apart from goodwill consist primarily of the expected revenue synergies. The measurement period was closed as of March 31, 2022.

The following table summarizes the acquisition date fair value of the assets acquired and liabilities assumed by the Company and resulting goodwill as of June 30, 2022:

Assets		
Current Assets:		
Cash and cash equivalents	$	816
Trade receivables, net		2,653
Prepaid expenses		174
Other current assets		199
Funds held for clients		3,846
Total current assets	$	7,688
Other assets:		
Property and equipment, net	$	52
Goodwill		14,780
Intangible assets		12,510
Other non-current assets		60
Total assets	$	35,090
Liabilities		
Current liabilities:		
Trade payables	$	1,407
Accrued liabilities		2,118
Accrued revenue share		80
Other current liabilities		58
Client funds obligations		4,266
Total current liabilities		7,929
Non-current liabilities:		
Deferred tax liability, net		390
Other non-current liabilities		147
Total liabilities	$	8,466
Net assets	$	26,624

4. Property and equipment, net

Property and equipment, net consists of the following:

	June 30, 2022	December 31, 2021
Computers and equipment	$ 8,810	$ 8,528
Internal-use software	17,352	14,949
Office equipment	141	141
Furniture and fixtures	1,320	1,357
Leasehold improvements	1,385	1,396
Other equipment	26	26
Total property and equipment	29,034	26,397
Less: accumulated depreciation	(14,870)	(12,386)
Total property and equipment, net	$ 14,164	$ 14,011

Depreciation and amortization expense, including internal-use software, totaled $1,275 and $2,502 for the three and six months ended June 30, 2022, respectively. Depreciation and amortization expense, including internal-use software, totaled $1,075 and $2,113 for the three and six months ended June 30, 2021, respectively.

5. Goodwill and other intangible assets, net

Goodwill recorded in the consolidated financial statements was $225,081 and $221,117 as of June 30, 2022 and December 31, 2021, respectively. There were no indicators of impairment noted in the periods presented.

The following table presents changes to goodwill for the six months ended June 30, 2022:

	Integrated Solutions	Payments Services	Total
Balance at December 31, 2021	$ 162,783	$ 58,334	$ 221,117
Acquisition - VelocIT (Note 3)	3,964	—	3,964
Balance at June 30, 2022	$ 166,747	$ 58,334	$ 225,081

Intangible assets other than goodwill at June 30, 2022 included the following:

	Weighted Average Useful Life (Years)	Useful Lives	Gross Carrying Amount at June 30, 2022	Accumulated Amortization	Net Carrying Value as of June 30, 2022
Customer Relationships	8.8	5-15 years	$ 189,829	$ (80,968)	$ 108,861
Developed Technology	6.3	5-10 years	39,620	(21,092)	18,528
Trade name	13.8	5-25 years	5,260	(842)	4,418
	8.5		$ 234,709	$ (102,902)	$ 131,807

Intangible assets other than goodwill at December 31, 2021 included the following:

	Weighted Average Useful Life (Years)	Useful Lives	Gross Carrying Amount at December 31, 2021	Accumulated Amortization	Net Carrying Value as of December 31, 2021
Customer Relationships	10.4	5-16 years	$ 184,544	$ (70,222)	$ 114,322
Developed Technology	5.1	3-7 years	36,620	(18,843)	17,777
Trade name	15.8	5-25 years	5,260	(651)	4,609
	8.4		$ 226,424	$ (89,716)	$ 136,708

Amortization expense totaled $6,622 and $13,186 for the three and six months ended June 30, 2022, respectively, and $6,443 and $12,438 for the three and six months ended June 30, 2021, respectively.

The following table shows the expected future amortization expense for intangible assets at June 30, 2022:

	Expected Future Amortization Expense
2022 - remaining	$ 13,187
2023	26,224
2024	24,604
2025	23,640
2026	18,834
Thereafter	25,318
Total expected future amortization expense	$ 131,807

6. Long-term debt

As disclosed in Note 7 under Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021, the Company entered into a new credit agreement which governs new senior secured credit facilities, consisting of a $250 million senior secured term loan facility (the "Term Loan"). The Company repaid its prior credit agreement (the "Prior Credit Agreement") with Antares Capital LP, as administrative agent, in full.

The Company's long-term debt consisted of the following for the six months ended June 30, 2022 and year ended December 31, 2021:

	June 30, 2022	December 31, 2021
Term loan	$ 248,125	$ 249,375
Debt issuance costs, net	(4,631)	(5,018)
Total debt	243,494	244,357
Less: current portion of debt	(2,500)	(2,485)
Total long-term debt	$ 240,994	$ 241,872

There were no borrowings outstanding under the senior secured revolving credit facility (the “Revolver”) as of June 30, 2022 and December 31, 2021, respectively.

The current portion of debt was included within other current liabilities on the consolidated balance sheets.

The Company had $4,631 and $5,018 of unamortized Term Loan debt issuance costs that were netted against the outstanding loan balance and $777 and $875 of unamortized costs associated with the Revolver as of June 30, 2022 and December 31, 2021, respectively. The Revolver debt issuance costs are recorded in other current and other long term assets and are amortized over the life of the Revolver. Amortization of the debt issuance costs are included in interest expense in the consolidated statement of income and other comprehensive income.

Borrowings under the Senior Secured Credit Facilities bear interest, equal to (i) an alternative base rate equal to the greater of (a) the prime rate announced by the Agent or the highest interest rate published by the Federal Reserve Board as the “bank prime loan” rate, (b) the Federal Reserve Bank of New York rate plus 0.5% per annum, and (c) the Eurodollar rate for an interest period of one-month beginning on such day plus 100 basis points, plus 2.25% (provided that the Eurodollar rate applicable to the Term Loan shall not be less than 0.75% per annum); or (ii) the Eurodollar rate (provided that the Eurodollar rate applicable to the Term Loan shall not be less than 0.75% per annum), plus 3.25% .

Interest expense on the long-term debt was $2,676 and $5,170 for the three and six months ended June 30, 2022, respectively, and $3,822 and $7,865 for the three and six months ended June 30, 2021, respectively. Amortization of debt issuance costs were $242 and $484 for the three and six months ended June 30, 2022, respectively, and $186 and $444 for the three and six months ended June 30, 2021, respectively.

Annual principal payments on the Term Loan for the remainder of 2022 and the following years is as follows:

	Future Principal Payments
2022 - remaining	$ 1,250
2023	2,500
2024	2,500
2025	2,500
2026	2,500
Thereafter	236,875
Total future principal payments	$ 248,125

7. Derivatives

The Company has historically utilized derivative instruments to manage risk from fluctuations in interest rates on its Term Loan. On February 3, 2021, the Company entered into an interest rate cap agreement with a notional amount of $171,525. The effective date is March 31, 2021 and terminates on March 31, 2023. The Company paid a premium of $67 for the right to receive payments if LIBOR rises above the cap rate of 1.00%. The premium is recorded in other current assets on the consolidated balance sheets. The interest rate cap agreement was a derivative not designated as a hedging instrument for accounting purposes. Proceeds from the interest rate cap agreement are recorded within investing activities on the consolidated statements of cash flows. There were no changes to the interest rate cap in connection with the entry into the new Term Loan. The fair value of the interest rate cap agreement was $2,677 at June 30, 2022. The Company recognized $1,085 and $2,483 in other income (expense) for the three and six months ended June 30, 2022, respectively, and $15 and $(26) for the three and six months ended June 30, 2021, respectively.

