UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from to

Commission File Number: 001-37874

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

Delaware	**26-2919312**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
25 Corporate Drive, Suite 400 **Burlington, Massachusetts**	**01803**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (818) 230-9700

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	**EVBG**	**The Nasdaq Global Market**

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

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

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

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

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

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

As of August 3, 2023, the registrant had 40,760,698 shares of common stock outstanding.

EVERBRIDGE, INC. AND SUBSIDIARIES
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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

EVERBRIDGE, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except share data)
(unaudited)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 218,944	$ 198,725
Restricted cash	2,124	2,046
Accounts receivable, net	96,682	119,986
Prepaid expenses	14,071	13,133
Assets held for sale	—	6,485
Deferred costs and other current assets	37,165	31,866
Total current assets	368,986	372,241
Property and equipment, net	8,658	8,993
Capitalized software development costs, net	29,169	27,370
Goodwill	513,138	508,781
Intangible assets, net	147,642	166,177
Restricted cash	814	823
Prepaid expenses	1,307	1,709
Deferred costs and other assets	42,317	39,570
Total assets	$ 1,112,031	$ 1,125,664
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 9,589	$ 10,854
Accrued payroll and employee related liabilities	24,982	31,175
Accrued expenses	9,712	13,566
Deferred revenue	229,173	233,106
Liabilities held for sale	—	2,062
Other current liabilities	8,793	10,644
Total current liabilities	282,249	301,407
Long-term liabilities:		
Deferred revenue, noncurrent	8,333	9,278
Convertible senior notes	501,736	500,298
Deferred tax liabilities	5,429	6,236
Other long-term liabilities	18,577	19,334
Total liabilities	816,324	836,553
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.001, 10,000,000 shares authorized, no shares issued or outstanding as of June 30, 2023 and December 31, 2022, respectively	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 40,658,948 and 40,127,522 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	41	40
Additional paid-in capital	752,699	721,143
Accumulated deficit	(431,822)	(402,124)
Accumulated other comprehensive loss	(25,211)	(29,948)
Total stockholders' equity	295,707	289,111
Total liabilities and stockholders' equity	$ 1,112,031	$ 1,125,664

See accompanying notes to condensed consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	$ 110,569	$ 102,986	$ 218,837	$ 203,361
Cost of revenue	33,091	33,239	65,072	65,096
Gross profit	77,478	69,747	153,765	138,265
Operating expenses:				
Sales and marketing	42,669	45,359	84,857	87,175
Research and development	24,613	26,619	49,617	50,178
General and administrative	24,963	27,093	49,429	49,429
Restructuring	664	6,742	685	6,742
Total operating expenses	92,909	105,813	184,588	193,524
Operating loss	(15,431)	(36,066)	(30,823)	(55,259)
Other income (expense), net				
Interest and investment income	2,285	679	4,022	741
Interest expense	(765)	(1,307)	(1,534)	(2,607)
Other income (expense), net	128	(189)	746	91
Total other income (expense), net	1,648	(817)	3,234	(1,775)
Loss before income taxes	(13,783)	(36,883)	(27,589)	(57,034)
(Provision for) benefit from income taxes	(1,267)	701	(2,109)	1,779
Net loss	$ (15,050)	$ (36,182)	$ (29,698)	$ (55,255)
Net loss per share attributable to common stockholders:				
Basic	$ (0.37)	$ (0.91)	$ (0.73)	$ (1.40)
Diluted	$ (0.37)	$ (0.91)	$ (0.73)	$ (1.40)
Weighted-average common shares outstanding:				
Basic	40,551,410	39,571,647	40,413,506	39,501,058
Diluted	40,551,410	39,571,647	40,413,506	39,501,058

See accompanying notes to condensed consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (15,050)	$ (36,182)	$ (29,698)	$ (55,255)
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of taxes	2,311	(23,185)	4,737	(28,545)
Total comprehensive loss	$ (12,739)	$ (59,367)	$ (24,961)	$ (83,800)

See accompanying notes to condensed consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data)
(unaudited)

	Common stock Shares	Common stock Par value	Additional paid-in capital	Accumulated deficit	Accumulated-other comprehensive loss	Total
Balance at December 31, 2022	40,127,522	$ 40	$ 721,143	$ (402,124)	$ (29,948)	$ 289,111
Stock-based compensation	—	—	13,931	—	—	13,931
Vesting of restricted stock units and performance-based restricted stock units	250,127	—	—	—	—	—
Stock award shares withheld to settle employee tax withholding liability	(56,062)	—	(1,866)	—	—	(1,866)
Exercise of stock options	71,166	—	1,263	—	—	1,263
Issuance of shares under employee stock purchase plan	88,863	—	2,546	—	—	2,546
Other comprehensive income	—	—	—	—	2,426	2,426
Net loss	—	—	—	(14,648)	—	(14,648)
Balance at March 31, 2023	40,481,616	40	737,017	(416,772)	(27,522)	292,763
Stock-based compensation	—	—	17,494	—	—	17,494
Vesting of restricted stock units and performance-based restricted stock units	245,850	1	—	—	—	1
Stock award shares withheld to settle employee tax withholding liability	(69,388)	—	(1,824)	—	—	(1,824)
Exercise of stock options	870	—	12	—	—	12
Other comprehensive income	—	—	—	—	2,311	2,311
Net loss	—	—	—	(15,050)	—	(15,050)
Balance at June 30, 2023	40,658,948	$ 41	$ 752,699	$ (431,822)	$ (25,211)	$ 295,707

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated-other comprehensive loss	Total
	Shares	Par value				
Balance at December 31, 2021	39,389,733	$ 39	$ 853,664	$ (388,112)	$ (2,902)	$ 462,689
Cumulative effect of adoption of ASU 2020-06, net of taxes	—	—	(185,141)	47,162	—	(137,979)
Stock-based compensation	—	—	6,314	—	—	6,314
Vesting of restricted stock units and performance-based restricted stock units	68,560	1	—	—	—	1
Stock award shares withheld to settle employee tax withholding liability	(13,411)	—	(572)	—	—	(572)
Exercise of stock options	725	—	17	—	—	17
Issuance of shares under employee stock purchase plan	58,747	—	1,702	—	—	1,702
Other comprehensive loss	—	—	—	—	(5,360)	(5,360)
Net loss	—	—	—	(19,073)	—	(19,073)
Balance at March 31, 2022	39,504,354	40	675,984	(360,023)	(8,262)	307,739
Stock-based compensation	—	—	16,578	—	—	16,578
Vesting of restricted stock units and performance-based restricted stock units	219,765	—	—	—	—	—
Stock award shares withheld to settle employee tax withholding liability	(50,305)	—	(1,724)	—	—	(1,724)
Exercise of stock options	3,286	—	65	—	—	65
Other comprehensive loss	—	—	—	—	(23,185)	(23,185)
Net loss	—	—	—	(36,182)	—	(36,182)
Balance at June 30, 2022	39,677,100	$ 40	$ 690,903	$ (396,205)	$ (31,447)	$ 263,291

See accompanying notes to condensed consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net loss	$ (29,698)	$ (55,255)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	29,658	30,691
Amortization of deferred costs	9,492	8,740
Deferred income taxes	(705)	(7,568)
Accretion of interest on convertible senior notes	1,438	2,324
(Gain) loss on disposal of assets	(352)	934
Provision for credit losses and sales reserve	2,326	278
Stock-based compensation	29,579	22,295
Other non-cash adjustments	—	(57)
Changes in operating assets and liabilities:		
Accounts receivable	21,077	23,031
Prepaid expenses	(612)	(2,068)
Deferred costs	(13,248)	(10,530)
Other assets	(3,829)	6,223
Accounts payable	(934)	(4,187)
Accrued payroll and employee related liabilities	(6,193)	(7,971)
Accrued expenses	(4,512)	1,837
Deferred revenue	(5,173)	(4,526)
Other liabilities	(2,369)	(6,413)
Net cash provided by (used in) operating activities	25,945	(2,222)
Cash flows from investing activities:		
Capital expenditures	(2,179)	(2,726)
Proceeds from sale of assets	4,368	—
Payment for acquisition of business, net of acquired cash	—	(47)
Additions to capitalized software development costs	(7,869)	(7,436)
Net cash used in investing activities	(5,680)	(10,209)
Cash flows from financing activities:		
Payments associated with shares withheld to settle employee tax withholding liability	(3,689)	(2,295)
Proceeds from employee stock purchase plan	2,546	1,702
Proceeds from stock option exercises	1,275	82
Other	(38)	(38)
Net cash provided by (used in) financing activities	94	(549)
Effect of exchange rates on cash, cash equivalents and restricted cash	(71)	(2,299)
Net increase (decrease) in cash, cash equivalents and restricted cash	20,288	(15,279)
Cash, cash equivalents and restricted cash—beginning of period	201,594	492,758
Cash, cash equivalents and restricted cash—end of period	$ 221,882	$ 477,479
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 83	$ 281
Taxes, net of refunds received	3,367	1,179
Supplemental disclosure of non-cash activities:		
Capitalized assets included in accounts payable and accrued expenses	811	355
Stock-based compensation capitalized for software development	1,643	865

See accompanying notes to condensed consolidated financial statements.

(1) Business and Nature of Operations

Everbridge, Inc., a Delaware corporation (together with its wholly-owned subsidiaries, referred to as "Everbridge" or the "Company"), is a global software company that empowers resilience by leveraging intelligent automation technology to enable customers to anticipate, mitigate, respond to, and recover from critical events to keep people safe and organizations running. The Company's SaaS-based platform enables the Company's customers to manage and mitigate critical events. The Company's enterprise applications, such as Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911, automate numerous critical event management ("CEM") processes. The Company generates revenue primarily from subscription fees to the Company's enterprise applications. The Company has operations in the United States, United Kingdom, Norway, China, Netherlands, Canada, New Zealand, France, India, and other countries.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

The condensed consolidated balance sheet as of December 31, 2022, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by U.S. GAAP on an annual reporting basis.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss, statements of stockholders' equity and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year 2023 or any future period.

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets and liabilities which are subject to judgment and use of estimates include the determination of the period of benefit for deferred commissions, relative stand-alone selling price for identified performance obligations in the Company's revenue transactions, allowances for credit losses, the fair value of assets acquired and liabilities assumed in business combinations, the fair value of contingent consideration, the recoverability of goodwill and long-lived assets, valuation allowances with respect to deferred tax assets, useful lives associated with property and equipment and intangible assets, contingencies, and the valuation and assumptions underlying stock-based compensation. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities. In addition, the Company engages valuation specialists to assist with management's determination of the valuation of its fair values of assets acquired and liabilities assumed in business combinations, convertible senior notes, and certain market-based performance equity awards.

In March 2023, Silicon Valley Bank and Signature Bank were closed and taken over by the Federal Deposit Insurance Corporation, which raised concern regarding the stability of other banks in the United States and in particular with respect to regional banks. While the Company has not been materially impacted by such events to date, if the Company's primary banking partners or the banking partners of the Company's customers were to experience a similar crisis, it may cause a material impact on the Company's liquidity, including the ability to access its cash and cash equivalents, or the liquidity of the Company's customers such as delays in, or failure to, make payments, or reduce their demand for the Company's products. Additionally, there have been significant changes to the global economic situation as a consequence of the COVID-19 pandemic. There continue to be uncertainties with respect to macroeconomic conditions as a result of the pandemic and otherwise and there may be future periods of global instability and volatility in markets where the Company conducts business which could cause changes to estimates as a result of the financial circumstances. Such changes to estimates could potentially result in impacts that would be material to the consolidated financial statements, particularly with respect to the timing of revenue recognition resulting from potential implementation delays, evaluating the recoverability of long-lived assets with finite useful lives for impairment and estimates of credit losses for accounts receivables and contract assets. No impairments were recorded as of the balance sheet date; however, due to significant uncertainty surrounding these situations, management's judgment could change in the future. As of the date of issuance of these financial statements, the Company’s results of operations have not been significantly impacted by the banking industry disruption or the COVID-19 pandemic; however, the Company continues to monitor these situations.

Concentrations of Credit and Business Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and accounts receivable.

The Company maintains cash and cash equivalent balances at several banks. Accounts located in the United States are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250,000. From time to time, balances may exceed amounts insured by the FDIC. The Company has not experienced any losses in such amounts.

The Company’s accounts receivable are generally unsecured and are derived from revenue earned from customers primarily located in the United States, Norway, Netherlands, Sweden and the United Kingdom and are generally denominated in U.S. Dollars, Norwegian Krone, Euro, Swedish Kronor or British Pounds. Each reporting period, the Company reevaluates each customer’s ability to satisfy credit obligations and maintains an allowance for credit risk based on the evaluations. No single customer comprised more than 10% of the Company’s total revenue for the three and six months ended June 30, 2023 and 2022. No single customer comprised more than 10% of the Company’s gross accounts receivable as of June 30, 2023 and December 31, 2022.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents consist of funds deposited into money market funds. Cash and cash equivalents are recorded at cost, which approximates fair value.

Restricted Cash

The Company’s restricted cash balance primarily consists of cash held at a financial institution for collateral against performance on the Company’s customer contracts and certain other cash deposits for specific purposes.

