
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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
(State or other jurisdiction of
incorporation or organization)
25 Corporate Drive, Suite 400
Burlington, Massachusetts
(Address of principal executive offices)

26-2919312
(I.R.S. Employer
Identification No.)

01803
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value \$0.001 Per Share; Common stock traded on The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on June 29, 2018 (the last business day of the registrant's most recently completed second fiscal quarter), as reported on the Nasdaq Global Market on such date, was approximately \$1.4 billion. Shares of the registrant's common stock held by each executive officer, director and holder of 10% or more of the registrant's outstanding common stock have been excluded from this calculation as such persons may be deemed to be affiliates. This calculation does not reflect a determination that these persons are affiliates of the registrant for any other purpose.

The number of shares of registrant's Common Stock outstanding as of February 22, 2019 was 32,807,876.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K, including the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would” and similar expressions or variations intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to continue to add new customers, maintain existing customers and sell new products and professional services to new and existing customers;
- the effects of increased competition as well as innovations by new and existing competitors in our market;
- our ability to adapt to technological change and effectively enhance, innovate and scale our solutions;
- our ability to effectively manage or sustain our growth and to attain and sustain profitability;
- our ability to diversify our sources of revenue;
- our ability to integrate acquired companies, to complete potential acquisitions, and to integrate complementary businesses and technologies;
- our ability to maintain, or strengthen awareness of our brand;
- perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to security breaches in our customers systems, unscheduled downtime or outages;
- statements regarding future revenue, hiring plans, expenses, capital expenditures, capital requirements and stock performance;
- our ability to attract and retain qualified employees and key personnel and further expand our overall headcount;
- our ability to grow, both domestically and internationally;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally, including laws and regulations related to export compliance;
- our ability to maintain, protect and enhance our intellectual property;
- costs associated with defending intellectual property infringement and other claims; and
- the future trading prices of our common stock and the impact of securities analysts’ reports on these prices.

These statements represent the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included under Part I, Item 1A. 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 that occur after the date of this report.

Item 1. Business.

Unless otherwise stated in this Annual Report, references to "Everbridge," "we," "us," and "our" refer to Everbridge, Inc. and its consolidated subsidiaries.

Overview

Everbridge is a global software company that provides enterprise software applications that automate and accelerate organizations' operational response to critical events in order to keep people safe and businesses running faster. During public safety threats such as active shooter situations, terrorist attacks or severe weather conditions, as well as critical business events such as IT outages, cyber-attacks or other incidents such as product recalls or supply-chain interruptions, our Software as a Service or "SaaS"-based platform enables our customers to quickly and reliably aggregate and assess threat data, locate people at risk and responders able to assist, automate the initiation of pre-defined emergency processes 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 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 over 200 countries and territories, in 22 languages and dialects – all simultaneously. Our Critical Event Management platform is comprised of a comprehensive set of software applications that address the full spectrum of tasks an organization has to perform to manage a critical event, including Mass Notification, Incident Management, Safety Connection, IT Alerting, Visual Command Center, Population Alerting, Crisis Commander, Community Engagement and Secure Messaging. We believe that our broad suite of integrated, enterprise applications delivered via a single global platform is a significant competitive advantage in the market for Critical Event Management solutions, which we refer to generally as CEM.

In critical situations, the speed at which threats are assessed and information is transmitted and accessed is essential. For example, United States Department of Homeland Security research indicates that the average duration of an active shooter event at a school is approximately 12.5 minutes, while the average police response time to such events is 18 minutes. Accordingly, organizations must be able to aggregate multiple types of threat and incident data and determine whether their people, assets, or suppliers could be impacted, rapidly deliver messages that are tailored to multiple, specific audiences, in precise locations and be assured of delivery. Further, the proliferation of mobile and digital communications has resulted in individuals spending less time in a fixed office location, with International Data Corporation estimating that by 2020 mobile workers will account for 72% of the total United States workforce, and this trend has simultaneously increased the number of pathways through which people receive information. These developments have made it imperative that organizations be able to locate travelling or remote workers to determine who might be impacted by a critical event, and that critical communications be delivered via voice, SMS, and email, as well as to social media, outdoor signage and personal computers. Moreover, organizations require the ability to leverage all of these pathways, individually or in sequence, to reach people in situations where a certain means of communication may be inoperative or individuals are not responsive to a single pathway. During public safety threats and critical business events, the ability to gather, organize and analyze data in real time, and to enable secure, scalable, reliable and automated communications to people can be essential to saving lives, protecting assets and maintaining businesses. Further, the ability to rapidly organize a response by locating available responders and reducing the time required to initiate action can also result in significant economic savings, as each minute of unplanned downtime costs organizations an average of approximately \$8,900, according to the Ponemon Institute.