8. Equity

Common Stock

The holders of the Company's common stock are entitled to one vote for each share of common stock held. Of the 132,071,925 shares of common stock outstanding at June 30, 2022, a total of 5,681,812 are considered contingently issuable in two equal tranches if the closing price of our common stock exceeds certain price thresholds ($15.00 and $17.50, respectively) for 20 out of any 30 consecutive trading days during the first five years following the closing of the merger between the Company and FinTech Acquisition Corp. III (the "Fintech Transaction") on October 16, 2020. In addition, 14,018,188 shares are contingently issuable in two equal tranches if the closing price of our common stock exceeds certain price thresholds ($15.00 and $17.50, respectively) for 20 out of any 30 consecutive trading days during the first five years following the closing of the Fintech Transaction. Total contingently issuable shares are 19,700,000.

Paya Holdings Inc. Omnibus Incentive Plan

On October 16, 2020, the Company adopted the Paya Holdings Inc. Omnibus Incentive Plan, which, as amended on May 31, 2022, allows for issuance of up to 18,800,000 shares of its common stock. The purpose of the plan is to enhance the profitability and value of the Company for the benefit of its stockholders by enabling the Company to offer eligible individual stock and cash-based incentives in order to attract, retain, and reward such individuals and strengthen the mutuality of interest between such individuals and the stockholders. Under the Omnibus Incentive Plan, the Company may grant stock options, stock appreciation rights, restricted shares, performance awards, and other stock-based and cash-based awards to eligible employees, consultants or non-employee directors of the Company. The Company recognized $1,786 and $3,057 of share-based compensation for the three and six months ended June 30, 2022 and $790 and $1,241 for the three and six months ended June 30, 2021, respectively, in selling, general & administrative expenses on the consolidated statement of income and other comprehensive income on a straight-line basis over the vesting periods. As of June 30, 2022, the Company had two stock-based compensation award types granted and outstanding: restricted stock units (RSUs) and stock options.

RSUs represent the right to receive shares of the Company's common stock at a specified date in the future. RSUs issued under the Omnibus Incentive Plan vest over 3 or 5 year periods. RSUs granted under the Omnibus Incentive Plan were as follows:

	Six Months Ended June 30, 2022
RSUs granted	2,087,193
Fair value of common stock	$5.12 - $5.89

The fair value of each option award is estimated on the date of the grant, using the Black-Scholes option-pricing model and the assumptions in the following table:

	Six Months Ended June 30, 2022
Stock options granted	1,415,281
Fair value of stock options	$2.76 - $3.14
Expected volatility	51.14% - 53.47%
Dividend yield	—
Expected term	6.5
Risk-free interest rate	2.20% - 2.95%

The risk-free interest rate is based on the yield of a zero coupon United States Treasury Security with a maturity equal to the expected life of the stock option from the date of the grant. The assumption for expected volatility is based on the historical volatility of a peer group of market participants as the Company has limited historical volatility. It is the Company's intent to retain all profits for the operations of the business for the foreseeable future, as such the dividend yield assumption is zero. The Company applied the simplified method (as described in Staff Accounting Bulletin 110), which is the mid-point between the vesting date and the end of the contract term in determining the expected term of the stock options as the Company has limited historical basis upon which to determine historical exercise periods. All stock options exercised will be settled in common stock.

The following table summarizes stock option activity:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Fair Value
Outstanding, December 31, 2021	682,000	$ 10.87	9.49	$ 4.74
Granted	1,415,281	5.15		2.78
Exercised	—	—		
Forfeited	(140,618)	10.74		3.81
Outstanding, June 30, 2022	1,956,663	$ 6.74	9.53	$ 3.39
As of December 31, 2021				
Vested and Expected to vest	682,000	10.87	9.49	$ 4.74
Exercisable	37,000	$ 13.73	8.87	$ 4.25
As of June 30, 2022				
Vested and Expected to vest	1,956,663	6.74	9.53	$ 3.39
Exercisable	41,500	$ 13.51	8.42	$ 4.17

The following tables summarize RSU activity for the three and six months ended June 30, 2022:

	Three Months Ended June 30, 2022	
	Number of Shares	Weighted-Average Fair Value
Outstanding, March 31, 2022	2,566,673	$ 6.88
Granted	225,832	5.89
Vested	(8,447)	11.68
Forfeited	(132,036)	8.02
Outstanding June 30, 2022	2,652,022	$ 6.72

	Six Months Ended June 30, 2022	
	Number of Shares	Weighted-Average Fair Value
Outstanding, December 31, 2021	763,645	$ 10.89
Granted	2,087,193	5.49
Vested	(11,780)	11.68
Forfeited	(187,036)	9.64
Outstanding June 30, 2022	2,652,022	$ 6.72

Class C Incentive Units

GTCR-Ultra Holdings, LLC ("Ultra") provided Class C Incentive Units as part of their incentive plan. As certain employees of the Company were recipients of the Class C Incentive Units, the related share-based compensation was recorded by the Company.

The total number of units associated with share-based compensation granted and forfeited during the period from December 31, 2020 to June 30, 2022 is as follows:

	Time Vesting
December 31, 2020 balance	42,881,437
Granted	—
Forfeited	(3,274,532)
June 30, 2021 balance	39,606,905
December 31, 2021 balance	39,074,593
Granted	—
Forfeited	(40,982)
Exercised	(654,976)
June 30, 2022 balance	38,378,635

As of June 30, 2022, 25,443,436 of the units had vested. The units vest on a straight-line basis over the terms of the agreement as described below.

	Outstanding as of June 30,	
	2022	2021
Time vesting units		
5 year vesting period	38,080,635	39,308,610
1 year vesting period	298,000	298,000
Outstanding Incentive Units	38,378,635	39,606,610

The Company recognized $193 and $424 of share-based compensation related to the Class C Incentive Units, for the three and six months ended June 30, 2022, respectively, and $74 and $333 for the three and six months ended June 30, 2021, respectively, in selling, general & administrative expenses on the consolidated statement of income and other comprehensive income. The Company used the fair value of the awards on the grant date to determine the share-based compensation expense. Ultra did not issue any Class C incentive units in 2021 or 2022.

Warrants

The Company had 0 and 17,714,945 warrants outstanding as of June 30, 2022 and 2021, respectively. During 2021, the Company completed a registered exchange offer relating to the Company's 17,714,945 outstanding warrants. In connection therewith, the Company exchanged an aggregate 17,428,489 warrants tendered for shares of the Company’s common stock at an exchange ratio of 0.26 shares for each warrant. As a result, at closing, the Company issued an aggregate of 4,531,407 shares of common stock and separate from the exchange, 2,450 warrants were exercised.

Additionally, on the closing date of the exchange offer, the Company and Continental Stock Transfer & Trust Company, entered into Amendment No. 1 (the “Warrant Amendment”) to the Warrant Agreement, dated as of November 15, 2018, by and between FinTech Acquisition Corp. III and the warrant agent, governing the warrants. The Warrant Amendment provided the Company with the right to mandatorily exchange the Company’s remaining outstanding warrants for shares of the Company’s common stock, at an exchange ratio of 0.234 shares for each warrant. Simultaneously with the closing of the warrant exchange offer, the Company notified holders of the remaining warrants that it would exercise its right to exchange the warrants for shares of common stock and, consequently, the 284,006 outstanding warrants that were not tendered in the exchange were converted into an aggregate 66,457 shares of common stock. As a result of these transactions, there were no warrants outstanding as of December 31, 2021 or June 30, 2022.