Significant Accounting Policies

There have been no changes to the Company’s significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on February 24, 2023, that have had a material impact on the Company’s condensed consolidated financial statements and related notes.

Revenue Recognition

The Company derives its revenues primarily from subscription services and professional services. Revenues are recognized when control of services is transferred to the Company’s customers in an amount that reflects the consideration it expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;

- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Subscription Services Revenues

Subscription services revenues primarily consist of fees that provide customers access to one or more of the Company's hosted applications for critical event management, with routine customer support. Revenue is generally recognized over time on a ratable basis over the contract term beginning on the date that the Company's service is made available to the customer. All services are recognized using an output measure of progress looking at time elapsed as the contract generally provides the customer equal benefit throughout the contract period. The Company's subscription contracts are generally two years or longer in length, billed annually in advance, and non-cancelable.

Professional Services Revenues

Professional services revenues primarily consist of fees for deployment and optimization services, as well as training. The majority of the Company's consulting contracts revenue is recognized over time as the services are performed. For contracts billed on a fixed price basis, revenue is recognized over time based on the proportion performed.

Software License Revenues

The Company also sells software and related post contract support for on premises usage as well as professional services, hardware and hosting. The Company's on premises license transactions are generally perpetual in nature and are recognized at a point in time when made available to the customer for use. Significant judgment is required to determine the standalone selling prices for each distinct performance obligation in order to allocate the transaction price for purposes of revenue recognition. Making this judgment of estimating a standalone selling price involves consideration of overall pricing objectives, market conditions and other factors, including the value of the Company's other similar contracts, the applications sold, customer demographics, geographic locations, and the number and types of users within the Company's contracts. The significant judgment was primarily due to using such considerations to estimate the price that each distinct performance obligation would be sold for on a standalone basis because such performance obligations are typically sold together on a bundled basis. Changes in these estimates of standalone selling prices can have a material effect on the amount of revenue recognized from each distinct performance obligation.

Contracts with Multiple Performance Obligations

Most of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis for those performance obligations with stable observable prices and then the residual method applied for any performance obligation that has pricing which is highly variable. The Company determines the standalone selling prices based on the Company's overall pricing objectives, taking into consideration market conditions and other factors, including the value of the Company's contracts, pricing when certain services are sold on a standalone basis, the applications sold, customer demographics, geographic locations, and the volume of services and users.

Returns

The Company does not offer rights of return for its products and services in the normal course of business.

Customer Acceptance

The Company's contracts with customers generally do not include customer acceptance clauses.

Trade and Other Receivables

Trade and other receivables are primarily comprised of trade receivables that are recorded at the invoice amount, net of an allowance for credit risk, which is not material. Other receivables represent unbilled receivables related to subscription and professional services contracts, net of an allowance for credit losses, which is not material.

Deferred Costs

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Subscription-related commissions costs are deferred and then amortized on a straight-line basis over a period of benefit that the Company has determined to be four years. Sales commissions attributable to professional services are expensed within twelve months of selling the service to the customer. The Company has determined the period of benefit by taking into consideration its customer contracts, its technology and other factors. Sales commissions attributed to renewals are not material and are not commensurate with initial and growth sales. Amortization of deferred commissions is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

Deferred Revenue

Deferred revenue consists of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining deferred revenue is recorded as non-current.

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts generally do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, not to receive financing from its customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

Recently Adopted Accounting Pronouncements

ASU 2021-08

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-08, *Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. ASU 2021-08 requires the recognition and measurement of contract assets and contract liabilities acquired in a business combination in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*. Considerations to determine the amount of contract assets and contract liabilities to record at the acquisition date include the terms of the acquired contract, such as timing of payment, identification of each performance obligation in the contract and allocation of the contract transaction price to each identified performance obligation on a relative standalone selling price basis as of contract inception. The Company adopted ASU 2021-08 on January 1, 2023 on a prospective basis. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

ASU 2022-04

In September 2022, the FASB issued ASU 2022-04, *Liabilities—Supplier Finance Programs*. Supplier finance programs allow a buyer to offer its suppliers the option for access to payment in advance of an invoice due date, which is paid by a third-party finance provider or intermediary on the basis of invoices that the buyer has confirmed as valid. ASU 2022-04 requires that a buyer in a supplier finance program disclose key terms of the program, the balance sheet presentation of program obligations, amounts outstanding and rollforward of program obligations. The Company adopted ASU 2022-04 on January 1, 2023. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

Other accounting standard updates effective for interim and annual periods beginning after December 31, 2022 are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

(3) Accounts Receivable and Contract Assets, Net

Accounts receivable, net is as follows (in thousands):

	As of June 30, 2023	As of December 31, 2022
Accounts receivable amortized cost	$ 105,278	$ 127,298
Allowance for credit losses	(8,596)	(7,312)
Net accounts receivable	$ 96,682	$ 119,986

The following table summarizes the changes in the allowance for credit losses for accounts receivable (in thousands):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Balance, beginning of period	$ (7,930)	$ (6,773)	$ (7,312)	$ (6,922)
Provision for expected credit losses, net	(1,242)	(247)	(2,170)	(396)
Write-offs, net	576	335	886	633
Balance, end of period	$ (8,596)	$ (6,685)	$ (8,596)	$ (6,685)

Contract assets, net, included in deferred costs and other current assets on the condensed consolidated balance sheets is as follows (in thousands):

	As of June 30, 2023	As of December 31, 2022
Contract asset amortized cost	$ 11,662	$ 8,525
Allowance for credit losses	(1,003)	(1,015)
Net contract asset	$ 10,659	$ 7,510

The following table summarizes the changes in the allowance for credit losses for contract assets (in thousands):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Balance, beginning of period	$ (996)	$ (1,270)	$ (1,015)	$ (1,160)
Provision for expected credit losses, net	—	169	—	38
Write-offs, net	(7)	34	12	55
Balance, end of period	$ (1,003)	$ (1,067)	$ (1,003)	$ (1,067)

Credit loss expense was $0.7 million and $0.1 million for the three months ended June 30, 2023 and 2022, respectively. Credit loss expense was $2.3 million and $0.3 million for the six months ended June 30, 2023 and 2022, respectively.

The following table summarizes the changes in the sales reserve (in thousands):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Balance, beginning of period	$ (425)	$ (250)	$ (425)	$ (250)
Additions	—	(1)	—	(1)
Balance, end of period	$ (425)	$ (251)	$ (425)	$ (251)

(4) Property and Equipment, Net

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

	Useful life in years	As of June 30, 2023	As of December 31, 2022
Furniture and equipment	5	$ 1,655	$ 1,655
Leasehold improvements [1]	9	8,233	7,081
System hardware	5	2,212	1,718
Office computers	3	8,167	7,553
Computer and system software	3	2,468	2,398
		22,735	20,405
Less accumulated depreciation and amortization		(14,077)	(11,412)
Property and equipment, net		$ 8,658	$ 8,993

(1) Lesser of the lease term or the estimated useful lives of the improvements, which may be up to 9 years.

Depreciation and amortization expense for property and equipment was $1.5 million and $1.3 million for the three months ended June 30, 2023 and 2022, respectively. Depreciation and amortization expense for property and equipment was $2.9 million and $2.4 million for the six months ended June 30, 2023 and 2022, respectively.

(5) Capitalized Software Development Costs, Net

Capitalized software development costs, net consisted of the following (in thousands):

	Gross carrying amount	Amortization period	Accumulated amortization	Net carrying amount
As of June 30, 2023	$ 53,769	3 years	$ (24,600)	$ 29,169
As of December 31, 2022	92,115	3 years	(64,745)	27,370

The Company capitalized software development costs of $9.6 million and $8.3 million for the six months ended June 30, 2023 and 2022, respectively.

Amortization expense for capitalized software development costs was $4.0 million and $2.7 million for the three months ended June 30, 2023 and 2022, respectively. Amortization expense for capitalized software development costs was $7.7 million and $5.5 million for the six months ended June 30, 2023 and 2022, respectively. Amortization of capitalized software development costs is classified within cost of revenue in the condensed consolidated statements of operations. During the six months ended June 30, 2023, the Company retired $47.9 million of fully amortized capitalized software development assets.

The expected amortization of capitalized software development costs, as of June 30, 2023, for each of the following years is as follows (in thousands):

2023 (for the remaining six months)	$ 7,710
2024	12,384
2025	7,716
2026	1,359
	$ 29,169

(6) Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these items.

Certain assets, including long-lived assets, goodwill and intangible assets are also subject to measurement at fair value on a non-recurring basis if they are deemed to be impaired as a result of an impairment review. For the six months ended June 30, 2023 and year ended December 31, 2022, no impairments were identified of those assets requiring measurement at fair value on a non-recurring basis.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	As of June 30, 2023			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	$ 185,211	$ —	$ —	$ 185,211
Total financial assets	$ 185,211	$ —	$ —	$ 185,211

	As of December 31, 2022			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	$ 140,336	$ —	$ —	$ 140,336
Total financial assets	$ 140,336	$ —	$ —	$ 140,336

The Company classifies and discloses fair value measurements in one of the following three categories of fair value hierarchy:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities.

Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company's assets that are measured by management at fair value on a recurring basis are generally classified within Level 1 or Level 2 of the fair value hierarchy. The Company did not have any transfers into or out of Level 3 during the six months ended June 30, 2023.

The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents. The fair value of the Company's investments in certain money market funds is their face value and such instruments are classified as Level 1 and are included in cash and cash equivalents on the condensed consolidated balance sheets.

The Company estimates the fair value of the convertible senior notes based on market-observable inputs (Level 2). As of June 30, 2023 and December 31, 2022, the fair value of the 0% convertible senior notes due March 15, 2026 (the "2026 Notes") was determined to be $311.3 million and $320.5 million, respectively, and the principal amount of the notes was $375.0 million for each period. As of June 30, 2023 and December 31, 2022, the fair value of the 0.125% convertible senior notes due December 15, 2024 (the "2024 Notes") was determined to be $121.5 million and $118.2 million, respectively, and the principal amount of the notes was $133.6 million for each period.

(7) Goodwill and Intangible Assets, Net

The following table displays the changes in the gross carrying amount of goodwill (in thousands):

Balance at December 31, 2022	$ 508,781
Foreign currency translation	4,357
Balance at June 30, 2023	$ 513,138

There were no impairments recorded against goodwill during the six months ended June 30, 2023 and for the year ended December 31, 2022.

Intangible assets consisted of the following (in thousands):

	As of June 30, 2023			
	Gross carrying amount	Weighted average life (years)	Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	$ 35,109	3.48	$ (25,864)	$ 9,245
Tradenames	16,385	4.53	(8,635)	7,750
Customer relationships	204,373	8.34	(73,726)	130,647
Total intangible assets	$ 255,867		$ (108,225)	$ 147,642

			As of December 31, 2022	
	Gross carrying amount	Weighted average life (years)	Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	$ 34,924	3.47	$ (21,217)	$ 13,707
Tradenames	16,513	4.55	(7,057)	9,456
Customer relationships	204,697	8.34	(61,683)	143,014
Total intangible assets	$ 256,134		$ (89,957)	$ 166,177

Amortization expense for intangible assets was $9.3 million and $11.2 million for the three months ended June 30, 2023 and 2022, respectively. Amortization expense for intangible assets was $19.0 million and $22.8 million for the six months ended June 30, 2023 and 2022, respectively. Included in the amortization expense amounts is amortization expense attributed to developed technology within cost of revenue of $4.6 million and $6.3 million for the six months ended June 30, 2023 and 2022, respectively. During 2022, the Company assigned $5.6 million net carrying amount of intangible assets associated with a pending asset sale to assets held for sale on the consolidated balance sheet. During the three months ended March 31, 2023, the Company completed the divestiture and derecognized the intangible assets (see Note 8). Additionally, during the six months ended June 30, 2023, the Company retired $0.3 million of fully amortized intangible assets.

The expected amortization of the intangible assets, as of June 30, 2023, for each of the next five years and thereafter is as follows (in thousands):

2023 (for the remaining six months)	$ 18,183
2024	31,861
2025	26,108
2026	20,304
2027	15,890
Thereafter	35,296
	$ 147,642

(8) Assets and Liabilities Held for Sale

The Company entered into an agreement in the fourth quarter of fiscal 2022 to sell certain assets. In connection with entering into this agreement, the Company concluded that the asset sale met the held for sale criteria and classified the assets and liabilities as held for sale.

Assets and liabilities classified as held for sale as of December 31, 2022 were comprised of the following (in thousands):

Accounts receivable	$ 635
Prepaid assets	254
Trade names	184
Customer relationships	5,344
Acquired technology	68
Total assets held for sale	$ 6,485
Accounts payable	$ 53
Accrued expenses	8
Deferred revenue	2,001
Total liabilities held for sale	$ 2,062

The Company completed the asset sale during March 2023 for total proceeds of $4.8 million. In connection with the asset sale, the Company recorded a gain of $0.3 million which is included in other income, net in the condensed consolidated statement of operations for the six months ended June 30, 2023.

(9) Convertible Senior Notes

0% Convertible Senior Notes Due 2026

In March 2021, the Company issued $375.0 million aggregate principal amount of 0% convertible senior notes due 2026, including $50.0 million aggregate principal amount of 2026 Notes issued upon the initial purchasers' exercise in full of their option to purchase additional 2026 Notes. The 2026 Notes will mature on March 15, 2026, unless earlier redeemed or repurchased by the Company or converted by the holders pursuant to their terms. The Company will pay special interest, if any, at the Company's election as the sole remedy relating to the failure to comply with certain reporting obligations and under certain circumstances.