The severity, complexity and frequency of these critical events, their implications for business performance and personal safety, and regulatory and compliance challenges are increasing. The need for active shooter preparedness and public safety protection from terrorist attacks, as well managing the response to IT outages, cyber incidents, severe weather conditions, product recalls, supply-chain interruptions, hazardous material discharges and other urgent events, drive the need for a secure, scalable and reliable CEM system that can be operated quickly and easily. In addition, there has been a rapid proliferation of connected devices and networked physical objects – the Internet of Things, or IoT – that have the capability to communicate information about status and environment and generate data that enables individuals and enterprises to take appropriate action. These dynamics have led to a growing need for solutions that can increase the speed and completeness of assessing threats and can deliver comprehensive yet targeted and contextually relevant content that facilitates the desired outcomes in critical situations and overcomes the information overload that individuals face. We estimate, based on data from Frost & Sullivan, presented in an independent study commissioned by us, and data from Markets and Markets, that the market for CEM solutions represents a \$41.0 billion worldwide opportunity in 2020.

Following the tragic events of 9/11, Everbridge was founded with a vision of helping people communicate effectively in critical situations. Our SaaS-based CEM platform is built on a secure, scalable and reliable infrastructure with multiple layers of redundancy to enable the rapid assessment of threat data and delivery of critical communications, with near real-time verification, over numerous devices and contact paths. Our Mass Notification application is our most established application and enables enterprises and governmental entities to aggregate and assess threat data, locate people based on their standard work or home location and send and receive two-way, contextually aware notifications to individuals or groups to keep them informed before, during and after natural or man-made disasters and other emergencies. For example, during Hurricane Irma, our Mass Notification application was used in the state of Florida to deliver more than 18 million communications. By automating the delivery of these types of critical communications, we enable customers to increase the speed and accuracy of their response and reduce associated costs. Importantly, given the pressure and anxiety most people experience in critical situations, our Mass Notification application provides a simple user interface and automated workflows for ease of use. The expertise that we garnered developing our Mass Notification application and our customers' reliance on our solutions led us to leverage our platform to deploy solutions for CEM use cases. In turn, we have developed a full suite of enterprise-scale applications that enable our customers to inform and organize people during critical situations, whether a broad audience or a targeted subset of individuals, globally or locally, and accounting for cultural, linguistic, regulatory and technological differences. As all of our applications leverage our CEM platform, customers can use a single contacts database, rules engine of algorithms and hierarchies and user interface to accomplish multiple objectives. Our applications are easy-to-use, quickly deployable and require limited implementation services and no development resources.

The following situations reflect examples of how our applications aggregate and assess data and enable improved management of critical events:

- When an active shooter situation or terrorist attack occurs, organizations can quickly identify employees in the affected area, including employees not at their usual business location, in order to confirm that they are safe and provide tailored instructions. For example, shelter-in-place instructions may be provided to people in an impacted building while evacuation instructions are provided to those in an adjacent building. At the same time, first responders and hospitals can use multiple modes of alerting to mobilize resources and call in staff to provide emergency care.
- When a hurricane is imminent, local emergency management departments can alert affected communities with relevant safety and evacuation instructions while companies can put in place emergency plans to notify employees of office closures while coordinating work assignments to maintain the continuity of core operations.
- Companies can consolidate separate command centers for emergency operations and supply chain events, using one common data set to aggregate and assess data on severe weather, political unrest and other types of threats to their own and suppliers' operations, thereby reducing costs while gaining efficiencies.
- When IT systems fail, IT administrators can shorten the time required to alert cross-department responders, use scheduling information to determine availability and quickly assemble appropriate personnel on a conference bridge, thereby reducing the costs incurred from downtime.
- When a patient is suspected of having a stroke, an on-call specialist can provide a patient assessment via video communications during the ambulance trip and the emergency room can be readied for an immediate stroke treatment, accelerating critical time to treatment.
- When a cyber incident shuts down an IT network, management can alert employees of the network shutdown via a secure, alternate communication path.
- When a power line is down, utility workers can utilize pre-configured incident management templates to alert affected customers and responders and provide service updates.
- When engine readings in critical equipment detect a malfunction, technicians with the appropriate skills can be automatically alerted and quickly deployed to minimize downtime and avoid revenue loss or service interruption.