Earnings per Share

Earnings per share has been computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the respective period. Potentially dilutive securities consist of shares issuable upon the exercise of stock options, issuance of earnout shares, exercise of warrants, and vesting of restricted stock unit awards.

The following tables provide the computation of basic and diluted earnings per share:

	Three Months Ended June 30,	Six Months Ended June 30,
	2022	2022
Numerator:		
Net income (loss)	$ 1,646	$ 3,858
Denominator:		
Weighted average common shares - basic	126,389,325	126,387,058
Add effect of dilutive securities:		
Stock-based awards	226,789	162,695
Weighted average common shares assuming dilution	126,616,114	126,549,753
Earnings per share:		
Basic	$ 0.01	$ 0.03
Diluted	$ 0.01	$ 0.03
Anti-dilutive shares excluded from calculation of diluted EPS:		
Restricted stock units - granted	817,123	633,736
Stock options - granted	1,956,663	1,956,663
Earnout shares	19,700,000	19,700,000
Total anti-dilutive shares	22,473,786	22,290,399

	Three Months Ended June 30,	Six Months Ended June 30,
	2021	2021
Numerator:		
Net income (loss)	$ (3,154)	$ (2,109)
Denominator:		
Weighted average common shares - basic	127,213,455	122,511,009
Add effect of dilutive securities:		
Stock-based awards	—	—
Warrants	—	—
Weighted average common shares assuming dilution	127,213,455	122,511,009
Earnings per share:		
Basic	$ (0.02)	$ (0.02)
Diluted	$ (0.02)	$ (0.02)
Anti-dilutive shares excluded from calculation of diluted EPS:		
Restricted stock units - granted	377,994	377,994
Stock options - granted	207,500	207,500
Warrants	17,714,945	17,714,945
Earnout shares	19,700,000	19,700,000
Total anti-dilutive shares	38,000,439	38,000,439

9. Income taxes

The Company’s effective tax rate for the three months ended June 30, 2022 and 2021 was 36.5% and 54.1%, respectively. The Company’s effective tax rate for the six months ended June 30, 2022 and 2021 was 34.6% and 59.8%, respectively. The Company recorded income tax expense (benefit) of $945 and $2,042 for the three and six months ended June 30, 2022 and $(3,715) and $(3,139) for the three and six months ended June 30, 2021, respectively. The increase in income tax expense was primarily attributable to an increase in pre-tax income. The difference in the Company’s effective income tax rate for the six months ended June 30, 2022 and its federal statutory tax rate of 21% is primarily driven by state and local income taxes, stock compensation, and an increase in the valuation allowance.

During the six months ended June 30, 2022, the Company recognized $3,648 of current tax payable related to the income tax expense.

ASC 740, Income Tax requires deferred tax assets to be reduced by a valuation allowance, if, based on the weight of available positive and negative evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In accordance with this requirement, the Company regularly reviews the recoverability of its deferred tax assets and establishes a valuation allowance if appropriate. In determining the amount of any required valuation allowance, the Company considers the history of profitability, projections of future profitability, the reversal of future taxable temporary differences, the overall amount of deferred tax assets, and the timeframe necessary to utilize the deferred tax assets prior to their expiration. Based on the weight of all positive and negative quantitative and qualitative evidence available as outlined above, management has concluded that it is more likely than not that the Company will not be able to realize a portion of its federal and state deferred tax assets in the foreseeable future and has recorded a valuation allowance of $9,936 and $9,740 against these assets as of June 30, 2022, and December 31, 2021, respectively. The change in the valuation allowance is predominantly a result of the timing differences between the book and tax amortization of intangible assets acquired during the year. The ending amount of all unrecognized tax benefits was $229 for both periods as of June 30, 2022, and December 31, 2021.

10. Fair Value

The Company made recurring fair value measurements of contingent liabilities arising from the Paragon acquisition using Level 3 unobservable inputs. These liabilities were related to potential earnout payments in connection with certain growth metrics related to the financial performance of Paragon in the 12 months from April 23, 2021 through April 22, 2022 as laid out in the acquisition agreement. The contingent liability no longer exists as of June 30, 2022.

There were no transfers into or out of Level 3 during the six months ended June 30, 2022 or the year ended December 31, 2021.

The Company has determined that the significant inputs used to value the interest rate cap fall within Level 2 of the fair value hierarchy. As a result, the Company has determined that its interest rate cap valuation is classified in Level 2 of the fair value hierarchy as shown in the table below.

	Level 1	Level 2	Level 3
December 31, 2021			
Interest rate cap agreement[(a)]	$ —	$ 194	$ —
Total	$ —	$ 194	$ —
June 30, 2022			
Interest rate cap agreement[(a)]	$ —	$ 2,677	$ —
Total	$ —	$ 2,677	$ —

(a) Interest rate cap asset value is included in other current assets on the consolidated balance sheets.

Other financial instruments not measured at fair value on the Company’s consolidated balance sheets at June 30, 2022 and December 31, 2021 include cash, trade receivable, prepaid expenses and other current assets, accounts payable, and accrued expenses and other current liabilities as their estimated fair values reasonably approximate their carrying value as reported on the consolidated balance sheets. The Company’s debt obligations are carried at amortized cost less debt issuance costs. Amortized cost approximates fair value. Fair value has been estimated based on actual trading information, and quoted prices, provided by bond traders and is classified as Level 2.

11. Commitments and contingencies

As disclosed in Note 12 under Item 8 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, the Company adopted ASC Topic 842, Leases, using a modified retrospective transition approach as of January 1, 2021.

The Company monitors for events or changes in circumstances that require a reassessment of a lease. During the three months ended June 30, 2022, the Company terminated one of its lease agreements and recorded an immaterial impairment charge, of approximately $149, in selling, general, and administrative expenses, to derecognize the corresponding ROU asset.

The Company's total lease cost for the three months ended June 30, 2022 and 2021 was $416 and $467, respectively, which consisted of $317 and $373 in operating lease cost and $99 and $94 in variable lease cost, respectively.

The Company’s total lease cost for the six months ended June 30, 2022 and 2021 was $834 and $881, respectively, which consisted of $637 and $693 in operating lease cost and $197 and $188 in variable lease cost, respectively.

As of June 30, 2022, amounts reported in the consolidated balance sheets were as follows:

Operating Leases:	**June 30, 2022**	**December 31, 2021**
Right-of-use assets	$ 3,351	$ 4,495
Lease liability, current	1,253	1,302
Lease liability, noncurrent	3,131	3,941
Total lease liabilities	$ 4,384	$ 5,243
Weighted-average remaining lease term (in years)	3.60	4.73
Weighted-average discount rate (annual)	4.0 %	4.0 %

Other information related to leases are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2022	**2021**	**2022**	**2021**
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	379	387	753	661
Right-of-use assets obtained in exchange for lease liabilities				
Operating leases	—	403	—	5,571

The following table presents a maturity analysis of the Company's operating lease liabilities as of June 30, 2022:

Three Months Ended June 30, 2022	**(In thousands)**
2022	$ 703
2023	1,314
2024	1,018
2025	990
2026	587
Thereafter	114
Total Lease payments	$ 4,726
Less Imputed Interest	342
Total lease obligations	$ 4,384

Liabilities under Tax Receivable Agreement

The Company is party to the Tax Receivable Agreement (the "TRA") under which we are contractually committed to pay Ultra 85% of the amount of any tax benefits that we actually realize, or in some cases are deemed to realize, as a result of certain transactions. The Company is not obligated to make any payments under the TRA until the tax benefits associated with the transaction that gave rise to the payment are realized. Amounts payable under the TRA are contingent upon, among other things, generation of future taxable income over the term of the TRA. If the Company does not generate sufficient taxable income in the aggregate over the term of the TRA to utilize the tax benefits, then the Company would not be required to make the related TRA payments. The Company paid $592 for TRA related payments as of June 30, 2022. The Company recognized $19,178 of liabilities relating to our obligations under the TRA, based on our estimate of the probable amount of future benefit, as of June 30, 2022. The total future potential payments to be made under the TRA, assuming sufficient future taxable income to realize 100% of the tax benefits is $31,984. Any changes in the value of the TRA liability are recorded in other income (expense) on the consolidated statements of income and other comprehensive income.