The 2026 Notes are governed by an Indenture between the Company, as issuer, and U.S. Bank National Association, as trustee (the "2026 Notes Indenture"). The 2026 Notes are unsecured and rank: senior in right of payment to the Company's indebtedness that is expressly subordinated in right of payment to the 2026 Notes; equal in right of payment to the Company's existing and future indebtedness that is not so subordinated, including its 0.125% convertible senior notes due 2024 (see 0.125% Convertible Senior Notes Due 2024 below); effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness and other liabilities incurred by the Company's subsidiaries.

Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

The 2026 Notes have an initial conversion rate of 5.5341 shares of common stock per $1,000 principal amount of 2026 Notes. This represents an initial effective conversion price of approximately $180.70 per share of common stock and approximately 2.1 million shares issuable upon conversion. Throughout the term of the 2026 Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the 2026 Notes will not receive any cash payment representing accrued and unpaid special interest, if any, upon conversion of a 2026 Note, except in limited circumstances. Accrued but unpaid special interest, if any, will be deemed to be paid by cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock paid or delivered, as the case may be, to the holder upon conversion of a 2026 Note.

Holders may convert all or a portion of their 2026 Notes prior to the close of business on the business day immediately preceding December 15, 2025, in multiples of $1,000 principal amount, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on June 30, 2021 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any ten consecutive trading day period (the "2026 Notes Measurement Period"), in which the "trading price" (as the term is defined in the 2026 Notes Indenture) per $1,000 principal amount of notes for each trading day of such 2026 Notes Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- if the Company calls such notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the notes called (or deemed called) for redemption; or
- upon the occurrence of specified corporate events.

On or after December 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2026 Notes at the conversion rate at any time regardless of whether the conditions set forth above have been met.

As of June 30, 2023, the 2026 Notes are not yet convertible at the option of the debt holder and were classified as long-term on the condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022.

The 2026 Notes are not redeemable by the Company prior to March 20, 2024. The Company may redeem for cash all or any portion of the 2026 Notes, at its option, on or after March 20, 2024 if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid special interest, if any, to, but excluding, the redemption date.

The 2026 Notes consist of the following (in thousands):

	As of June 30, 2023	As of December 31, 2022
Liability component:		
Principal	$ 375,000	$ 375,000
Less: debt discount, net of amortization	(5,705)	(6,763)
Net carrying amount	$ 369,295	$ 368,237

The following table sets forth total interest expense recognized related to the 2026 Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Amortization of debt discount and transaction costs	$ 532	$ 529	$ 1,057	$ 1,051

Effective interest rates were 0.6% and 7.3% for the three months ended June 30, 2023 and 2022, respectively. Effective interest rates were 0.6% and 7.3% for the six months ended June 30, 2023 and 2022, respectively.

The fair value of the 2026 Notes, which was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, quoted price of the 2026 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments were as follows (in thousands):

	As of June 30, 2023		As of December 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2026 Notes	$ 311,250	$ 369,295	$ 320,520	$ 368,237

In connection with the issuance of the 2026 Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and other financial institutions. The capped call transactions are expected generally to reduce potential dilution to the Company’s common stock upon any conversion of the 2026 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2026 Notes, as the case may be, with such reduction and/or offset subject to a cap. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company’s common stock underlying the 2026 Notes, with an initial strike price of approximately $180.70 per share, which corresponds to the initial conversion price of the 2026 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the 2026 Notes, and with a cap price of approximately $258.14. The cost of the purchased capped calls of $35.1 million was recorded to shareholders’ equity and will not be re-measured.

Based on the closing price of the Company’s common stock of $26.90 on June 30, 2023, the if-converted value of the 2026 Notes was less than their respective principal amounts.

0.125% Convertible Senior Notes Due 2024

In December 2019, the Company issued $450.0 million aggregate principal amount of 0.125% convertible senior notes due 2024, including $75.0 million aggregate principal amount of 2024 Notes issued upon the initial purchasers’ exercise in full of their option to purchase additional 2024 Notes. The 2024 Notes will mature on December 15, 2024, unless earlier redeemed or repurchased by the Company or converted by the holders pursuant to their terms. Interest is payable semiannually in arrears on June 15 and December 15 of each year, commencing on June 15, 2020.

The 2024 Notes are governed by an Indenture between the Company, as issuer, and U.S. Bank National Association, as trustee (the “2024 Notes Indenture”). The 2024 Notes are unsecured and rank: senior in right of payment to the Company’s indebtedness that is expressly subordinated in right of payment to the 2024 Notes; equal in right of payment to the Company’s existing and future indebtedness that is not so subordinated, including its 2026 Notes; effectively junior in right of payment to any of the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness and other liabilities incurred by the Company’s subsidiaries.

Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company’s common stock or a combination of cash and shares of common stock, at the Company’s election. The Company’s current intention is to settle the conversion in shares of common stock if a conversion were to occur.

The 2024 Notes have an initial conversion rate of 8.8999 shares of common stock per $1,000 principal amount of 2024 Notes. This represents an initial effective conversion price of approximately $112.36 per share of common stock and approximately 4.0 million shares issuable upon conversion. Throughout the term of the 2024 Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the 2024 Notes will not receive any cash payment representing accrued and unpaid interest, if any, upon conversion of a 2024 Note, except in limited circumstances. Accrued but unpaid interest will be deemed to be paid by cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock paid or delivered, as the case may be, to the holder upon conversion of a 2024 Note.

Holders may convert all or a portion of their 2024 Notes prior to the close of business on the business day immediately preceding June 15, 2024, in multiples of $1,000 principal amount, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2020 (and only during such calendar quarter), if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any ten consecutive trading day period (the “2024 Notes Measurement Period”), in which the “trading price” (as the term is defined in the 2024 Notes Indenture) per $1,000 principal amount of notes for each trading day of such 2024 Notes Measurement Period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day;
- if the Company calls such notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of specified corporate events.

On or after June 15, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2024 Notes at the conversion rate at any time regardless of whether the conditions set forth above have been met.

As of June 30, 2023, the 2024 Notes were not convertible at the option of the debt holder and were classified as long-term on the condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022.

The 2024 Notes were not redeemable by the Company prior to December 20, 2022. The Company may redeem for cash all or any portion of the 2024 Notes, at its option, on or after December 20, 2022 if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2024 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

During the year ended December 31, 2022, the Company paid approximately $288.8 million in cash to repurchase approximately $316.4 million aggregate principal amount of the 2024 Notes and recognized an extinguishment gain in the amount of $24.0 million in gain (loss) on extinguishment of debt, capped call modification and change in fair value on the consolidated statement of operations during the year ended December 31, 2022.

The 2024 Notes consist of the following (in thousands):

	As of June 30, 2023	As of December 31, 2022
Liability component:		
Principal	$ 133,558	$ 133,558
Less: debt discount, net of amortization	(1,117)	(1,497)
Net carrying amount	$ 132,441	$ 132,061

The following table sets forth total interest expense recognized related to the 2024 Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
0.125% coupon	$ 41	$ 141	$ 83	$ 282
Amortization of debt discount and transaction costs	191	637	381	1,273
	$ 232	$ 778	$ 464	$ 1,555

Effective interest rates were 0.7% and 5.2% for the three months ended June 30, 2023 and 2022, respectively. Effective interest rates were 0.7% and 5.2% for the six months ended June 30, 2023 and 2022, respectively.

The fair value of the 2024 Notes, which was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, quoted price of the 2024 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments were as follows (in thousands):

	As of June 30, 2023		As of December 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2024 Notes	$ 121,538	$ 132,441	$ 118,199	$ 132,061

In connection with the issuance of the 2024 Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and other financial institutions. The capped call transactions are expected generally to reduce potential dilution to the Company’s common stock upon any conversion of the 2024 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2024 Notes, as the case may be, with such reduction and/or offset subject to a cap. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company’s common stock underlying the 2024 Notes, with an initial strike price of approximately $112.36 per share, which corresponds to the initial conversion price of the 2024 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the 2024 Notes, and with a cap price of approximately $166.46. The cost of the purchased capped calls of $44.9 million was recorded to shareholders’ equity and will not be re-measured.

Based on the closing price of the Company’s common stock of $26.90 on June 30, 2023, the if-converted value of the 2024 Notes was less than their respective principal amounts.

The following table summarizes the Company’s debt obligations as of June 30, 2023 (in thousands):

	Remainder of 2023	2024-2025	2026-2027	Total
Debt obligations	$ —	$ 133,558	$ 375,000	$ 508,558

Debt obligations include the principal amount of the 2026 Notes and 2024 Notes but exclude interest payments to be made under the 2026 Notes and 2024 Notes. Although the 2026 Notes and 2024 Notes mature in 2026 and 2024, respectively, they can be converted into cash and shares of the Company’s common stock prior to maturity if certain conditions are met. Any conversion prior to maturity can result in repayments of the principal amounts sooner than the scheduled repayments as indicated in the table. The 2026 Notes and 2024 Notes balance excludes debt discount capitalized on the balance sheet.

(10) Stockholders’ Equity

Preferred Stock

As of June 30, 2023, the Company had authorized 10,000,000 shares of preferred stock, par value $0.001, of which no shares were outstanding.

Common Stock

As of June 30, 2023, the Company had authorized 100,000,000 shares of common stock, par value $0.001. Holders of common stock are entitled to one vote per share. At June 30, 2023 and December 31, 2022, there were 40,658,948 and 40,127,522 shares of common stock issued and outstanding, respectively.

(11) Stock Plans and Stock-Based Compensation

The Company's 2016 Equity Incentive Plan (the "2016 Plan") became effective on September 15, 2016. The 2016 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights and performance share awards to employees, directors and consultants of the Company. The number of shares of common stock reserved for issuance under the 2016 Plan will automatically increase on January 1 of each year by 3% of the number of shares of the Company's capital stock outstanding on the immediately preceding December 31, or such lesser number of shares as determined by the Company's board of directors (the "Board"). Additionally, on December 16, 2022, the Board adopted the Everbridge, Inc. 2022 Inducement Plan (the "2022 Inducement Plan"). The only persons eligible to receive grants of Inducement Awards (as defined below) under the 2022 Inducement Plan are individuals who satisfy the standards for inducement grants under Nasdaq Listing Rule 5635(c)(4). An "Inducement Award" means any right to receive Common Stock, cash or other property granted under the 2022 Inducement Plan (including nonstatutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards, performance cash awards or other stock-based awards).

2016 Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the "2016 ESPP") became effective on September 15, 2016. The number of shares reserved for issuance under the 2016 ESPP will automatically increase on January 1 of each year by the lesser of 200,000 shares of the Company's common stock, 1% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31, or such lesser number of shares as determined by the Company's Board.

The 2016 ESPP allows eligible employees to purchase shares of the Company's common stock at a discount of up to 15% through payroll deductions of their eligible compensation, subject to any plan limitations. The 2016 ESPP provides for separate six-month offering periods beginning each March and September of each fiscal year.

On each purchase date, eligible employees will purchase the Company's stock at a price per share equal to 85% of the lesser of (i) the fair market value of the Company's common stock on the offering date or (ii) the fair market value of the Company's common stock on the purchase date.

For the six months ended June 30, 2023 and 2022, 88,863 and 58,747 shares of common stock were purchased under the 2016 ESPP, respectively. The Company recorded stock-based compensation expense of $0.5 million and $0.4 million for the three months ended June 30, 2023 and 2022, respectively. The Company recorded stock-based compensation expense of $0.9 million and $0.8 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, unrecognized compensation cost related to the 2016 ESPP was $0.3 million which will be amortized over a weighted-average period of 0.17 years.

The fair value of shares issuable under the 2016 ESPP is determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six Months Ended June 30,	
	2023	**2022**
Employee Stock Purchase Plan:		
Expected term (in years) (1)	0.50	0.50
Expected volatility (2)	60%	65%
Risk-free interest rate (3)	5.18%	0.86%
Dividend rate (4)	0%	0%

(1) The expected term represents the contractual term of the 2016 ESPP;

(2) The expected volatility of the Company's common stock on the date of grant is based on the weighted average of the Company's historical volatility as a public company, the implied volatility of publicly-traded options on the Company's common stock and the volatilities of publicly traded peer companies that are reasonably comparable to the Company's own operations;

(3) The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term of the grant; and

(4) The expected dividend yield is assumed to be zero as the Company has never paid dividends and has no current plans to pay any dividends on the Company's common stock.

Stock Options

Stock option awards are granted with an exercise price equal to the fair market value of the Company's common stock at the date of grant based on the closing market price of its common stock as reported on The Nasdaq Global Market. The option awards generally vest over four years and are exercisable any time after vesting. The stock options expire ten years after the date of grant.

There were no stock options granted during the six months ended June 30, 2023. There was no stock-based compensation expense recorded during the six months ended June 30, 2023 or the three months ended June 30, 2022 as stock options were fully vested. The Company recorded stock-based compensation expense of $0.1 million for the six months ended June 30, 2022 attributed to stock options.