- When readings from an implanted medical device are abnormal, that information can be automatically routed to the individual's healthcare provider to enable timely medical care.
- When a young child goes missing, local officials can send alerts to and receive tips from their communities to aid in locating and returning the child.
- When a financial services firm experiences disruptions in service, clients can be promptly notified and audit confirmations can be provided to document delivery.

Our customer base has grown from 867 customers at the end of 2011 to more than 4,400 customers as of December 31, 2018. As of December 31, 2018, our customers were based in 49 countries and included nine of the 10 largest U.S. cities, nine of the 10 largest U.S.-based investment banks, 25 of the 25 busiest North American airports, six of the 10 largest global consulting firms, six of the 10 largest global auto makers, all four of the largest global accounting firms and five of the 10 largest U.S.-based health insurers. We provide products and services to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and government 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 derive substantially all of our revenue from subscriptions to our critical communications applications, which represented 93%, 96% and 96% of our total revenue in 2018, 2017 and 2016, respectively. Historically, we derived more than 62% of our revenue in each of the last three fiscal years from sales of our Mass Notification application. 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 and the number of contacts that our customers purchase over time.

Recent Developments

In April 2018, we acquired all of the outstanding shares of Unified Messaging Systems ASA, or UMS, in exchange for cash consideration of \$31.9 million, net of cash acquired. UMS is an industry leader in the area of critical communication and population alerting systems and is headquartered in Oslo, Norway.

In May 2018, we acquired certain assets from PlanetRisk, Inc., or PlanetRisk, in exchange for cash consideration of \$2.0 million. PlanetRisk is a provider of data analytics and visualization solutions.

In May 2018, we acquired all of the outstanding shares of Respond B.V., or Respond, for a total purchase price of \$2.3 million. Respond is a provider of critical communication solutions and is headquartered in the Netherlands.

In January 2019, we completed a follow-on public offering in which we sold 2,645,000 shares of our common stock, which included 345,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of \$55.25 per share. We received net proceeds of \$139.7 million, after deducting underwriting discounts and commissions.

Industry Background

Over the past two decades, methods to assess critical events and to automate and accelerate the process of managing and responding to such events have evolved rapidly, in tandem with advances in technology, to include automated or system-generated responses, including voice calls, text messages, emails, social media and outdoor digital signage. In critical situations, the speed at which threats are assessed and information is transmitted are essential.

Evolution of Critical Event Management Solutions

Traditional solutions for critical communications have not kept pace with the increasingly digital world, the evolving threat landscape and the opportunity to leverage technological innovation to more effectively gain situational awareness and to communicate with people. These solutions are often developed in-house or are not truly enterprise grade in scale and reliability, leaving many organizations to manually evaluate multiple streams of threat data and to use analog, one-way and people-based modalities to communicate with relevant stakeholders. These solutions lack the scale to reliably address the breadth of the different critical challenges that organizations increasingly face, the sophistication required to address evolving needs with aggregated data and analysis for threat assessment, automated workflows and the ability to rapidly deliver messages that are contextually tailored to multiple, specific audiences, in precise locations, using a variety of different communication modalities. Traditional solutions also typically determine a person's location for threat assessment and availability for response, and send notifications, based upon a static work or home address. Given the mobile nature of today's workforce, solutions now need to be able to dynamically locate who is near a critical event and send instructions to impacted parties and responders based upon where they actually are.

CEM solutions build upon the strengths of modern critical communications. Organizations today typically manage critical events across the organization in silos that use disparate data sources and unintegrated tools, making it difficult to achieve a common operational view of threats and of the status of response. Utilizing a common contact base, consistent rules engines, threat databases that are integrated with information on the location of an organization's people, assets and suppliers, and a common visualization platform, CEM solutions can provide a more integrated solution which can improve management control and visibility and lower costs. The ability to cohesively and rapidly share information and collaborate across the organization underlies creating a common operational approach.