Legal matters

From time to time the Company is a party to legal proceedings arising in the ordinary course of business. In accordance with U.S. GAAP, the Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

12. Related party transactions

Related party transactions – Antares

Antares Capital LP is an investor in GTCR, LLC and was the administrative agent and a lender under the Prior Credit Agreement that was repaid in full during 2021. As such, Antares is considered a related party. The Company recorded interest expense related to the Prior Credit Agreement of $0 and $3,267 in expense on the consolidated statement of income and other comprehensive income for the three months ended June 30, 2022 and 2021, respectively, and $0 and $6,841 for the six months ended June 30, 2022 and 2021, respectively. As disclosed in Note 7 under Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021, the Company repaid the remaining principal and interest on the Prior Credit Agreement on June 25, 2021 and as such, Antares is no longer the administrative agent or a lender under the Company's current Credit Agreement.

13. Defined contribution plan

The Company maintains a 401(k) Plan as a defined contribution retirement plan for all eligible employees. The 401(k) Plan provides for tax-deferred contributions of employees' salaries, limited to a maximum annual amount as established by the IRS. The plan enrolls employees immediately with no age or service requirement. The Company matches 50% of employees' contributions up to the first 7% contributed. Matching contributions made to an employee's account are 100% vested as of the date of contribution. The 401(k) Plan employer match was $216 and $204 for the three months ended June 30, 2022 and 2021, respectively, and $536 and $447 for the six months ended June 30, 2022 and 2021.

14. Segments

The Company determines its operating segments based on ASC 280, *Segment Reporting*. Based on the manner in which the chief operating decision making group ("CODM") manages and monitors the performance of the business, the Company currently has two operating and reportable segments: Integrated Solutions and Payment Services.

More information about our two reportable segments:

- *Integrated Solutions* - Our Integrated Solutions segment represents the delivery of our credit and debit card payment solutions, and to a lesser extent, ACH processing solutions to customers via integrations with software partners across our strategic vertical markets. Our Integrated Solutions partners include vertical focused front-end Customer Relationship Management software providers as well as back-end Enterprise Resource Planning and accounting solutions.

- *Payment Services* - Our Payment Services segment represents the delivery of card payment processing solutions to our customers through resellers, as well as ACH, check, and gift card processing. Card payment processing solutions in this segment do not originate via a software integration but still utilize Paya's core technology infrastructure. ACH, check, and gift card processing may or may not be integrated with third-party software.

All segment revenue is from external customers.

The following table presents total revenues and segment gross profit, excluding depreciation and amortization, for each reportable segment and includes a reconciliation of segment gross profit to total U.S. GAAP operating profit, excluding depreciation and amortization, by including certain corporate-level expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Integrated Solutions	$ 46,594	$ 39,564	$ 88,062	$ 72,455
Payment Services	25,898	24,420	50,423	46,784
Total Revenue	72,492	63,984	138,485	119,239
Integrated Solutions gross profit	23,124	21,152	44,619	39,352
Payment Services gross profit	13,627	12,633	26,882	23,551
Total segment gross profit	36,751	33,785	71,501	62,903
Selling, general & administrative expenses	(22,892)	(20,846)	(45,347)	(37,760)
Depreciation and amortization	(7,897)	(7,519)	(15,688)	(14,551)
Interest expense	(3,188)	(3,822)	(6,177)	(7,865)
Other income (expense)	(183)	(8,467)	1,611	(7,975)
Income (loss) before income taxes	$ 2,591	$ (6,869)	$ 5,900	$ (5,248)

Segment assets are not included in the CODM reporting package as they are not considered as part of the CODM's allocation of resources. The Company does not have any revenue or material assets outside the United States. There was no single customer from either operating segment that represented 10% or more of the Company's consolidated revenues for the three and six months ended June 30, 2022 and 2021.

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

The following Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and capital resources of Paya Holdings Inc. and is intended to help the reader understand Paya Holdings Inc., our operations and our present business environment. This discussion should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 and the unaudited consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q. References to "we," "us," "our", "Paya", "Paya Holdings", or "the Company" refer to Paya Holdings Inc. and its consolidated subsidiaries.

Overview

We are an independent integrated payments platform providing card, ACH, and check payment processing solutions via software to middle-market businesses in the United States. Our solutions integrate with customers' core business software to enable payments acceptance, reconcile invoice detail, and post payment information to their core accounting system. In this manner, we enable our customers to collect revenue from their B2C and B2B customers with a seamless experience and high-level of security across payment types.

Recent Developments

On January 19, 2022, the Company closed on the acquisition of JS Innovations LLC (VelocIT) which provides fully integrated, omnichannel payment solutions to accounting and ERP partners.

Macro-Economic Conditions and COVID-19 Update

Adverse macroeconomic conditions, including but not limited to heightened inflation, slower growth or recession, changes to fiscal and monetary policy, higher interest rates, currency fluctuations and challenges in the supply chain could impact macro-level consumer spending trends affecting the amount of volumes processed on our platform, and resulting in fluctuations to our revenue streams. In addition, the war in Ukraine has given rise to potential global security issues that may adversely affect international business and economic conditions as well as economic sanctions imposed by the international community that have impacted the global economy. Certain of our customers may be negatively impacted by these events.

In addition, the impact that COVID-19 will have on our consolidated results of operations for the remainder of 2022 continues to remain uncertain. While we have not seen a meaningful degradation in new customer enrollment or an increase in existing customer attrition as a result of COVID-19, it is possible that those business trends change if economic hardship across the country forces new or additional business closures or other detrimental actions. We will continue to evaluate the nature and extent of these potential impacts to our business, consolidated results of operations, and liquidity.

Factors Affecting Results of Operations

A number of factors impact our business, results of operations, financial condition, and forecasts, including, but not limited to, the following:

- Increased adoption of integrated payments solutions. We generate revenue through volume-based rates and per item fees attributable to payment transactions between our customers and their customers. We expect to grow our customer base by bringing on new software partners, continuing to sell payment capabilities to customers of our existing software partners not yet leveraging our payment integrations, and by adding integrations within existing multi-platform software partners to access additional customer bases. Further, we expect to benefit from the natural growth of our partners who are typically growing franchises within their respective verticals.

- Acquisition, retention, and growth of software partnerships. Paya leverages a partner-first distribution network to grow our client base and payment volume. Continuing to innovate and deliver new commerce products and wraparound services is critical to our ability to attract, retain, and grow relationships with software partners in our Paya verticals and adjacent markets.

- Growth in customer life-time value. We benefit from, and aid-in, the growth of online electronic payment transactions to our customers. This is dependent on the sales growth of the customers' businesses, the overall adoption of online payment methods by their customer bases, and the adoption of our additional integrated payment modules such as our proprietary ACH capabilities. Leveraging these solutions helps drive increased customer retention, as well as higher volume and revenue per customer.