The total intrinsic value of options exercised for the six months ended June 30, 2023 and 2022 was $1.1 million and less than $0.1 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each option. Based on the fair market value of the Company's common stock at June 30, 2023 and 2022, the total intrinsic value of all outstanding options was $0.2 million and $1.1 million, respectively.

There were no nonvested stock options as of June 30, 2023. The amount of cash received from the exercise of stock options during the six months ended June 30, 2023 and 2022 was $1.3 million and less than $0.1 million, respectively.

The following table summarizes the Company's stock option activity:

	Stock options outstanding	Weighted average exercise price
Outstanding at December 31, 2022	142,202	$ 23.89
Exercised	(72,036)	17.71
Forfeited	(1,901)	43.86
Outstanding at June 30, 2023	68,265	29.85

Stock options outstanding and exercisable are as follows:

	As of June 30, 2023		
	Number of shares	Remaining contractual life (years)	Weighted-average exercise price
Outstanding and exercisable	68,265	4.10	$ 29.85

Restricted Stock Units

During the six months ended June 30, 2023, the Company granted 1,069,092 restricted stock units ("RSUs") to members of its senior management and certain other employees pursuant to the 2016 Plan. There were 472,978 RSUs that vested during the six months ended June 30, 2023. The Company accounts for RSUs issued to employees at fair value, based on the market price of the Company's common stock on the date of grant. The weighted-average grant date fair values of RSUs granted during the six months ended June 30, 2023 and 2022 were $31.72 and $42.41, respectively. The fair values of RSUs that vested during the six months ended June 30, 2023 and 2022, were $24.1 million and $17.3 million, respectively. During the three months ended June 30, 2023 and 2022, the Company recorded $12.0 million and $11.9 million, respectively, of stock-based compensation related to RSUs. During the six months ended June 30, 2023 and 2022, the Company recorded $22.5 million and $18.9 million, respectively, of stock-based compensation related to RSUs.

As of June 30, 2023, there was $89.3 million of unrecognized compensation expense related to unvested RSUs which is expected to be recognized over a weighted-average period of approximately 2.23 years. For RSUs subject to graded vesting, the Company recognizes compensation cost on a straight-line basis over the service period for the entire award.

Performance-Based Restricted Stock Units

During the six months ended June 30, 2023, the Company granted 337,639 performance-based restricted stock unit (“PSU”) to members of its management pursuant to the 2016 Plan. There were 22,999 PSUs that vested during the six months ended June 30, 2023. Starting in 2023, PSU grants vest based on the achievement of pre-determined performance-based milestones including annual recurring revenue growth thresholds and adjusted earnings before interest, taxes, depreciation and amortization thresholds, as well as the employee’s continued employment with the Company through the date of achievement; through 2022 PSU grants vest based on revenue growth thresholds as well as the employee’s continued employment with the Company through the date of achievement. The measurement periods for the PSUs are two and three years with awards vesting after each measurement period. PSUs contain minimum, target and maximum milestones for each performance-based milestone. The number of shares of common stock to be issued at vesting will range from zero to 125% of the target number of PSUs starting in 2023 and from zero to 150% of the target number of PSUs through 2022. During the six months ended June 30, 2023, the share price of the Company’s common stock on the date of issuance of the PSUs ranged from $32.31 to $34.13 per share. The fair value is based on the value of the Company’s common stock at the date of issuance and the probability of achieving the performance metric. Compensation cost is adjusted in future periods for subsequent changes in the expected outcome of the performance-related conditions. The weighted-average grant date fair values of PSUs granted during the six months ended June 30, 2023 and 2022 were $34.09 and $39.76, respectively.

During the three months ended June 30, 2023 and 2022, the Company recognized $3.8 million and $3.6 million, respectively, of stock compensation expense in connection with PSU awards. During the six months ended June 30, 2023 and 2022, the Company recognized $6.4 million and $2.2 million, respectively, of stock compensation expense in connection with PSU awards. As of June 30, 2023, there was $13.5 million of unrecognized compensation expense related to unvested PSUs which is expected to be recognized over a weighted-average period of approximately 1.77 years. Compensation cost is recognized under the accelerated method and is adjusted in future periods for subsequent changes in the expected outcome of the performance-related conditions.

The following table summarizes the Company’s RSU and PSU activity:

	Number of Shares
Outstanding at December 31, 2022	3,233,298
Granted	1,406,743
Vested	(495,977)
Forfeited	(142,592)
Outstanding at June 30, 2023	4,001,472

Market-Based Grants

During the three months ended March 31, 2022, the Company issued market-based grants, which are payable in cash to partially settle a vendor contract. The grants vest contingent upon the achievement of pre-determined market and service conditions. Cash payment at settlement will range from zero to approximately $1.3 million based on the Company’s total stockholder return (“TSR”) relative to the performance of peer companies through September 2023. The market-based grants are classified as a liability on the Company’s balance sheet and will be remeasured at each reporting period until settlement. Fair value of the market-based grants at June 30, 2023 and 2022 was $4.0 thousand and $0.3 million, respectively. During the three months ended June 30, 2023 and 2022, the Company recognized a credit of $0.1 million related to stock compensation expense and $0.3 million of stock compensation expense, respectively, in connection with these awards. During the six months ended June 30, 2023 and 2022, the Company recognized a credit of $0.2 million related to stock compensation expense and $0.3 million of stock compensation expense, respectively, in connection with these awards.

Fair value of the market-based grants is determined using the Monte-Carlo simulation with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Market-Based Grants:				
Expected term (in years)	0.23	1.23	0.23 - 0.48	1.23 - 1.50
Expected volatility	51%	66%	51% - 57%	58% - 66%
Risk-free interest rate	5.35%	2.81%	4.88% - 5.35%	1.97% - 2.81%
Dividend rate	0%	0%	0%	0%

Stock-Based Compensation Expense

During 2022, the Company updated the presentation of the allocation of stock-based compensation capitalized for software development. Interim periods within 2022 have been recast to conform to the current presentation. The Company recorded the total stock-based compensation expense as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cost of revenue	$ 1,817	$ 1,469	$ 3,472	$ 2,298
Sales and marketing	6,201	6,561	10,948	7,905
Research and development	3,770	3,796	7,496	5,373
General and administrative	4,342	4,385	7,663	6,719
Total	$ 16,130	$ 16,211	$ 29,579	$ 22,295

Stock-based compensation expense is recognized over the award's expected vesting schedule, which is reduced for forfeitures.

(12) Basic and Diluted Net Loss per Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential dilutive shares of common stock. Basic and diluted net loss per share of common stock were the same for all periods presented as the impact of all potentially dilutive securities outstanding was anti-dilutive. The Company uses the if converted method for convertible senior notes for calculating any potential dilutive effect on diluted loss per share.

The following common equivalent shares were excluded from the diluted net loss per share calculation because their inclusion would have been anti-dilutive:

	As of June 30,	
	2023	2022
Convertible senior notes	3,263,941	6,080,480
Stock-based compensation grants	4,069,737	3,660,812
Total	7,333,678	9,741,292

In connection with the issuance of the 2026 Notes in March 2021, the Company paid $35.1 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the 2026 Notes. In connection with the issuance of the 2024 Notes in December 2019, the Company paid $44.9 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the 2024 Notes. The capped call option agreements are excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

Reserve for Unissued Shares of Common Stock

The Company is required to reserve and keep available out of its authorized but unissued shares of common stock such number of shares sufficient for the exercise of all shares granted and available for grant under the Company's 2008 Equity Incentive Plan, 2016 Plan, 2016 ESPP and 2022 Inducement Plan. The amount of such shares of the Company's common stock reserved for these purposes at June 30, 2023 was 7.5 million shares. Additionally, the Company is required to reserve and keep available out of its authorized but unissued shares of common stock shares that become issuable pursuant to the terms of the 2026 Notes and 2024 Notes.

(13) Income Taxes

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for U.S. deferred income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are reinvested indefinitely.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual tax rate changes, the Company makes a cumulative adjustment in that quarter. The Company's quarterly tax provision, and its quarterly estimate of its annual effective tax rate, are subject to significant volatility due to several factors, including the Company's ability to accurately predict its pre-tax income and loss in multiple jurisdictions.

For the three months ended June 30, 2023 and 2022, the Company recorded a provision for income taxes of $1.3 million and a benefit from income taxes of $0.7 million, respectively, resulting in an effective tax rate of (9.19)% and 1.90%, respectively. For the six months ended June 30, 2023 and 2022, the Company recorded a provision for income taxes of $2.1 million and a benefit from income taxes of $1.8 million, respectively, resulting in an effective tax rate of (7.64)% and 3.12%, respectively. The provision for income taxes of $1.3 million and $2.1 million generated in the three and six months ended June 30, 2023, was primarily generated by estimated cash taxes required in jurisdictions in which the estimated deferred tax assets for the year will require a valuation allowance.

As of June 30, 2023, the Company had gross tax-effected unrecognized tax provision of $1.5 million which, if recognized, would favorably impact the effective tax rate. The Company's existing tax positions will continue to generate an increase in unrecognized tax benefits in subsequent periods. The Company's policy is to record interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the three and six months ended June 30, 2023 and 2022, the amounts recorded related to the accrual of interest and penalties were immaterial in each period.

(14) Segment information

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker ("CODM"), who is the Company's chief executive officer, in deciding how to allocate resources and assess the Company's financial and operational performance. While the Company has applications that address multiple use cases, the Company's applications generally operate on and leverage a single technology platform and are deployed and sold in an identical way. In addition, the Company's CODM evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis. As a result, the Company has determined that the Company's business operates in a single operating segment. Since the Company operates as one operating segment, all required financial segment information can be found in the consolidated financial statements.

(15) Revenue Recognition

The following table disaggregates the Company's revenue by geography which provides information as to the major source of revenue. North America includes United States and Canada and International aggregates international revenues excluding Canada. The majority of the Company's North America revenue is generated in the United States (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Primary Geographic Markets	2023	2022	2023	2022
North America	$ 83,155	$ 76,519	$ 165,222	$ 151,499
International	27,414	26,467	53,615	51,862
Total	$ 110,569	$ 102,986	$ 218,837	$ 203,361

The following table presents the Company's revenues disaggregated by revenue source (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Subscription services	$ 101,837	$ 94,558	$ 200,622	$ 186,413
Professional services	6,251	6,024	12,180	12,565
Software licenses and other	2,481	2,404	6,035	4,383
Total	$ 110,569	$ 102,986	$ 218,837	$ 203,361

Contract Assets

Contract assets arise when the Company has earned revenue on a contract with a customer prior to billing. Any contract assets that may arise are recorded in other assets on the condensed consolidated balance sheets net of an allowance for credit losses.

Contract Liabilities

The Company's contract liabilities consist of advance payments and deferred revenue. The Company's contract liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. The Company classifies advance payments and deferred revenue as current or noncurrent based on the timing of when it expects to recognize revenue. Generally, all contract liabilities are expected to be recognized within one year and are included in deferred revenue on the condensed consolidated balance sheets. The noncurrent portion of deferred revenue is included and separately disclosed on the condensed consolidated balance sheets.

Deferred Costs

Current deferred costs, which primarily consist of deferred sales commissions, were $17.2 million and $16.2 million as of June 30, 2023 and December 31, 2022, respectively. Noncurrent deferred costs, which primarily consist of deferred sales commissions, were $24.2 million and $21.4 million as of June 30, 2023 and December 31, 2022, respectively. During the three months ended June 30, 2023 and 2022, amortization expense for the deferred costs was $5.0 million and $4.7 million, respectively. During the six months ended June 30, 2023 and 2022, amortization expense for the deferred costs was $9.5 million and $8.7 million, respectively. There was no impairment loss in relation to the costs capitalized for the six months ended June 30, 2023 and the year ended December 31, 2022, respectively.

Deferred Revenue

During the three months ended June 30, 2023 and 2022, $93.3 million and $86.9 million, respectively, of subscription services, license and other revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period. During the six months ended June 30, 2023 and 2022, $159.0 million and $145.4 million, respectively, of subscription services, license and other revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period.

During the three months ended June 30, 2023 and 2022, $1.7 million and $2.6 million, respectively, of professional services revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period. During the six months ended June 30, 2023 and 2022, $3.9 million and $5.8 million, respectively, of professional services revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period.

Remaining Performance Obligations

As of June 30, 2023, approximately $479.5 million of revenue is expected to be recognized from remaining performance obligations for subscription and other contracts. The Company expects to recognize revenue on approximately $290.1 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

As of June 30, 2023, approximately $9.8 million of revenue is expected to be recognized from remaining performance obligations for professional services contracts. The Company expects to recognize revenue on approximately $9.5 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

(16) Leases

The Company’s leases relate primarily to office facilities that expire on various dates from 2023 through 2031. The terms of the Company's non-cancelable operating lease arrangements typically contain fixed lease payment which increases over the term of the lease at fixed rates, rent holidays and provide for additional renewal periods. Lease expense is recognized over the term of the lease on a straight-line basis. All of the Company’s leases are classified as operating leases. The Company has determined that periods covered by options to extend the Company’s leases are excluded from the lease term as the Company is not reasonably certain the Company will exercise such options.

The Company records its right-of-use (“ROU”) asset within other assets (long term) and its operating lease liabilities within other current and long-term liabilities.