Requirements of Effective Critical Event Management Solutions

In order to deliver effective critical communications solutions, several requirements must be met:

- ***Comprehensive Solution.*** Organizations require an enterprise-scale, comprehensive solution that can provide them with aggregated data and automated workflows and deliver intelligent, contextual messages across multiple communications modalities – all operated from desktop or mobile devices to accommodate managing critical events whenever they occur.
- ***Scalability and Speed.*** Organizations require a solution that is agile and flexible enough to reach individuals at both high volume/low frequency intervals, such as emergency mass notification situations, and low volume/high frequency intervals, such as for IT alerting and secure messaging.
- ***Enterprise-Grade Reliability.*** Given the inherent nature of critical events, organizations require a solution that is robust, resilient and highly redundant, with a high level of assured uptime and a low degree of fault tolerance.
- ***Situational Assessment.*** Organizations require ready access to information from weather feeds, threat sources and IT monitoring systems, as well as the ability to incorporate trends from social media and feedback from their personnel in the field, in order to assess critical events and impacted areas.
- ***Dynamic Location Capability.*** With today's mobile workforce, organizations need to be able to locate and instruct impacted people, and identify and organize responders, based on where they actually are, not just based on their static office or home location.
- ***Visualization.*** Organizations require a visualization platform that integrates threat and incident data from a wide variety of sources, as well as updates on the status of incident response tasks, in order to improve their ability to assess the potential impact of events and the success of mitigation strategies, and to improve management control.
- ***Security and Regulatory Compliance.*** Organizations require a solution that is architected to ensure data and communications security given the significance of the content being managed and the regulatory requirements that apply to the sensitive data being communicated.

- **Intelligent Communication and Contextual Personalization.** Organizations require sophisticated, intelligent technology that can tailor both the content of communications and the modalities through which they are delivered based on differing individual preferences and roles and responsibilities within the organization.
- **Ease-of-Use.** Given the need for speed and the pressure and anxiety most people experience in critical situations, organizations require a solution that is simple and easy-to-use, particularly when lives and property are at risk.
- **Real-Time and After-Event Reporting and Analytics.** To ensure that organizations can measure and improve performance around critical events, a solution should provide detailed, timely and compliant reporting and analytics on organizational responsiveness and the effectiveness of communications.
- **Global Reach and Local Expertise.** Global communications require a “local” approach to deal with the complexity of varying cultural preferences, languages and device types, as well as technical and regulatory requirements.

Key Benefits of Our Solutions and Competitive Strengths

Everbridge was founded with a vision to help organizations communicate quickly and reliably to deliver the right message to the right people, on the right device, in the right location, at the right time during public safety threats and critical business events. Our CEM solutions enable organizations to assess threats, locate impacted people and assets, and manage and respond to critical events, all on a single platform. Key benefits of our solutions and competitive strengths include the following:

- **Comprehensive, Enterprise-Scale Platform.** The core of our solutions is our Critical Event Management platform, which provides multiple layers of redundancy to assure uptime and delivery of communications regardless of volume or throughput requirements. The platform is secure, scalable and reliable, enabling the delivery and verification of tens of millions of different communications virtually anywhere, in any volume, in near real-time. In 2018, we delivered approximately 3 billion communications, or about 90 communications per second, through our globally distributed data centers.
- **Out-of-the-Box, Scalable and Mobile Applications.** Our SaaS-based applications are out-of-the box, enterprise-ready and can be utilized without customer development, testing or ongoing maintenance. Regardless of a customer or prospect’s size or needs, our applications are built to scale to its largest and most complex critical communications requirements.
- **Aggregated Threat Data and Analysis.** Our software gathers and analyzes information from weather data feeds, public safety and threat data feeds, social media, IT ticketing systems and monitoring systems, as well as inputs and feedback from two-way and polling messages. Data can be geo-mapped and threat and incident data can be used to automatically trigger simple or complex workflows that are tied to standard operating procedures or run-books.
- **Contextual Communications.** We enable intelligence and personalization in the critical communications process by delivering contextual communications. Our customers can deliver and escalate critical communications broadly to a mass population or to a targeted subset of individuals based on geographic location, skill level, role and communication modality preferences for rich, two-way collaboration.
- **Dynamic Location Awareness.** Our platform can provide organizations with the ability to send and receive notifications based on the last known locations of people, not just based on a static office or home address. Our platform integrates with a variety of sources of location information, including building access control systems and corporate network access solutions. This location-specific approach enables organizations to quickly determine which individuals may be affected by a public safety threat or able to respond to a critical business event, and to provide targeted and relevant instructions and two- way communications.