- Pursuit and integration of strategic acquisitions. We look to opportunistically make strategic acquisitions to enhance our scale, expand into new verticals, add product capabilities, and embed payments in vertical software. These acquisitions are intended to increase the long-term growth of the business, while helping us achieve greater scale, but may increase operating expenses in the short-term until full synergies are realized.

- For additional discussion on trends affecting our results of operations, see "Key Trends Impacting Our Market" under Part 1, Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Basis of Presentation

We have presented results of operations, including the related discussion and analysis, for the following periods:

- the three months ended June 30, 2022 compared to the three months ended June 30, 2021.
- the six months ended June 30, 2022 compared to the six months ended June 30, 2021.

Key Components of Revenue and Expenses

The period to period comparisons of our results of operations have been prepared using the historical periods included in our consolidated financial statements. The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this document.

Revenue

The Company's business model provides payment services, credit and debit card processing, and ACH processing to customers through enterprise or vertically focused software partners, direct sales, reseller partners, other referral partners, and a limited number of financial institutions. The Company recognizes processing revenues at the time customer transactions are processed and periodic fees over the period the service is performed. Transaction based revenue represents revenue generated from transaction fees based on volume and is recognized net of interchange fees and assessments. Service based fee revenue is generated from charging a service fee, a fee charged to the client for facilitating bankcard processing, and is recognized on a gross basis. The Company also generates service based fees related to ACH inclusive of monthly support and statement fees.

Cost of services

Cost of services includes card processing costs, ACH costs, other fees paid to card networks, and equipment expenses directly attributable to payment processing and related services to customers. These costs are recognized as incurred. Cost of services also includes revenue share amounts paid to reseller and referral partners based on customer activity. These expenses are recognized as transactions are processed. Accrued revenue share represents amounts earned during the month but not yet paid at the end of the period.

Selling general & administrative

Selling, general and administrative expenses consist primarily of salaries, wages, commissions, marketing costs, professional services costs, technology costs, occupancy costs of leased space, and bad debt expense. Stock-based compensation expense is also included in this category.

Depreciation & Amortization

Depreciation and amortization consist primarily of amortization of intangible assets, including customer relationships, internal use software, acquired customer lists, trade names, and to a lesser extent, depreciation on our investments in property, equipment, and software. We depreciate and amortize our assets on a straight-line basis. These lives are 3 years for computers and equipment and acquired internal-use software, 5 years for furniture, fixtures, and office equipment, and the lesser of the asset useful life or remaining lease term for leasehold improvements. Repair and maintenance costs are expensed as incurred and included in selling, general and administrative expenses on the consolidated statements of income and other comprehensive income. The purchase of customer lists are treated as asset acquisitions, resulting in recording an intangible asset at cost on the date of acquisition. The acquired customer lists intangible assets have a useful life of 5 years, other customer relationships are amortized over a period of 5-15 years, developed technology 5-10 years, and trade names over 5-25 years.

Results of Operations

The period to period comparisons of our results of operations have been prepared using the historical periods included in our unaudited consolidated financial statements. The following discussion should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 and the unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

(in millions)	**Three Months Ended June 30,**		**Change**	
	2022	**2021**	**Amount**	**%**
Revenue	$ 72.5	$ 63.9	$ 8.6	13.5 %
Cost of services exclusive of depreciation and amortization	(35.8)	(30.2)	(5.6)	(18.5)%
Selling, general & administrative expenses	(22.8)	(20.8)	(2.0)	(9.6)%
Depreciation and amortization	(7.9)	(7.5)	(0.4)	(5.3)%
Income from operations	6.0	5.4	0.6	11.1 %
Other income (expense)				
Interest expense	(3.2)	(3.8)	0.6	15.8 %
Other income	(0.2)	(8.4)	8.2	97.6 %
Total other expense	(3.4)	(12.2)	8.8	72.1 %
Income before income taxes	2.6	(6.8)	9.4	138.2 %
Income tax (expense) benefit	(0.9)	3.7	(4.6)	(124.3)%
Net income	$ 1.7	$ (3.1)	$ 4.8	154.8 %

Revenue

Total revenue was $72.5 for the three months ended June 30, 2022 as compared to total revenue of $63.9 for the three months ended June 30, 2021. The increase of $8.6, or 13.5%, was driven by a $7.0 or 17.8% increase in Integrated Solutions, and a $1.5 or 6.1% increase in Payment Services. Growth includes inorganic contributions from Paragon for the three months ended June 30, 2022.

Cost of services exclusive of depreciation and amortization

Cost of services increased by $5.6, or 18.5%, to $35.8 for the three months ended June 30, 2022 from $30.2 for the three months ended June 30, 2021. The increase was driven by growth from higher revenue share partners in Integrated Solutions and growth in ACH in Payment Services, as well as inorganic contributions from Paragon.

Selling, general & administrative

Selling, general and administrative expenses increased by $2.0, or 9.6%, to $22.8 for the three months ended June 30, 2022 from $20.8 for the three months ended June 30, 2021. The increase is primarily due to a $1.1 increase in compensation and benefits and a $1.8 increase in M&A related costs partially offset by a decrease of $0.8 from contingent non-income tax liability in the three months ended June 30, 2021. The compensation and benefits increases are primarily due to an increase in share-based compensation awards.

Depreciation and amortization

Depreciation and amortization increased by $0.4, or 5.3%, to $7.9 for the three months ended June 30, 2022 as compared to $7.5 for the three months ended June 30, 2021. The increase is primarily due to $0.7 in customer list amortization from additional customer list acquisitions partially offset by a $0.5 reduction in technology amortization from fully amortized intangible assets.

Interest Expense

Interest expense decreased by $0.6, or 15.8%, to $3.2 for the three months ended June 30, 2022 from $3.8 for the three months ended June 30, 2021, primarily due to lower interest rates on the Revolver and Term Loan credit facilities.

Other Income (Expense)

Other income (expense) decreased by $8.2 to $(0.2) for the three months ended June 30, 2022 from $(8.4) for the three months ended June 30, 2021. The decrease is primarily due to a prepayment penalty of $2.3 and write off of debt issuance costs of $6.2 related to our Prior Credit Agreement in 2021 and a $1.1 change in value of the tax receivable agreement. This decrease is offset by a non-cash change in fair value of the interest rate cap agreement of $1.1 due to the increase in market interest rates.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

(in millions)	**Six Months Ended June 30,**		**Change**	
	2022	**2021**	**Amount**	**%**
Revenue	$ 138.5	$ 119.2	$ 19.3	16.2 %
Cost of services exclusive of depreciation and amortization	(67.0)	(56.3)	(10.7)	(19.0)%
Selling, general & administrative expenses	(45.2)	(37.8)	(7.4)	(19.6)%
Depreciation and amortization	(15.7)	(14.5)	(1.2)	(8.3)%
Income from operations	10.6	10.6	—	— %
Other income (expense)				
Interest expense	(6.2)	(7.8)	1.6	20.5 %
Other income (expense)	1.6	(8.0)	9.6	120.0 %
Total other expense	(4.6)	(15.8)	11.2	70.9 %
Income before income taxes	5.9	(5.2)	11.1	NM
Income tax expense	(2.0)	3.1	(5.1)	(164.5)%
Net income	$ 3.9	$ (2.1)	$ 6.0	NM

NM - Not meaningful

Revenue

Total revenue was $138.5 for the six months ended June 30, 2022 as compared to total revenue of $119.2 for the six months ended June 30, 2021. The increase of $19.3, or 16.2%, was driven by a $15.6 or 21.5% increase in Integrated Solutions, led by growth in B2B, and a $3.6 or 7.8% increase in Payment Services, led by growth in ACH. Growth includes inorganic contributions from Paragon for the for the six months ended June 30, 2022.