Additional information related to the Company’s leases is as follows (in thousands, except lease term and discount rate):

	As of June 30, 2023	As of December 31, 2022
Balance sheet information		
ROU assets	$ 17,137	$ 17,872
Lease liabilities, current	$ 3,809	$ 3,797
Lease liabilities, non-current	18,000	18,742
Total lease liabilities	$ 21,809	$ 22,539
Supplemental data		
Weighted average remaining lease term	6.30 years	6.57 years
Weighted average discount rate	6.08 %	5.68 %

	Six Months Ended June 30,	
	2023	2022
Cash paid for amounts included in lease liabilities	$ 2,435	$ 3,768
ROU assets obtained in exchange for new lease obligations	2,056	269

Maturities of lease liabilities as of June 30, 2023 were as follows (in thousands):

Year ending December 31,	
2023 (for the remaining six months)	$ 2,435
2024	4,608
2025	4,074
2026	3,676
2027	3,377
Thereafter	9,466
Total undiscounted lease payments	27,636
Less: imputed interest	(5,827)
Total lease liabilities	$ 21,809

The following table presents components of lease expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease expense	$ 1,148	$ 1,613	$ 2,481	$ 3,221
Short-term lease expense[1]	141	148	310	330
	1,289	1,761	2,791	3,551
Less: Sublease income	(57)	(23)	(126)	(46)
Total lease expense	$ 1,232	$ 1,738	$ 2,665	$ 3,505

(1) Short-term lease expense includes all leases with lease terms ranging from less than one month to one year.

As of June 30, 2023, the Company does not have any leases that have not yet commenced that create significant rights and obligations.

(17) Commitments and Contingencies

Litigation

In April 2022, certain former shareholders of The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, “Anvil”), which was acquired by Everbridge on November 4, 2021, filed a claim in the United Kingdom Commercial Court against Everbridge Holdings Limited and Everbridge, Inc. The suit claims that these companies breached certain provisions of the acquisition documents relating to the issuance of Everbridge, Inc. stock, which formed part of the consideration payable for the stock in Anvil. The claimants are seeking damages for losses they purport to have suffered as a result of these alleged breaches. The Court has set a trial date in late April 2024.

IIn April 2022, a putative class action lawsuit was filed in the United States District Court for the Central District of California against the Company, Jaime Ellertson, Patrick Brickley, and David Meredith (the Company's former Chief Executive Officer) by Sylebra Capital Partners Master Fund Ltd, Sylebra Capital Parc Master Fund, and Sylebra Capital Menlo Master Fund (collectively, "Sylebra"). In September 2022, Sylebra filed an amended and restated complaint (the "First Amended Complaint"). The lawsuit alleges violations of the federal securities laws by the Company and certain of its officers and directors arising out of purported misrepresentations in the information the Company provided to investors regarding the Company's organic and inorganic revenue growth, and the status of integrating acquisitions, which allegedly artificially inflated the price of the Company's stock during the period from November 4, 2019 to February 24, 2022. The Company is not able to estimate the amount of the loss allegedly suffered by members of the putative class or the amount of legal costs and internal efforts associated with defending the Company and the Company's officers and directors. The Company intends to defend the action vigorously. In October 2022, the Company filed a motion to dismiss the lawsuit on various grounds, including failure to plead any actionable misstatement or omission, failure to establish scienter, and failure to meet the pleading requirements of the Private Securities Litigation Reform Act and other applicable law. On May 9, 2023, the Court granted the Company's motion to dismiss each of the claims, dismissing the First Amended Complaint in its entirety, without prejudice. Sylebra filed a Second Amended Complaint on June 30, 2023. The Company intends to move for dismissal of the Second Amended Complaint by August 14, 2023. Even if the Company were to prevail, this litigation could continue to be costly and time-consuming and divert the attention of the Company's management and key personnel from the Company's business operations. During the course of the litigation, the Company anticipates announcements of the results of hearings and motions, and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the market price of the Company's common stock may decline. If the Company is unsuccessful in defending itself in this litigation, this lawsuit could materially and adversely affect the Company's business, financial condition, results of operations and cash flows.

In June 2022, a purported shareholder derivative action was filed in the United States District Court for the Central District of California against certain current and former directors and officers of the Company, naming the Company as a nominal defendant. The suit claims that these individuals breached their fiduciary duties to the Company's shareholders and to the Company generally in connection with the same set of circumstances alleged in the class action lawsuit. The complaint is derivative in nature and does not seek relief from the Company. This action has been stayed pending the outcome of the motion to dismiss filed in the putative class action lawsuit brought by Sylebra.

From time to time the Company may become involved in other legal proceedings or be subject to claims arising in the ordinary course of business. Although the results of ordinary course litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on its business, financial condition, results of operations or cash flows. Regardless of the outcome, litigation can have an adverse impact because of defense and settlement costs, diversion of management resources and other factors.

Employee Contracts

The Company has entered into employment contracts with certain of the Company's executive officers which provide for at-will employment. However, under the provisions of the contracts, the Company would incur severance obligations of up to twelve months of the executive's annual base salary for certain events, such as involuntary terminations.

(18) Restructuring and Restructuring-Related Activities

In May 2022, the Board approved a program (the "2022 Strategic Realignment") to strategically realign the Company's resources in order to accelerate and grow the Company's investments in the Company's largest growth opportunities while streamlining the Company's operations. The 2022 Strategic Realignment program includes a targeted realignment and reduction of headcount, facilities and other third-party spend.

The 2022 Strategic Realignment program is in support of the 2022 strategic initiatives to simplify the Company's business and accelerate the integration of recent acquisitions, and will help to drive the financial outcomes of sustainable growth and improved profitability and cash flow and is expected to be substantially completed by the first half of fiscal 2024.

In addition to restructuring costs, the Company will also incur costs that do not constitute restructuring under ASC 420, *Exit and Disposal Cost Obligations*, and which the Company instead refers to as business transformation costs. These costs consist primarily of expenditures directly related to the 2022 Strategic Realignment and include employee retention costs, professional fees and investments in automation and technology. The following table provides a summary of the Company's estimates of total pre-tax charges associated with the 2022 Strategic Realignment, by major type of cost, of which approximately $33 million to $35 million are expected to result in cash outlays (in millions):

	Total Estimated Amount Expected to be Incurred		
Restructuring charges:			
Workforce	$ 12	to	$ 12
Facilities-related	5	to	6
Other	—	to	—
Business transformation charges	17	to	18
Total restructuring and business transformation charges	$ 34	to	$ 36

The following table sets provides a summary of restructuring activities (in thousands):

	Workforce (1)	Facilities-related	Other (2)	Total
Balance at January 1, 2023	$ 1,294	$ 36	$ —	$ 1,330
Charges	610	51	24	685
Charges settled in cash	(1,338)	(65)	(109)	(1,512)
Charges settled in non-cash	—	(22)	—	(22)
Balance at June 30, 2023	$ 566	$ —	$ (85)	$ 481

(1) Balance at June 30, 2023 is recorded in accrued payroll and employee related liabilities on the condensed consolidated balance sheet.

(2) Balance at June 30, 2023 is recorded in prepaid expenses on the condensed consolidated balance sheet.

Since the inception of the 2022 Strategic Realignment program through June 30, 2023, the Company incurred approximately $12.9 million of restructuring charges, of which $8.4 million was for employee-related expenses, $4.3 million was for facilities-related expenses and $0.2 million for other expenses.

The following table presents restructuring and business transformation expenses by major type and line item within our accompanying condensed consolidated statement of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Restructuring charges	$ 664	$ 6,742	$ 685	$ 6,742
Business transformation charges:				
Cost of revenue	324	435	665	435
Sales and marketing	902	208	1,968	208
Research and development	494	213	1,140	213
General and administrative	215	1,996	546	1,996
Other income, net	1	—	—	—
Total business transformation charges	1,936	2,852	4,319	2,852
Total restructuring and business transformation charges	$ 2,600	$ 9,594	$ 5,004	$ 9,594

(19) Subsequent Event

In connection with the 2022 Strategic Realignment program, subsequent to June 30, 2023, the Company incurred charges of approximately $1.8 million related to severance payments and other employee-related costs resulting from additional reductions in workforce. On July 27, 2023, the Board approved an amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of headcount and other third-party spend. Overall, the 2022 Strategic Realignment charges will result in cash expenditures of approximately $33 million to $35 million. The Company expects to record approximately $17 million to $18 million in restructuring charges associated with the 2022 Strategic Realignment, including employee termination benefits, costs to consolidate facilities and other costs. The Company also expects to incur $17 million to $18 million in business transformation costs associated with the 2022 Strategic Realignment, including employee retention costs, professional fees and investments in automation and technology. The 2022 Strategic Realignment is expected to be substantially completed by the first half of fiscal 2024. See Note 18 for details on the 2022 Strategic Realignment.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (i) our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and (ii) our audited consolidated financial statements and the related notes and management’s discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2022 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 24, 2023. This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements are often identified by the use of words such as “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would” or the negative or plural of these words or similar expressions or variations. Such forward-looking statements include, but are not limited to, statements with respect to our outlook; the impact of new accounting standards; our ability to service our debt; our business strategy, including with respect to potential acquisitions; plans and objectives of future operations; the potential impact of macroeconomic events such as the COVID-19 pandemic or the ongoing war in Ukraine; the success of the 2022 Strategic Realignment; expected expenses, cash charges and cost savings; and our future financial and business performance. The events described in these forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, our ability to implement and achieve cost savings and the other operational and personnel changes described herein, and those discussed in the section titled “Risk Factors”, set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Everbridge is a global software company that empowers resilience by leveraging intelligent automation technology to enable customers to anticipate, mitigate, respond to, and recover from critical events to keep people safe and organizations running. During public safety threats including severe weather conditions, active shooter situations, terrorist attacks or a pandemic, as well as critical business events such as IT outages, cyber-attacks, product recalls or supply-chain interruptions, global customers rely on our Critical Event Management platform to empower their resilience and to quickly and reliably aggregate and assess threat data, locate people at risk and responders able to assist, automate the execution of pre-defined communications processes through the secure delivery to a comprehensive range of different communication channels and devices, and track progress on executing response plans. Our customers use our platform to identify and assess hundreds of different types of threats to their organizations, people, assets or brand. Our solutions enable organizations to automate and deliver intelligent, contextual messages to, and receive verification of delivery from, hundreds of millions of recipients, across multiple communications modalities such as voice, SMS and e-mail, in several languages and dialects – all simultaneously. Our Critical Event Management platform is comprised of a comprehensive set of software applications packaged for organizations to address five core use cases, safeguarding: Business Operations, People Resilience, Digital Operations, Smart Security, and Public Safety. Our individual products address the full spectrum of tasks an organization requires to manage a critical event, including Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911. Our applications leverage the Everbridge Critical Event Management platform, permitting customers to use a single contacts database, rules engine of algorithms and hierarchies, and user interface to accomplish multiple objectives. We believe that our broad suite of integrated applications delivered via a single global Critical Event Management (“CEM”) platform is a significant competitive advantage in the resilience market for CEM solutions.

Our customer base has grown from 867 customers at the end of 2011 to more than 6,400 customers as of June 30, 2023. We provide our applications to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education and professional services.

We sell all of our critical event management applications on a subscription basis. We generally enter into contracts that range from one to three years in length, with an average contract duration of 1.7 years as of June 30, 2023, and generally bill and collect payment annually in advance. We derive most of our revenue from subscriptions to applications. On average, 95% of the revenue that we recognized in each of the eight most recently completed quarters was generated from contracts entered into in prior quarters or renewals of those contracts; the balance of the revenue that we recognized in each such quarter was generated from contracts entered into with new customers or new contracts, other than renewals, entered into with existing customers in such quarter. Our pricing model is based on the number of applications subscribed to and, per application, the number of people, locations and things connected to our platform as well as the volume of communications. We also offer premium services including data feeds for social media, threat intelligence and weather. We generate additional revenue by expanding the number of applications that our customers subscribe to and the number of contacts and devices connected to our platform.

We generated revenue of $110.6 million and $103.0 million for the three months ended June 30, 2023 and 2022, respectively, representing a period-over-period increase of 7%. We generated revenue of $218.8 million and $203.4 million for the six months ended June 30, 2023 and 2022, respectively, representing a period-over-period increase of 8%. We had net losses of $15.1 million and $36.2 million for the three months ended June 30, 2023 and 2022, respectively. We had net losses of $29.7 million and $55.3 million for the six months ended June 30, 2023 and 2022, respectively. As of each of June 30, 2023 and 2022, 18% of our customers were located outside of North America. These customers generated 25% and 26% of our total revenue for the three months ended June 30, 2023 and 2022, respectively, and 24% and 26% of our total revenue for the six months ended June 30, 2023 and 2022, respectively. North America includes United States and Canada and International aggregates international revenues excluding Canada.

We have focused on rapidly growing our business and believe that the future growth of our business is dependent on many factors, including our ability to increase the functionality of our platform and applications, expand our customer base, accelerate adoption of our applications beyond Mass Notification within our existing customer base and expand our international presence. Our future growth will also depend on the growth in the market for critical event management solutions and our ability to effectively compete. In order to further penetrate the market for critical event management solutions and capitalize on what we believe to be a significant opportunity, we intend to continue to invest in research and development, build-out our data center infrastructure and services capabilities and hire additional sales representatives, both domestically and internationally, to drive sales to new customers and incremental sales of new applications to existing customers. Nevertheless, we expect to continue to incur losses in the near term and, if we are unable to achieve our growth objectives, we may not be able to achieve profitability.