Cost of services exclusive of depreciation and amortization

Cost of services increased by $10.7, or 19.0%, to $67.0 for the six months ended June 30, 2022 from $56.3 for the six months ended June 30, 2021. The increase was driven by the increase in revenue from higher revenue share partners as well as inorganic contributions from Paragon.

Selling, general & administrative

Selling, general and administrative expenses increased by $7.4, or 19.6%, to $45.2 for the six months ended June 30, 2022 from $37.8 for the six months ended June 30, 2021. The increase is primarily due to a $5.7 increase in compensation and benefits and $1.5 in M&A related expenses. The compensation and benefits increase is primarily due to increased headcount, primarily in the Sales & Marketing and Technology departments and an increase in share based compensation awards.

Depreciation and amortization

Depreciation and amortization increased by $1.2, or 8.3%, to $15.7 for the six months ended June 30, 2022 as compared to $14.5 for the six months ended June 30, 2021. The increase is primarily due to $1.5 in customer list amortization from additional customer list acquisitions and $0.5 in internally developed software amortization partially offset by a reduction in technology amortization of $0.8.

Interest Expense

Interest expense decreased by $1.6, or 20.5%, to $6.2 for the six months ended June 30, 2022 from $7.8 for the six months ended June 30, 2021, primarily due to lower interest rates on the Revolver and Term Loan credit facilities.

Other Income (Expense)

Other income (expense) increased by $9.6 to $1.6 for the six months ended June 30, 2022 from $(8.0) for the six months ended June 30, 2021. The increase is primarily due to a non-cash change in fair value of the interest rate cap agreement of $2.5 due to the increase in market interest rates and prepayment penalty of $2.3 and write off of debt issuance costs of $6.2 related to our Prior Credit Agreement in 2021.

Key Performance Indicators and Non-GAAP Financial Measures

Our management uses a variety of financial and operating metrics to evaluate our business, analyze our performance, and make strategic decisions. We believe these metrics and non-GAAP financial measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as management. However, some of these measures are not financial measures calculated in accordance with U.S. GAAP and should not be considered as substitutes for financial measures that have been calculated in accordance with U.S. GAAP. We primarily review the following key performance indicators and non-GAAP measures when assessing our performance:

Revenue (U.S. GAAP)

We analyze our revenues by comparing actual revenues to our internal projections for a given period and to prior periods to assess our performance. We believe that revenues are a meaningful indicator of the demand and pricing for our services. Key drivers to change in revenues are primarily dollar volume, basis point spread earned, and number of transactions processed in a given period.

Payment Volume

Payment volume is defined as the total dollar amount of all payments processed by our customers through our services. Volumes for the three and six months ended June 30, 2022 and June 30, 2021 are shown in the table below:

	Three Months Ended June 30,				Change		
(in millions)	2022		2021		Amount		%
Payment volume	$	12,256	$	10,685	$	1,571	14.7 %

The increase in volume for the three months ended June 30, 2022 was primarily driven by continued strong growth in Payment Services, specifically ACH, as well as from growth in Integrated Solutions and inorganic Paragon contributions.

	Six Months Ended June 30,				Change		
(in millions)	2022		2021		Amount		%
Payment volume	$	23,951	$	20,147	$	3,804	18.9 %

The increase in volume for the six months ended June 30, 2022 was primarily driven by continued strong growth in Payment Services, specifically ACH, as well as from growth in Integrated Solutions and inorganic Paragon contributions.

Adjusted EBITDA and Adjusted Net Income

Adjusted EBITDA is a non-GAAP financial measure that represents earnings before interest and other expense, income taxes, depreciation, and amortization ("EBITDA"), and further adjustments to EBITDA to exclude certain non-cash items and other non-recurring items that we believe are not indicative of ongoing operations to come to Adjusted EBITDA.

Adjusted Net Income is a non-GAAP financial measure that represents net income prior to amortization and further adjustments to exclude certain non-cash items and other non-recurring items that management believes are not indicative of ongoing operations to come to Adjusted Net Income.

We disclose EBITDA, Adjusted EBITDA, and Adjusted Net Income in this Quarterly Report because these non-GAAP measures are key measures used by us to evaluate our business, measure our operating performance and make strategic decisions. We believe EBITDA, Adjusted EBITDA, and Adjusted Net Income are useful for investors and others in understanding and evaluating our results of operations in the same manner as we do. However, EBITDA, Adjusted EBITDA, and Adjusted Net Income are not financial measures calculated in accordance with U.S. GAAP and should not be considered as a substitute for net income, income before income taxes, or any other operating performance measure calculated in accordance with U.S. GAAP. Using these non-GAAP financial measures to analyze our business would have material limitations because the calculations are based on the subjective determination of management regarding the nature and classification of events and circumstances that investors may find significant. In addition, although other companies in our industry may report measures titled EBITDA, Adjusted EBITDA and Adjusted Net Income or similar measures, such non-GAAP financial measures may be calculated differently from how we calculate non-GAAP financial measures, which reduces their overall usefulness as comparative measures. Because of these limitations, you should consider EBITDA, Adjusted EBITDA, and Adjusted Net Income alongside other financial performance measures, including net income and our other financial results presented in accordance with U.S. GAAP. The following table presents a reconciliation of net income (loss) to EBITDA and Adjusted EBITDA for each of the periods indicated:

Adjusted EBITDA for the Three and Six Months Ended June 30, 2022 Compared to the Three and Six Months Ended June 30, 2021

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2022**	**2021**	**2022**	**2021**
Net income (loss)	$ 1.7	$ (3.1)	$ 3.9	$ (2.1)
Depreciation & amortization	7.9	7.5	15.7	14.5
Income tax expense (benefit)	0.9	(3.7)	2.0	(3.1)
Interest and other expense	3.4	12.2	4.6	15.8
EBITDA	13.9	12.9	26.2	25.1
Transaction-related expenses[a]	2.5	0.7	3.0	1.5
Stock based compensation[b]	2.0	0.9	3.5	1.6
Restructuring costs[c]	0.3	0.8	1.2	1.0
Discontinued service costs[d]	0.1	—	0.2	0.2
Non-recurring public company start-up costs	—	0.3	0.4	0.6
Contingent non-income tax liability	—	0.8	0.1	0.8
Other costs[e]	0.4	0.4	1.0	0.8
Total adjustments	5.3	3.9	9.4	6.5
Adjusted EBITDA	$ 19.2	$ 16.8	$ 35.6	$ 31.6

(a) Represents professional service fees related to mergers and acquisitions such as legal fees, consulting fees, accounting advisory fees, and other costs.
(b) Represents non-cash charges associated with stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy.
(c) Represents costs associated with restructuring plans designed to streamline operations and reduce costs including costs associated with the relocation of facilities, certain staff restructuring charges including severance, certain executive hires, and acquisition related restructuring charges.
(d) Represents costs incurred to retire certain tools, applications and services that are no longer in use.
(e) Represents non-operational gains or losses, non-standard project expense, and non-operational legal expense.

Adjusted Net Income for the Three and Six Months Ended June 30, 2022 Compared to the Three and Six Months Ended June 30, 2021

(in millions)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net income (loss)	$ 1.7	$ (3.1)	$ 3.9	$ (2.1)
Amortization add back	6.6	6.4	13.2	12.4
Debt refinancing interest expense[(a)]	—	8.5	—	8.5
Transaction-related expenses[(b)]	2.5	0.7	3.0	1.5
Stock based compensation[(c)]	2.0	0.9	3.5	1.6
Restructuring costs[(d)]	0.3	0.8	1.2	1.0
Discontinued IT service costs[(e)]	0.1	—	0.2	0.2
Non-recurring public company start-up costs	—	0.3	0.4	0.6
Contingent non-income tax liability	—	0.8	0.1	0.8
Other costs[(f)]	0.4	0.4	1.0	0.8
Total adjustments	11.9	18.8	22.6	27.4
Tax effect of adjustments[(g)]	(1.4)	(2.0)	(2.3)	(2.4)
Adjusted Net Income	$ 12.2	$ 13.7	$ 24.2	$ 22.9

(a) Represents one-time debt refinancing expenses for prepayment penalty and write-off of debt issuance costs in connection with our Prior Credit Agreement.
(b) Represents professional service fees related to mergers and acquisitions such as legal fees, consulting fees, accounting advisory fees, and other costs.
(c) Represents non-cash charges associated with stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy.
(d) Represents costs associated with restructuring plans designed to streamline operations and reduce costs including costs associated with the relocation of facilities, certain staff restructuring charges including severance, certain executive hires, and acquisition related restructuring charges.
(e) Represents costs incurred to retire certain tools, applications and services that are no longer in use.
(f) Represents non-operational gains or losses, non-standard project expense, non-operational legal expense and legal debt refinancing expense.
(g) Represents pro forma income tax adjustment effect, at the anticipated blended rate, for all items expected to have a cash tax impact (i.e. items that were not originally recorded through goodwill). Any impact to the valuation allowance assessment for these adjustments has not been considered.

Segments

We provide our services through two reportable segments: (1) Integrated Solutions and (2) Payment Services. The Company’s reportable segments are the same as the operating segments.

More information about our two reportable segments:

- *Integrated Solutions* — Our Integrated Solutions segment represents the delivery of our credit and debit card payment solutions, and to a lesser extent, ACH processing solutions to customers via integrations with software partners across our strategic vertical markets. Our Integrated Solutions partners include vertical focused front-end Customer Relationship Management software providers as well as back-end Enterprise Resource Planning and accounting solutions.

- *Payment Services* — Our Payment Services segment represents the delivery of card payment processing solutions to our customers through resellers, as well as ACH, check, and gift card processing. Card payment processing solutions in this segment do not originate via a software integration but still utilize Paya's core technology infrastructure. ACH, check, and gift card processing may or may not be integrated with third-party software.

All segment revenue is from external customers.

The following table shows our segment income statement data and selected performance measures for the periods indicated:

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

	Three Months Ended June 30,		Change	
(in millions)	**2022**	**2021**	**Amount**	**%**
Integrated Solutions				
Segment revenue	$ 46.6	$ 39.6	$ 7.0	17.8 %
Segment gross profit(1)	$ 23.1	$ 21.2	$ 1.9	9.3 %
Segment gross profit margin	49.6 %	53.5 %		
Payment Services				
Segment revenue	$ 25.9	$ 24.4	$ 1.5	6.1 %
Segment gross profit(1)	$ 13.6	$ 12.7	$ 0.9	7.9 %
Segment gross profit margin	52.6 %	51.7 %		

(1) Segment gross profit is revenue less cost of services excluding depreciation and amortization.

Integrated Solutions

Revenue for the Integrated Solutions segment was $46.6 for the three months ended June 30, 2022 as compared to $39.6 for the three months ended June 30, 2021. The increase of $7.0 was primarily driven by Integrated Card growth in the B2B vertical and inorganic Paragon contributions.

Gross profit for the Integrated Solutions segment was $23.1 resulting in a gross profit margin of 49.6% for the three months ended June 30, 2022 as compared to $21.2 with a gross profit margin of 53.5% for the three months ended June 30, 2021. The increase of $1.9 in segment gross profit was primarily driven by revenue growth partially offset by higher revenue share from partner mix.

Payment Services

Revenue for the Payment Services segment was $25.9 for the three months ended June 30, 2022 as compared to $24.4 for the three months ended June 30, 2021. The increase of $1.5 was driven by ACH growth and inorganic Paragon contributions.

Gross profit for the Payment Services segment was $13.6 resulting in a gross profit margin of 52.6% for the three months ended June 30, 2022 as compared to $12.7 with a gross profit margin of 51.7% for the three months ended June 30, 2021. The increase of $0.9 in segment gross profit was primarily driven by ACH growth and inorganic Paragon contributions.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

	Six Months Ended June 30,		Change	
(in millions)	**2022**	**2021**	**Amount**	**%**
Integrated Solutions				
Segment revenue	$ 88.1	$ 72.5	$ 15.6	21.5 %
Segment gross profit(1)	$ 44.6	$ 39.4	$ 5.2	13.4 %
Segment gross profit margin	50.7 %	54.3 %		
Payment Services				
Segment revenue	$ 50.4	$ 46.8	$ 3.6	7.8 %
Segment gross profit(1)	$ 26.9	$ 23.6	$ 3.3	14.1 %
Segment gross profit margin	53.3 %	50.3 %		

(1) Segment gross profit is revenue less cost of services excluding depreciation and amortization.

Integrated Solutions

Revenue for the Integrated Solutions segment was $88.1 for the six months ended June 30, 2022 as compared to $72.5 for the six months ended June 30, 2021. The increase of $15.6 was primarily driven by Integrated Card growth, specifically in the B2B vertical, and inorganic Paragon contributions.

Gross profit for the Integrated Solutions segment was $44.6 resulting in a gross profit margin of 50.7% for the six months ended June 30, 2022 as compared to $39.4 with a gross profit margin of 54.3% for the six months ended June 30, 2021. The increase of $5.2 in segment gross profit was primarily driven by revenue growth partially offset by growth from higher revenue share partners.

Payment Services

Revenue for the Payment Services segment was $50.4 for the six months ended June 30, 2022 as compared to $46.8 for the six months ended June 30, 2021. The increase of $3.6 was driven by ACH growth and inorganic Paragon contributions.

Gross profit for the Payment Services segment was $26.9 resulting in a gross profit margin of 53.3% for the six months ended June 30, 2022 as compared to $23.6 with a gross profit margin of 50.3% for the six months ended June 30, 2021. The increase of $3.3 in segment gross profit was primarily driven by ACH growth and inorganic Paragon contributions.

Liquidity and Capital Resources

Sources

We have historically sourced our liquidity requirements primarily with cash flow from operations and, when needed, with borrowings under our credit facilities and in 2021, with an equity issuance. We have historically sourced our acquisitions with cash flow from operations and borrowings under our credit facilities, and prior to becoming a publicly traded company, with capital infusions from Ultra. As of June 30, 2022, we had $147.3 million of cash and cash equivalents on hand and borrowing capacity of $45.0 million from our Revolver. We believe our existing cash and cash provided by our ongoing operations together with funds available under our credit facilities will be sufficient to meet our working capital, capital expenditures and cash needs for the next 12 months and beyond.

Uses

Our material cash requirements from known contractual and other obligations primarily relate to the commitment fees related to our credit facilities, interest on long-term debt and operating lease obligations. For information related to these cash requirements, refer to Note 6 and Note 11 under Part 1, Item 1 of this quarterly report on Form 10-Q.

Indebtedness

On June 25, 2021, Paya entered into a credit agreement which governs new senior secured credit facilities, consisting of the $250.0 million Term Loan, and the $45.0 million Revolver. On December 31, 2021, the Company began making quarterly amortization payments on the Term Loan. As of June 30, 2022, $248.1 million remains outstanding under the Term Loan and there were no borrowings outstanding under the Revolver.