Recent Developments

2022 Strategic Realignment Amendment

On May 3, 2022, our board of directors (our “Board”) approved a program (the “2022 Strategic Realignment”) to strategically realign our resources in order to accelerate and grow our investments in our largest growth opportunities while streamlining our operations, as amended in November 2022. On July 27, 2023, our Board approved an additional amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of workforce and other third-party spend. See Note 18 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for details on the 2022 Strategic Realignment and Note 19 for details on the 2022 Strategic Realignment amendment.

Other Business and Macroeconomic Conditions

Rising interest rates present a recent challenge impacting the U.S. economy and could make it more difficult for us to obtain traditional financing on acceptable terms, if at all, in the future. The general consensus among economists suggests that we should expect a higher recession risk to continue over the next year, which, together with rising interest rates and inflation, could result in further economic uncertainty and volatility in the capital markets in the near term, and could negatively affect our operations. Furthermore, such economic conditions have produced downward pressure on share prices. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, we may experience increases in the near future, especially if inflation rates continue to rise, on our operating costs including our labor costs, employee availability and wage increases, consequences associated with COVID-19 and the ongoing conflict between Russia and Ukraine which may result in additional stress on the Company’s working capital resources. Additionally, in March 2023, Silicon Valley Bank and Signature Bank were closed and taken over by the Federal Deposit Insurance Corporation, which raised concern regarding the stability of other banks in the United States and in particular with respect to regional banks. While we have not been materially impacted by such events to date, if our primary banking partners or the banking partners of our customers were to experience a similar crisis, it may cause a material impact on our liquidity, including the ability to access our cash and cash equivalents, or the liquidity of our customers such as delays in, or failure to, make payments, or reduce their demand for our products.

Presentation of Financial Statements

Our consolidated financial statements include the accounts of our wholly-owned subsidiaries. Business acquisitions are included in our consolidated financial statements from the date of the acquisition. Our purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All intercompany balances and transactions have been eliminated in consolidation.

We report our financial results as one operating segment. Our operating results are regularly reviewed on a consolidated basis by our chief executive officer, who is our chief operating decision maker, principally to make strategic decisions regarding how we allocate our resources and to assess our consolidated operating performance.

Components of Results of Operations

Revenue

We derive most of our revenue from the sale of subscriptions to our critical event management and enterprise safety applications.

We generally bill and collect payment for our subscriptions annually in advance. All revenue billed in advance of services being delivered is recorded in deferred revenue. The initial subscription period typically ranges from one to three years. We offer varying levels of customer support based on customer needs and the complexity of their businesses, including the level of usage by a customer in terms of minutes or the amount of data used to transmit the notifications. Our pricing model is based on the number of applications subscribed to and, per application, the number of people, locations and things connected to our platform as well as the volume of communications. We also offer premium services including data feeds for social media, threat intelligence and weather. We generate additional revenue by expanding the number of premium features and applications that our customers subscribe to and the number of contacts connected to our platform. Our revenue growth in the near-term may be adversely affected by our ability to integrate our recent acquisitions, drive new client adoption and sales of our full-suite of solutions.

We also sell professional services, which primarily consist of fees for deployment and optimization services as well as training. In addition, we also sell our software and related post contract support for on premises usage.

Cost of Revenue

Cost of revenue includes expenses related to the fulfillment of our subscription services, consisting primarily of employee-related expenses for data center operations and customer support, including salaries, bonuses, benefits and stock-based compensation expense. Cost of revenue also includes hosting costs, messaging costs and depreciation and amortization. As we add data center capacity and support personnel in advance of anticipated growth, our cost of revenue will increase and, if anticipated revenue growth does not occur, our gross profit will be adversely affected. After the 2022 Strategic Realignment (as defined below) is completed, we expect a reduction in operational costs.

Operating Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. Salaries, bonuses, stock-based compensation expense and other personnel costs are the most significant components of each of these expense categories. We include stock-based compensation expense incurred in connection with the grant of stock options, restricted stock units, performance-based restricted stock units, market-based grants and our employee stock purchase plan within the applicable operating expense category based on the equity award recipient’s functional area.

Sales and Marketing

Sales and marketing expense primarily consists of employee-related expenses for sales, marketing and public relations employees, including salaries, bonuses, commissions, benefits and stock-based compensation expense. Sales and marketing expense also includes trade show, market research, advertising and other related external marketing expense as well as office and software related costs to support sales. We defer certain sales commissions related to acquiring new customers or services and amortize these expenses ratably over the period of benefit that we have determined to be four years. Sales commissions attributable to professional services are expensed within twelve months of selling the service to the customer. We plan to continue to expand our sales and marketing functions to grow our customer base and increase sales to existing customers. This growth will include adding sales personnel and expanding our marketing activities to continue to generate additional leads and build brand awareness. After the 2022 Strategic Realignment (as defined below) is completed, we expect a reduction in operational costs.

Research and Development

Research and development expense primarily consists of employee-related expenses for research and development staff, including salaries, bonuses, benefits and stock-based compensation expense. Research and development expense also includes the cost of certain third-party services, office related costs to support research and development activities, software subscriptions and hosting costs. We capitalize certain software development costs that are attributable to developing new applications and adding incremental functionality to our platform and amortize these costs over the estimated life of the new application or incremental functionality, which is generally three years. We focus our research and development efforts on improving our applications, developing new applications and delivering new functionality. After the 2022 Strategic Realignment (as defined below) is completed, we expect a reduction in operational costs.

General and Administrative

General and administrative expense primarily consists of employee-related expenses for administrative, legal, finance and human resource personnel, including salaries, bonuses, benefits and stock-based compensation expense. General and administrative expense also includes professional fees, insurance premiums, corporate expenses, transaction-related costs, office-related expenses, facility costs, depreciation and amortization and software license costs. After the 2022 Strategic Realignment (as defined below) is completed, we expect a reduction in operational costs.

Restructuring

Our Board of Directors approved the 2022 Strategic Realignment to strategically realign our resources in order to accelerate and grow our investments in our largest growth opportunities while streamlining our operations. This program is in support of the 2022 strategic initiatives to simplify our business and accelerate the integration of recent acquisitions, and will help to drive the financial outcomes of sustainable growth and improved profitability and cash flow. The 2022 Strategic Realignment program includes a targeted realignment and reduction of headcount, facilities and other third-party spend. See Note 18 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Restructuring expense consists of 2022 Strategic Realignment program expenses related to headcount, facilities and other third-party spend.

Interest and Investment Income

Interest income consists of interest earned on our cash balances held at financial institutions. Investment income consist of interest earned on our short-term investments which consist of U.S. treasuries, U.S. government agency obligations and money market funds.

Interest Expense

Interest expense consists of interest on our outstanding debt obligations including amortization of debt discounts and offering costs.

Other income (expense), net

Other income (expense), net consists primarily of realized foreign currency gains and losses.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenue for those periods. The period-to-period comparison of our historical results is not necessarily indicative of the results that may be expected in the future (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	$ 110,569	$ 102,986	$ 218,837	$ 203,361
Cost of revenue[1]	33,091	33,239	65,072	65,096
Gross profit	77,478	69,747	153,765	138,265
Operating expenses:				
Sales and marketing[1]	42,669	45,359	84,857	87,175
Research and development[1]	24,613	26,619	49,617	50,178
General and administrative[1]	24,963	27,093	49,429	49,429
Restructuring	664	6,742	685	6,742
Total operating expenses	92,909	105,813	184,588	193,524
Operating loss	(15,431)	(36,066)	(30,823)	(55,259)
Other income (expense), net	1,648	(817)	3,234	(1,775)
Loss before income taxes	(13,783)	(36,883)	(27,589)	(57,034)
(Provision for) benefit from income taxes	(1,267)	701	(2,109)	1,779
Net loss	$ (15,050)	$ (36,182)	$ (29,698)	$ (55,255)

(1) Includes stock-based compensation expense and depreciation and amortization of acquired intangible assets as follows. During 2022, we updated the presentation of the allocation of stock-based compensation capitalized for software development. Interim periods within 2022 have been recast to conform to the current presentation (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock-based compensation expense				
Cost of revenue	$ 1,817	$ 1,469	$ 3,472	$ 2,298
Sales and marketing	6,201	6,561	10,948	7,905
Research and development	3,770	3,796	7,496	5,373
General and administrative	4,342	4,385	7,663	6,719
Total	$ 16,130	$ 16,211	$ 29,579	$ 22,295

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Depreciation and amortization expense				
Cost of revenue	$ 6,431	$ 5,998	$ 12,679	$ 12,092
Sales and marketing	374	299	754	523
Research and development	321	223	635	414
General and administrative	7,758	8,737	15,590	17,662
Total	$ 14,884	$ 15,257	$ 29,658	$ 30,691

The following table sets forth our condensed consolidated statements of operations as a percentage of revenue[(1)]:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	30 %	32 %	30 %	32 %
Gross profit	70 %	68 %	70 %	68 %
Operating expenses:				
Sales and marketing	39 %	44 %	39 %	43 %
Research and development	22 %	26 %	23 %	25 %
General and administrative	23 %	26 %	23 %	24 %
Restructuring	1 %	7 %	0 %	3 %
Total operating expenses	84 %	103 %	84 %	95 %
Operating loss	(14)%	(35)%	(14)%	(27)%
Other income (expense), net	1 %	(1)%	1 %	(1)%
Loss before income taxes	(12)%	(36)%	(13)%	(28)%
(Provision for) benefit from income taxes	(1)%	1 %	(1)%	1 %
Net loss	(14)%	(35)%	(14)%	(27)%

(1) Columns may not add up to 100% due to rounding.

Comparison of the Three Months Ended June 30, 2023 and 2022

Revenue

	Three Months Ended June 30,		Change	
(dollars in thousands)	2023	2022	$	%
Revenue	$ 110,569	$ 102,986	$ 7,583	7.4 %

Revenue increased by $7.6 million for the three months ended June 30, 2023 compared to the same period in 2022. The increase was due to a $7.6 million increase in sales of our solutions driven by expansion of our customer base from 6,345 customers as of June 30, 2022 to 6,498 customers as of June 30, 2023, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

	Three Months Ended June 30,		Change	
(dollars in thousands)	2023	2022	$	%
Cost of revenue	$ 33,091	$ 33,239	$ (148)	(0.4)%
Gross margin %	70 %	68 %		

Cost of revenue decreased by $0.1 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily due to a $0.8 million decrease in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. There were 403 and 491 employees as of June 30, 2023 and 2022, respectively. The remaining decrease was principally the result of a $0.2 million decrease in office and other related expenses to support revenue generating activities. These amounts were offset by a $0.5 million increase in hosting, software and messaging costs and other costs and a $0.4 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software.

Gross margin percentage increased due to revenue growth outpacing cost.

Operating Expenses

Sales and Marketing Expense

	Three Months Ended June 30,		Change	
(dollars in thousands)	2023	2022	$	%
Sales and marketing	$ 42,669	$ 45,359	$ (2,690)	(5.9)%
% of revenue	39 %	44 %		

Sales and marketing expense decreased by $2.7 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily due to a $1.9 million decrease in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. There were 542 and 646 employees as of June 30, 2023 and 2022, respectively. The remaining decrease was principally the result of a $0.6 million decrease in advertising-related costs and trade show expenses and a $0.2 million decrease in software expenses to support the sales team.

Research and Development Expense

	Three Months Ended June 30,		Change	
(dollars in thousands)	2023	2022	$	%
Research and development	$ 24,613	$ 26,619	$ (2,006)	(7.5)%
% of revenue	22%	26%		

Research and development expense decreased by $2.0 million for the three months ended June 30, 2023 compared to the same period in 2022. A total of $3.5 million of internally developed software costs during the three months ended June 30, 2022 and $4.7 million of internally developed software costs during the three months ended June 30, 2023 were capitalized, resulting in a $1.2 million decrease in research and development expense during the three months ended June 30, 2023. The decrease was also due to a $0.4 million decrease in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. There were 538 and 550 employees as of June 30, 2023 and 2022, respectively. The remaining decrease was principally the result of a $0.3 million decrease in software-related costs and a $0.1 million decrease in professional services to support research and development activities.

General and Administrative Expense

	Three Months Ended June 30,		Change	
(dollars in thousands)	2023	2022	$	%
General and administrative	$ 24,963	$ 27,093	$ (2,130)	(7.9)%
% of revenue	23%	26%		

General and administrative expense decreased by $2.1 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily due to a $1.2 million decrease in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. There were 192 and 206 employees as of June 30, 2023 and 2022, respectively. The remaining decrease was principally the result of a $1.0 million decrease in depreciation and amortization and a $0.5 million decrease in professional services and office-related expenses to support the administrative team. These decreases were partially offset by a $0.6 million increase in allowance for credit losses.

Restructuring

	Three Months Ended June 30,		Change	
(dollars in thousands)	2023	2022	$	%
Restructuring	$ 664	$ 6,742	$ (6,078)	(90.2)%
% of revenue	1%	7%		

Restructuring expense decreased by $6.1 million for the three months ended June 30, 2023 compared to the same period in 2022. This decrease was primarily due to higher restructuring expenses recognized in the prior year related to the 2022 Strategic Realignment initiatives and includes decreases of $4.1 million for facilities-related expenses, $1.8 million for employee-related expenses and $0.1 million for other expenses.

Other income (expense), net

	Three Months Ended June 30,		Change	
(dollars in thousands)	2023	2022	$	%
Other income (expense), net	$ 1,648	$ (817)	$ 2,465	301.7%
% of revenue	1%	(1)%		

Other income (expense), net changed to income of $1.6 million from an expense of $0.8 million for the three months ended June 30, 2023 when compared to the same period in 2022 primarily due to a $1.6 million increase in interest income, a $0.5 million decrease in interest expense and a $0.4 million increase in other income, net.

Income Taxes

(dollars in thousands)	Three Months Ended June 30, 2023	2022	Change $	%
Benefit from (provision for) income taxes	$ (1,267)	$ 701	$ (1,968)	(280.7)%
% of revenue	(1)%	1%		

A portion of the losses incurred during the three months ended June 30, 2023 are expected to be realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2023. Losses incurred for other operating jurisdictions required a valuation allowance. An income tax provision of $1.3 million was recorded during the three months ended June 30, 2023 primarily generated by estimated cash tax required in jurisdictions in which the estimated deferred tax assets for the year will require a valuation allowance. The change in income taxes of $2.0 million for the three months ended June 30, 2023 as compared to the same period in 2022 was primarily related to losses in foreign jurisdictions realized in the prior year.

Comparison of the Six Months Ended June 30, 2023 and 2022

Revenue

(dollars in thousands)	Six Months Ended June 30, 2023	2022	Change $	%
Revenue	$ 218,837	$ 203,361	$ 15,476	7.6%

Revenue increased by $15.5 million for the six months ended June 30, 2023 compared to the same period in 2022. The increase was due to a $15.5 million increase in sales of our solutions driven by expansion of our customer base from 6,345 customers as of June 30, 2022 to 6,498 customers as of June 30, 2023, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

(dollars in thousands)	Six Months Ended June 30, 2023	2022	Change $	%
Cost of revenue	$ 65,072	$ 65,096	$ (24)	(0.0)%
Gross margin %	70%	68%		

Cost of revenue decreased slightly for the six months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily due to a $1.0 million decrease in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. There were 403 and 491 employees as of June 30, 2023 and 2022, respectively. The remaining decrease was principally the result of a $0.5 million decrease in travel risk management, operational resiliency and occupational health solutions costs and a $0.3 million decrease in office and other related expenses to support revenue generating activities. These amounts were offset by a $1.2 million increase in hosting, software and messaging costs and other costs and a $0.6 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software.

Gross margin percentage increased due to revenue growth outpacing cost.

Operating Expenses

Sales and Marketing Expense

(dollars in thousands)	Six Months Ended June 30, 2023	2022	Change $	%
Sales and marketing	$ 84,857	$ 87,175	$ (2,318)	(2.7)%
% of revenue	39%	43%		

Sales and marketing expense decreased by $2.3 million for the six months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily due to a $1.3 million decrease in advertising-related costs and trade show expenses and a $0.7 million decrease in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. There were 542 and 646 employees as of June 30, 2023 and 2022, respectively. The remaining decrease was principally the result of a $0.3 million decrease in software and office expenses to support the sales team.

Research and Development Expense

(dollars in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change $	Change %
Research and development	$ 49,617	$ 50,178	$ (561)	(1.1)%
% of revenue	23%	25%		

Research and development expense decreased by $0.6 million for the six months ended June 30, 2023 compared to the same period in 2022. A total of $7.5 million of internally developed software costs during the six months ended June 30, 2022 and $8.9 million of internally developed software costs during the six months ended June 30, 2023 were capitalized, resulting in a $1.4 million decrease in research and development expense during the six months ended June 30, 2023. This amount was offset by a $0.7 million increase in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. After the 2022 Strategic Realignment is completed, we expect a reduction in operational costs. There were 538 and 550 employees as of June 30, 2023 and 2022, respectively. Additionally, software-related and office-related expenses increased by $0.1 million for the six months ended June 30, 2023 compared to the same period in 2022.

General and Administrative Expense

(dollars in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change $	Change %
General and administrative	$ 49,429	$ 49,429	$ —	—
% of revenue	23%	24%		

General and administrative expense remained flat during the six months ended June 30, 2023 as compared to the same period in 2022. Depreciation and amortization decreased by $2.1 million and professional services and office-related expenses to support the administrative team decreased by $0.2 million. These amounts were offset by a $2.0 million increase in allowance for credit losses and a $0.3 million increase in employee-related costs, which includes stock-based compensation and employee-related costs related to the 2022 Strategic Realignment. After the 2022 Strategic Realignment is completed, we expect a reduction in operational costs. There were 192 and 206 employees as of June 30, 2023 and 2022, respectively.

Restructuring

(dollars in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change $	Change %
Restructuring	$ 685	$ 6,742	$ (6,057)	(89.8)%
% of revenue	0%	3%		

Restructuring expense decreased by $6.1 million for the six months ended June 30, 2023 compared to the same period in 2022. This decrease was primarily due to higher restructuring expenses recognized in the prior year related to the 2022 Strategic Realignment initiatives and includes decreases of $4.1 million for facilities-related expenses, $1.8 million for employee-related expenses and $0.1 million for other expenses.

Other income (expense), net

(dollars in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change $	Change %
Other income (expense), net	$ 3,234	$ (1,775)	$ 5,009	282.2%
% of revenue	1%	(1)%		

Other income (expense), net changed to income of $3.2 million from expense of $1.8 million for the six months ended June 30, 2023 when compared to the same period in 2022 primarily due to a $3.3 million increase in interest income, a $1.1 million decrease in interest expense, a $0.3 million gain recognized in connection with an asset sale during the six months ended June 30, 2023 and a $0.3 million increase in other income, net.

Income Taxes

(dollars in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change $	Change %
Benefit from (provision for) income taxes	$ (2,109)	$ 1,779	$ (3,888)	(218.5)%
% of revenue	(1)%	1%		

A portion of the losses incurred during the six months ended June 30, 2023 are expected to be realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2023. Losses incurred for other operating jurisdictions required a valuation allowance. An income tax provision of $2.1 million was recorded during the six months ended June 30, 2023 primarily generated by estimated cash tax required in jurisdictions in which the estimated deferred tax assets for the year will require a valuation allowance. The change in income taxes of $3.9 million for the six months ended June 30, 2023 as compared to the same period in 2022 was primarily related to losses in foreign jurisdictions realized in the prior year.

Other Metrics

We regularly monitor a number of financial and operating metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions.

- ***Adjusted EBITDA***. Adjusted EBITDA represents our net loss before interest and investment (income) expense, net, (benefit from) provision for income taxes, depreciation and amortization expense, stock-based compensation expense, costs related to the 2022 Strategic Realignment, change in fair value of contingent consideration, and loss on extinguishment of convertible notes, capped call modification and change in fair value. We do not consider these items to be indicative of our core operating performance. The items that are non-cash include depreciation and amortization expense, stock-based compensation expense, change in fair value of contingent consideration and loss on extinguishment of convertible notes, capped call modification and change in fair value. Adjusted EBITDA is a measure used by management to understand and evaluate our core operating performance and trends and to generate future operating plans, make strategic decisions regarding the allocation of capital and invest in initiatives that are focused on cultivating new markets for our solutions. In particular, the exclusion of certain expenses in calculating adjusted EBITDA facilitates comparisons of our operating performance on a period-to-period basis. Adjusted EBITDA is not a measure calculated in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). We believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and the Board. Nevertheless, use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are: (1) although depreciation and amortization are non-cash charges, the capitalized software that is amortized will need to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; (2) adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; (3) adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation; (4) adjusted EBITDA does not reflect tax payments or receipts that may represent a reduction or increase in cash available to us; and (5) other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces the usefulness of the metric as a comparative measure. Because of these and other limitations, you should consider adjusted EBITDA alongside our other GAAP-based financial performance measures, net loss and our other GAAP financial results. The following table presents a reconciliation of adjusted EBITDA to net loss, the most directly comparable GAAP measure, for each of the periods indicated (in thousands):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net loss	$ (15,050)	$ (36,182)	$ (29,698)	$ (55,255)
Interest and investment expense, net	(1,520)	628	(2,488)	1,866
Provision for (benefit from) income taxes	1,267	(701)	2,109	(1,779)
Depreciation and amortization	14,884	15,257	29,658	30,691
Stock-based compensation	16,130	16,211	29,579	22,295
2022 Strategic Realignment	2,600	9,594	5,004	9,594
Change in fair value of contingent consideration	—	(5)	—	(57)
Adjusted EBITDA	$ 18,311	$ 4,802	$ 34,164	$ 7,355

- ***Free Cash Flow and Adjusted Free Cash Flow***. Free cash flow represents net cash provided by (used in) operating activities minus capital expenditures and capitalized software development costs. Adjusted free cash flow represents free cash flow as further adjusted for cash payments for the 2022 Strategic Realignment. Free cash flow and adjusted free cash flow are measures used by management to understand and evaluate our core operating performance and trends and to generate future operating plans. The exclusion of capital expenditures, amounts capitalized for internally-developed software and cash payments for the 2022 Strategic Realignment facilitates comparisons of our operating performance on a period-to-period basis and excludes items that we do not consider to be indicative of our core operating performance. Free cash flow and adjusted free cash flow are not measures calculated in accordance with GAAP. We believe that free cash flow and adjusted free cash flow provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and the Board. Nevertheless, our use of free cash flow and adjusted free cash flow have limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of our financial results as reported under GAAP. You should consider free cash flow and adjusted free cash flow alongside our other GAAP-based financial performance measures, net cash provided by (used in) operating activities, and our other GAAP financial results. The following table presents a reconciliation of free cash flow and adjusted free cash flow to net cash provided by (used in) operating activities, the most directly comparable GAAP measure, for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net cash provided by (used in) operating activities	$ 5,370	$ (9,924)	$ 25,945	$ (2,222)
Capital expenditures	(1,604)	(879)	(2,179)	(2,726)
Capitalized software development costs	(3,757)	(3,106)	(7,869)	(7,436)
Free cash flow	9	(13,909)	15,897	(12,384)
Cash payments for 2022 Strategic Realignment	1,561	6,319	5,682	6,319
Adjusted free cash flow	$ 1,570	$ (7,590)	$ 21,579	$ (6,065)

- ***Additional Supplemental Non-GAAP Financial Measures.*** To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain additional supplemental non-GAAP financial measures, including non-GAAP gross profit, non-GAAP gross margin and non-GAAP net income (loss), which we collectively refer to as non-GAAP financial measures. These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): amortization of acquired intangibles, stock-based compensation expense, costs related to the 2022 Strategic Realignment, change in fair value of contingent consideration, accretion of interest on convertible senior notes, loss on extinguishment of convertible notes, capped call modification and change in fair value and the tax impact of such adjustments. The tax impact of such adjustments was determined by recalculating the estimated annual effective tax rate utilizing non-GAAP pre-tax income estimated for the year and then applying the recalculated estimated annual effective tax rate to year-to-date non-GAAP income. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision making. While our non-GAAP financial measures are an important tool for financial and operational decision making and for evaluating our own operating results over different periods of time, you should consider our non-GAAP financial measures alongside our GAAP financial results.

We believe that excluding the impact of amortization of acquired intangibles allows for more meaningful comparisons between operating results from period to period as the intangibles are valued at the time of acquisition and are amortized over a period of several years after the acquisition. We exclude stock-based compensation expense which can vary based on plan design, share price, share price volatility, and the expected lives of equity instruments granted. We believe that providing non-GAAP financial measures that exclude stock-based compensation expense allow for more meaningful comparisons between our operating results from period to period because stock-based compensation expense does not represent a cash expenditure. We believe that excluding costs related to the 2022 Strategic Realignment allows for more meaningful comparisons between operating results from period to period as this is a discrete event based on a unique set of business objectives and is incremental to the core activities that arise in the ordinary course of our business. We believe that excluding the change in fair value of contingent consideration allows for more meaningful comparisons between operating results from period to period as it is non-operating in nature. We believe that excluding the impact of accretion of interest on convertible senior notes allows for more meaningful comparisons between operating results from period to period as accretion of interest on convertible senior notes relates to interest cost for the time value of money and are non-operating in nature. We believe that excluding loss on extinguishment of convertible notes, capped call modification and change in fair value allows for more meaningful comparisons between operating results from period to period as losses on the extinguishment of convertible notes, capped call modifications and change in fair value are non-operating in nature. We do not engage in the repurchase of convertible notes on a regular basis or in the ordinary course of business. Accordingly, we believe that excluding these expenses provides investors and management with greater visibility of the underlying performance of our business operations, facilitates comparison of our results with other periods and may also facilitate comparison with the results of other companies in our industry.

There are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact upon our reported financial results. Further, stock-based compensation expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees.