Cash Flows

The following tables present a summary of cash flows from operating, investing and financing activities for the following comparative periods.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

	Six Months Ended June 30,	
	2022	**2021**
	(in millions)	
Net cash provided (used) by operating activities	$ 16.9	$ 11.8
Net cash provided (used) by investing activities	(14.0)	(30.6)
Net cash provided (used) by financing activities	(5.1)	141.1
Change in cash	$ (2.2)	$ 122.3

Operating Activities

Net cash provided by operating activities increased $5.1 to $16.9 for the six months ended June 30, 2022 compared to $11.8 provided by operating activities for the six months ended June 30, 2021. The increase in net cash provided by operating activities was primarily due to higher revenue in the six months ended June 30, 2022.

Investing Activities

Net cash used in investing activities decreased $16.6 to $14.0 in the six months ended June 30, 2022 from $30.6 in the six months ended June 30, 2021. The decrease in cash used by investing activities was primarily driven by a decrease in cash used for acquisitions of $12.3 and a decrease in purchases of customers lists of $3.4 in the six months ended June 30, 2022. In addition, we used $2.7 for capital expenditures and capitalization of internal use software in the six months ended June 30, 2022 compared to $3.7 in the six months ended June 30, 2021.

Financing Activities

Net cash provided by (used in) financing activities decreased $146.2 to $(5.1) for the six months ended June 30, 2022 from cash provided by financing activities of $141.1 for the six months ended June 30, 2021. The decrease in cash provided by (used in) financing activities was primarily due to net proceeds from the Equity Offering of $117.0 and repayment of prior credit facility of $228.7 and borrowings under new credit facility of $250.0 in the six months ended June 30, 2021.

Critical Accounting Estimates

A summary of our critical accounting estimates is included in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year-ended December 31, 2021. There have been no material changes to the critical accounting estimates disclosed in our Annual Report on Form 10-K for the year-ended December 31, 2021.

Principles of Consolidation

Refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year-ended December 31, 2021. There have been no material changes to our principles of consolidation disclosed in our Annual Report on Form 10-K for the year-ended December 31, 2021.

Recently Issued Accounting Standards

Refer to Note 1 of the notes to our unaudited consolidated financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q for our assessment of recently issued and adopted accounting standards.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our principal market risks are our exposure to effects of inflation and interest rates.

Effects of Inflation

While inflation may impact our revenues and cost of services, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant. However, there can be no assurance that our results of operations and financial condition will not be materially impacted by inflation in the future.

Interest Rates

Our future income, cash flows and fair values relevant to financial instruments are subject to risks relating to interest rates. We are subject to interest rate risk in connection with our credit facilities, which have variable interest rates. The interest rates on these facilities are based on a fixed margin plus a market interest rate, which can fluctuate accordingly but is subject to a minimum rate. Interest rate changes do not affect the market value of such debt, but could impact the amount of our interest payments, and accordingly, our future earnings and cash flows, assuming other factors are held constant.

The Company utilizes derivative instruments to manage risk from fluctuations in interest rates on its Term Loan. In February 2021, the Company entered into an interest rate cap agreement with a notional amount of $171.5 million, with an effective date of March 31, 2021, expiring on March 31, 2023. There were no changes to the interest rate cap in connection with the entry into the new Credit Agreement. Refer to Note 7 of the notes to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

We may incur additional borrowings, under our Revolver or otherwise, from time to time for general corporate purposes, including working capital and capital expenditures.

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2022. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of June 30, 2022 due to the material weakness described below.

Material Weakness in Internal Control over Financial Reporting

During the audit process related to December 31, 2021, management, in connection with our independent auditors, identified a material weakness in our controls related to the operating effectiveness of the review of the annual income tax provision prepared by a third-party firm, specifically the valuation allowance related to deferred tax assets. This impacts the timing of realization of a deferred tax asset, while the total projected deferred tax benefit remains unchanged.

Remediation Efforts with Respect to the Material Weakness

We are committed to maintaining a strong internal control environment and we continue to execute the following steps to remediate this material weakness.

a. Refining the scope of the Company's external tax advisors to provide advice related to complex or unusual items; and
b. Enhancing the design and precision of the Company's controls related to the income tax provision calculations and documentation, including controls related to the valuation allowance assessment.

The material weakness will not be considered remediated until a sustained period of time has passed to allow management to test the design and operational effectiveness of the corrective actions. Until the material weakness is remediated, we plan to continue to perform additional analyses and other procedures to ensure that our Consolidated Financial Statements are prepared in accordance with GAAP.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

We are currently not a party to any legal proceedings that would be expected to have a material adverse effect on our business or financial condition. From time to time, we are subject to litigation incidental to our business, as well as other litigation of a non-material nature in the ordinary course of business.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed under "Item 1A. Risk Factors" included in our 2021 Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Paya Holdings Inc., filed with the Secretary of State of the State of Delaware on October 16, 2020 (incorporated by reference to Exhibit 3.1 to Paya Holdings Inc.'s Form 8-K filed on October 22, 2020).
3.2	Amended and Restated Bylaws of Paya Holdings Inc. (incorporated by reference to Exhibit 3.2 to Paya Holdings Inc.'s Form 8-K filed on October 20, 2020).
10.1	Amendment to Paya Holdings Inc. Omnibus Incentive Plan. (incorporated by reference to Exhibit 10.1 to Paya Holdings Inc.'s Form 8-K filed on June 1, 2022)
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act Rules Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act Rules Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.3	Certification of the Chief Accounting Officer pursuant to Exchange Act Rules Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
32.3*	Certification of the Chief Accounting Officer pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
1010.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (Formatted as inline XBRL).

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* The certifications furnished in Exhibits 32.1, 32.2 and 32.3 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

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

Date: August 5, 2022

PAYA HOLDINGS INC.

/s/ Glenn Renzulli

Glenn Renzulli

Chief Financial Officer

Certification of Chief Executive Officer
Pursuant To
Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeff Hack, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paya Holdings Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers 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.

Dated: August 5, 2022

/s/ Jeff Hack

Jeff Hack

Chief Executive Officer and Director

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant To
Section 302 of the Sarbanes-Oxley Act of 2002

I, Glenn Renzulli, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paya Holdings Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers 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.

Dated: August 5, 2022	/s/ Glenn Renzulli
	Glenn Renzulli
	Chief Financial Officer

Certification of Chief Accounting Officer
Pursuant To
Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric Bell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paya Holdings Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers 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.

Dated: August 5, 2022

/s/ Eric Bell

Eric Bell

Chief Accounting Officer

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant To Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of Paya Holdings Inc. (the “Company”) for the quarter ended June 30, 2022, as filed with the U.S. Securities and Exchange Commission (the “Report”), I, Jeff Hack, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Dated: August 5, 2022

/s/ Jeff Hack
Jeff Hack
Chief Executive Officer and Director

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant To Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of Paya Holdings Inc. (the "Company") for the quarter ended June 30, 2022, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Glenn Renzulli, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2022

/s/ Glenn Renzulli
Glenn Renzulli
Chief Financial Officer

Exhibit 32.3

Certification of Chief Accounting Officer
Pursuant To Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of Paya Holdings Inc. (the “Company”) for the quarter ended June 30, 2022, as filed with the U.S. Securities and Exchange Commission (the “Report”), I, Eric Bell, Chief Accounting Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2022

/s/ Eric Bell
Eric Bell
Chief Accounting Officer