The following table reconciles our GAAP gross profit to non-GAAP gross profit (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Gross profit	$ 77,478	$ 69,747	$ 153,765	$ 138,265
Amortization of acquired intangibles	2,165	3,114	4,550	6,265
Stock-based compensation	1,817	1,469	3,472	2,298
2022 Strategic Realignment	324	435	665	435
Non-GAAP gross profit	$ 81,784	$ 74,765	$ 162,452	$ 147,263

The following table reconciles our GAAP gross margin to non-GAAP gross margin[1]:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Gross margin	70.1 %	67.7 %	70.3 %	68.0 %
Amortization of acquired intangibles margin	2.0 %	3.0 %	2.1 %	3.1 %
Stock-based compensation margin	1.6 %	1.4 %	1.6 %	1.1 %
2022 Strategic Realignment margin	0.3 %	0.4 %	0.3 %	0.2 %
Non-GAAP gross margin	74.0 %	72.6 %	74.2 %	72.4 %

(1) Columns may not add up to 100% due to rounding.

The following table reconciles our GAAP net loss to non-GAAP net income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (15,050)	$ (36,182)	$ (29,698)	$ (55,255)
Amortization of acquired intangibles	9,361	11,262	19,009	22,800
Stock-based compensation	16,130	16,211	29,579	22,295
2022 Strategic Realignment	2,600	9,594	5,004	9,594
Change in fair value of contingent consideration	—	(5)	—	(57)
Accretion of interest on convertible senior notes	723	1,166	1,438	2,324
Income tax adjustments	(340)	(561)	(1,077)	(811)
Non-GAAP net income	$ 13,424	$ 1,485	$ 24,255	$ 890

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash from sales to our customers, along with equity issuances and debt financing arrangements. Our principal source of liquidity is cash and cash equivalents totaling $218.9 million as of June 30, 2023. We have generated significant losses since inception and expect to continue to generate losses for the foreseeable future.

In March 2023, Silicon Valley Bank and Signature Bank were closed and taken over by the Federal Deposit Insurance Corporation, which raised concern regarding the stability of other banks in the United States and in particular with respect to regional banks. While we have not been materially impacted by such events to date, if our primary banking partners or the banking partners of our customers were to experience a similar crisis, it may cause a material impact on our liquidity, including the ability to access our cash and cash equivalents, or the liquidity of our customers such as delays in, or failure to, make payments, or reduce their demand for our products.

We believe that our cash and cash equivalent balances and the cash flows generated by our operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. We believe we will meet longer-term expected future cash requirements and obligations. However, our belief may prove to be incorrect, and we could utilize our available financial resources sooner than we currently expect. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in the section of Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 and Part II, Item 1A of this Quarterly Report on Form 10-Q. We cannot assure you that we will be able to raise additional capital on acceptable terms or at all. In addition, if we fail to meet our operating plan during the next 12 months, our liquidity could be adversely affected.

Material Cash Requirements and Contractual Obligations

We expect to use cash primarily for operating activities, such as expansion of our sales and marketing operations, research and development activities and other working capital needs, such as salaries, bonuses, and other personnel cost and data center hosting costs, as well as payments for acquisitions of businesses, interest payments on our convertible senior notes and payments related to the 2022 Strategic Realignment. We expect to continue to finance our operations primarily through cash from sales to our customers and may consider future equity issuances and debt financing arrangements. As of June 30, 2023, our commitments to settle contractual obligations include $508.6 million principal amount of indebtedness under the 0% convertible senior notes due March 15, 2026 (the “2026 Notes”) and 0.125% convertible senior notes due December 15, 2024 (the “2024 Notes”) (see Note 9 of the notes to consolidated financial statements) and lease obligations of $27.6 million (see Note 16 of the notes to condensed consolidated financial statements).

Cash Flows

The following table summarizes our cash flows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cash, cash equivalents and restricted cash at beginning of period	$ 223,758	$ 495,009	$ 201,594	$ 492,758
Net cash provided by (used in) operating activities	5,370	(9,924)	25,945	(2,222)
Net cash used in investing activities	(5,282)	(3,985)	(5,680)	(10,209)
Net cash provided by (used in) financing activities	(1,830)	(1,678)	94	(549)
Effects of exchange rates on cash, cash equivalents and restricted cash	(134)	(1,943)	(71)	(2,299)
Cash, cash equivalents and restricted cash at end of period	$ 221,882	$ 477,479	$ 221,882	$ 477,479

Sources of Funds

Our sources of funds include cash from sales to our customers, along with equity issuances and debt financing arrangements including our 2026 Notes and 2024 Notes.

Uses of Funds

Our historical uses of cash have primarily consisted of cash used for operating activities, such as expansion of our sales and marketing operations, research and development activities and other working capital needs as well as repurchases of convertible notes and payments related to the 2022 Strategic Realignment.

Operating Activities

Our net loss and cash flows provided by or used in operating activities are significantly influenced by our investments in headcount and infrastructure to support our growth, marketing and sponsorship expenses, and our ability to bill and collect in a timely manner. Our net loss has been significantly greater than our use of cash for operating activities due to the inclusion of non-cash expenses and charges.

Operating activities generated $25.9 million in cash in the six months ended June 30, 2023, primarily as a result of non-cash operating expenses of $71.4 million which was offset by our net loss of $29.7 million and $15.8 million in cash used as a result of changes in operating assets and liabilities. Included in the $25.9 million cash provided by operating activities was $5.7 million cash paid related to the 2022 Strategic Realignment. Specifically, we recognized non-cash charges aggregating to $29.7 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, $29.6 million for stock-based compensation, $9.5 million for amortization of deferred commissions, $2.3 million for provision for credit losses and $1.4 million related to the accretion of interest on our convertible senior notes, partially offset by $0.7 million for deferred income taxes and $0.4 million for gains on the disposal of assets. The net change in operating assets and liabilities of $15.8 million reflected a $13.2 million increase in deferred cost, a $6.2 million decrease in accrued payroll and employee related liabilities, a $5.2 million decrease in deferred revenue, a $4.5 million decrease in accrued expenses, a $3.8 million increase in other assets, a $2.4 million decrease in other liabilities, a $0.9 million decrease in accounts payable and a $0.6 million increase in prepaid expenses. These amounts were offset by a $21.1 million decrease in accounts receivable.

Operating activities used $2.2 million in cash in the six months ended June 30, 2022, primarily as a result of our net loss of $55.3 million and $4.6 million in cash used as a result of changes in operating assets and liabilities which was offset by non-cash operating expenses of $57.6 million. Included in the $2.2 million cash used in operating activities was $6.3 million cash paid related to the 2022 Strategic Realignment. The net change in operating assets and liabilities of $4.6 million reflected a $10.5 million increase in deferred cost, an $8.0 million decrease in accrued payroll and employee related liabilities, a $6.4 million decrease in other liabilities, a $4.5 million decrease in deferred revenue, a $4.2 million decrease in accounts payable and a $2.1 million increase in prepaid expenses. These amounts were offset by a $23.0 million decrease in accounts receivable, a $6.2 million decrease in other assets and a $1.8 million increase in accrued expenses. We recognized non-cash charges aggregating to $30.7 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, $22.3 million for stock-based compensation, $8.7 million for amortization of deferred commissions, $2.3 million related to the accretion of interest on our convertible senior notes, $0.9 million for loss on disposal of assets and $0.3 million for provision for credit losses offset by $7.6 million for deferred income taxes and $0.1 million change in the fair value of our contingent consideration obligation.

Investing Activities

Our investing activities consist primarily of capital expenditures for capitalized software development costs, business acquisitions, property and equipment expenses, purchase and sales of short-term investments and the sale of assets.

Investing activities used $5.7 million in cash in the six months ended June 30, 2023, which consists of a $7.9 million investment in software development, $2.2 million in purchases of property and equipment offset by $4.4 million cash received from the sale of assets.

Investing activities used $10.2 million in cash in the six months ended June 30, 2022, which consists of a $7.4 million investment in software development, $2.7 million in purchases of property and equipment and $0.1 million in other investing activities.

Financing Activities

Cash generated by financing activities includes proceeds from borrowings under our convertible senior notes, proceeds from the partial termination of convertible note capped call hedges, proceeds from the exercise of employee stock options and contributions to our employee stock purchase plan. Cash used in financing activities includes payments for debt and offering issuance costs, purchases of convertible notes capped call hedges, extinguishment of debt, payment of contingent consideration and employee withholding liabilities from the issuance of shares related to restricted stock units and performance-based restricted stock units.

Financing activities provided $0.1 million of cash in the six months ended June 30, 2023, which reflects $2.5 million from the issuance of stock under our employee stock purchase plan and $1.3 million from the exercise of stock options, partially offset by $3.7 million payment for employee withholding taxes related to the issuance of restricted stock units and performance-based restricted stock units.

Financing activities used $0.5 million of cash in the six months ended June 30, 2022, which reflects a $2.3 million payment for employee withholding taxes related to the issuance of restricted stock units and performance-based restricted stock units offset by $1.7 million from the issuance of stock under our employee stock purchase plan and $0.1 million from the exercise of stock options.

Critical Accounting Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of our condensed consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates.

There have been no changes to our critical accounting estimates described in the Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 24, 2023, that have had a material impact on our condensed consolidated financial statements and related notes.

Recently Issued Accounting Pronouncements

See Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a summary of recently issued and adopted accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign exchange rates as well as, to a lesser extent, inflation.

Interest Rate Risk

Our investment portfolio is exposed to market risk from changes in interest rates. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not change the fair value of our interest sensitive financial instruments by a material amount. In addition, if a 100 basis point change in overall interest rates were to occur in 2023, our interest income would not change significantly in relation to amounts we would expect to earn, based on our cash, cash equivalents, and investments as of June 30, 2023.

Changes in interest rates may also impact gains or losses from the conversion of our outstanding convertible senior notes. In March 2021, we issued $375 million in aggregate principal amount of our 2026 Notes. In December 2019, we issued $450 million in aggregate principal amount of our 2024 Notes of which $133.6 million remain outstanding as of June 30, 2023. The 2026 Notes and 2024 Notes are convertible under certain circumstances, including trading price conditions related to our common stock, and upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. The 2026 Notes and 2024 Notes were not convertible as of June 30, 2023.

We are exposed to interest rate risk in the ordinary course of our business. Our cash, cash equivalents and investments include cash in readily available checking and money market accounts and marketable securities. These securities are not dependent on interest rate fluctuations that may cause the principal amount of these assets to fluctuate.

We had cash and cash equivalents of $218.9 million as of June 30, 2023, which consisted of bank deposits and money market funds. To date, fluctuations in interest income have not been significant.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than our functional currency, the U.S. dollar, principally British Pounds, Euro, Norwegian Krone, Swedish Kronor and other foreign currencies. Movements in foreign currencies in which we transact business could significantly affect future net earnings. For example, the strengthening of the U.S. dollar has a negative impact on our reported international net revenue but a positive impact on our reported international operating expenses. We do not currently engage in any hedging activity to reduce our potential exposure to currency fluctuations, although we may choose to do so in the future. A hypothetical 10% change in foreign exchange rates during any of the periods presented would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rate.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations historically. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 17 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of our legal proceedings, which is incorporated herein by reference.

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks, which could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I-Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on February 24, 2023. During the six months ended June 30, 2023, there were no material changes to the risk factors that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

(a) Recent Sales of Unregistered Equity Securities

None

(b) Use of Proceeds

None

(c) Issuer Purchase of Equity Securities

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

During the three months ended June 30, 2023, none of our directors or executive officers adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" (as such terms are defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits.

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
3.1	Sixth Amended and Restated Certificate of Incorporation of Everbridge, Inc.		10-Q	001-37874	3.1	8/9/21
3.2	Second Amended and Restated Bylaws of Everbridge, Inc.		10-Q	001-37874	3.2	8/9/21
10.1	First Amendment to Lease Agreement, dated as of April 10, 2023, by and between Everbridge, Inc. and SFIII Lake, LLC and SFIII FOS Lake, LLC.		10-Q	001-37874	10.2	5/9/23
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File - the cover page interactive data is embedded within the Inline XBRL document or included within the Exhibit 101 attachments.	X				

* This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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.

		Everbridge, Inc.
Date: August 8, 2023	By:	/s/ David J. Wagner
		David J. Wagner
		Chief Executive Officer
Date: August 8, 2023	By:	/s/ Patrick Brickley
		Patrick Brickley
		Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, David J. Wagner, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2023

By: /s/ David J. Wagner
Name: David J. Wagner
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Patrick Brickley, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2023	By:	/s/ Patrick Brickley
		Name: Patrick Brickley
		Title: Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, David J. Wagner, Chief Executive Officer of Everbridge, Inc., do hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Everbridge, Inc. for the quarter ended June 30, 2023 (the "Report"):

(1) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Everbridge, Inc. for the period presented herein.

Date: August 8, 2023	By:	/s/ David J. Wagner
		Name: David J. Wagner
		Title: Chief Executive Officer
		(Principal Executive Officer)

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Everbridge, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, Patrick Brickley, Executive Vice President and Chief Financial Officer of Everbridge, Inc., do hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Everbridge, Inc. for the quarter ended June 30, 2023 (the "Report"):

(1) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Everbridge, Inc. for the period presented herein.

Date: August 8, 2023	By:	/s/ Patrick Brickley
		Name: Patrick Brickley
		Title: Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Everbridge, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.