- **Large, Dynamic and Rich Communications Data Asset.** As of December 31, 2018, our data asset consists of our contacts databases that manage approximately 270 million contact profiles and connections from more than 4,400 customers based in 49 countries. Our contacts databases, which we refer to as contact stores, are initially created through an upload of contacts from the customer and are automatically updated with the most current contact information provided by the customer or by individuals who opt-in to receive notifications from our Community Engagement application. Our contact stores are repositories for all contact details, attributes and business rules and preferences, such as a person's last-known location, language spoken, special needs, technical certifications and on-call status.
- **Multi-channel Visualization.** Our platform provides the ability to create an integrated view of threats, incidents and the status of response, all within the context of the locations of an organization's people, assets and suppliers. Multiple channels of information can be displayed side-by-side so different facets of a critical event can be monitored simultaneously, and the same data can be displayed on personal computer screens and on a large command center wall to provide flexibility in deployment.
- **Robust Security, Industry Certification and Compliance.** Our platform is built on a secure and resilient infrastructure with multiple layers of redundancy. Many of our enterprise applications are designed to meet rigorous security and compliance requirements for financial services firms, healthcare institutions, the U.S. federal government and other regulated industries, including facilitating compliance with FINRA and HIPAA standards. Our solutions received designation under the Support Anti-terrorism by Fostering Effective Technology Act of 2002, or SAFETY Act, and certification by U.S. Department of Homeland Security that places us on the approved product list for homeland security. Our solutions are also accredited under the Federal Information Security Management Act of 2002, or FISMA. Our Everbridge Suite solution also achieved authorization under the Federal Risk and Authorization Management Program (FedRAMP) in 2018, that required satisfying a rigorous security and risk management review process and which we believe provides an advantage for selling into the U.S. federal sector.
- **Automated Workflows.** Our platform automates the workflows required to complete a critical notification, including establishing the individuals within an organization authorized to send messages, the groups of stakeholders to whom messages will be sent and the content of messages to be sent to different groups of relevant stakeholders, in each case based on incident type. We believe that this automation reduces the amount of time required to send critical notification as well as the associated cost. Our platform also enables customers to automatically establish procedures for improving the success of communication efforts.
- **Globally Local.** Our platform is designed to be utilized globally while accounting for local cultural, linguistic, regulatory and technological differences. We have relationships with suppliers and carriers in multiple countries to ensure delivery in compliance with local, technical and regulatory requirements. We have localized our user interface in 22 languages and dialects that are spoken by more than 60% of the world's population.
- **Next-Generation, Open Architecture.** We developed our platform to easily integrate our applications with other systems. Our solutions provide open Application Program Interfaces, or APIs, and configurable integrations, enabling our platform to work with our customers' and partners' pre-existing processes and solutions, increasing the business value we deliver.
- **Actionable Reporting and Analytics.** Our platform provides real-time dashboards, advanced map-based visualization and ad-hoc reporting across notifications, incidents and contacts. This information is easily accessed for required after-event reviews, continuous process improvements and regulatory compliance.

Our Growth Strategy

We intend to drive growth in our business by building on our position as a global provider of critical event management, critical communications and enterprise safety applications. Key elements of our growth strategy include:

- **Accelerate Our Acquisition of New Customers.** We have multiple paths of entry into new customers with our portfolio of applications, which are used for a wide variety of use cases across a diverse set of verticals markets. We intend to capitalize on the breadth of our solutions and the technological advantages of our CEM platform to continue to attract new customers. In parallel, we plan to attract new customers by investing in sales and marketing and expanding our channel partner relationships.
- **Further Penetrate Our Existing Customers.** With revenue retention rates of over 110% for each of the last three years, we believe that there is a significant opportunity within our existing customer base to expand their use of our platform, both by selling new applications and features to our existing customers and selling to additional departments in their organizations. We believe that we have a significant opportunity to increase the lifetime value of our customer relationships as we educate customers about the benefits of our current and future applications that they do not already utilize and of taking an integrated CEM approach. In the last three years we have added five new applications, which have already begun to experience significant growth. These new applications have grown from 6% in the first quarter of 2016 to 55% in the fourth quarter of 2018 of our contracted sales, which represent the total dollar value of new agreements entered into within the prior 12 months, exclusive of renewals.
- **Develop New Applications to Target New Markets and Use Cases.** Our platform is highly flexible and can support the development of new applications to meet evolving safety and operational challenges. For example, our Safety Connection application enables organizations to locate people and send them notifications based on their dynamic last known location, while actively incorporating threat and other data to allow for targeted and relevant communications. While the historic market for corporate security and safety solutions has been focused on establishing perimeters – locks, alarms and guards – to keep threats to employees outside of the physical premises, our solutions are responsive to the dramatic shift towards an increasingly mobile workforce where employees spend less time in traditional offices. At the same time, protection of employees at traditional places of business remains crucial. Market research completed in 2017 by us together with Emergency Management & Safety Solutions, found that while organizations were very concerned about the risk of workplace violence, 79% said they were at best only somewhat prepared for an active shooter event, and communicating with people in an impacted building was seen as the biggest challenge. In light of these dynamics, we intend to continue to develop new applications for use cases in a variety of new markets and to leverage our platform and our existing customer relationships as a source of new applications, industry use cases, features and solutions.
- **Expand Our International Footprint.** We intend to continue to expand our local presence in regions such as Europe, the Middle East and Asia to leverage our relationships with local carriers and our ability to deliver messages to over 200 countries and territories in 22 languages and dialects as well as expand our channel partnerships and also to opportunistically consider expanding in other regions.
- **Maintain Our Technology and Thought Leadership.** We will continue to invest in our core CEM platform and our applications to maintain our technology leadership position. For example, we believe that we are the only company today that provides a full, integrated CEM solution and that we provide the first solution to offer dynamic versus static location awareness integrated with analysis and communications for the employee safety and security marketplace. Further, we believe we have a competitive advantage through our commitment to innovation and thought leadership that has enabled us to take market share from our competitors and accelerate our growth.
- **Opportunistically Pursue Acquisitions.** We plan to selectively pursue acquisitions of complementary businesses, technologies and teams that allow us to penetrate new markets and add features and functionalities to our platform.

Our Market Opportunity

There is a significant demand for CEM solutions that meet the above requirements. We estimate, based on data from Frost & Sullivan, presented in an independent study commissioned by us, and data from Markets and Markets, that the market for CEM solutions will represent a \$41.0 billion worldwide opportunity in 2020.

More specifically, Markets and Markets estimates that the aggregate market for mass notification software and services is projected to grow to \$4.4 billion in 2020. Further, Frost & Sullivan estimates that: (1) the market for IT service alerting is projected to grow to \$753 million in 2020; (2) the market for telemedicine is projected to grow to \$752 million in 2020; (3) the market for secure mobile messaging is projected to grow to \$694 million in 2020; (4) the market for community engagement is projected to grow to \$516 million in 2020; and (5) the market for IoT is projected to grow to \$9.9 billion in 2020. Finally, Markets and Markets estimates that: (1) the market for safety and security and physical security and information management is projected to grow to \$14.8 billion in 2020; and (2) the market for predictive analytics is projected to grow to \$9.2 billion in 2020.

Our Platform

Since inception, our SaaS-based critical communications engine was architected on a single code base to deliver multi-tenant capability and the speed, scale and resilience necessary to communicate globally when a serious event occurs. This engine is designed to address both the emergency and operational components of a critical communications program, and is capable of providing two-way communications and verified delivery in accordance with our customers' escalation policies. Our critical communications engine has multi-modal communications reach, including redundant global SMS and voice delivery capabilities, and is designed to comply with local, technical and regulatory requirements, which we believe has provided us with a competitive advantage. For example, we believe that our early deployment of local SMS codes intended to comply with rules established by the Telecom Regulatory Authority of India allowed us to increase our SMS delivery success rates in India. Our CEM platform builds on the strengths of this critical communications engine, adding capabilities for integrated threat assessment, visualization, incident management and analytics.

Additional core technical attributes of our platform include:

- Monitors more than 100 types of threat data for situation assessment.
- Multi-tenant architecture that supports multiple layers of redundancy to maximize uptime and delivery of critical content, regardless of volume or throughput requirements.
- Dynamic spatial/geographic information system capability to geo-target communications by zip code, street address or a specific radius from a location.
- Support for two-way communications and alerting on over 100 different devices and endpoints, including landline and wireless phones, hand-held communication and other voice-capable devices, satellite, SMS, two-way radios, outdoor digital signage, sirens and internet enabled devices.
- Designed to meet rigorous security and compliance requirements for financial services firms, healthcare institutions, the U.S. federal government and other regulated industries, including facilitating compliance with health care requirements such as HIPAA privacy and security standards.
- Extensive set of APIs and configuration capabilities to allow customers and partners to easily integrate our platform with other systems. Our APIs' two-way invocation capabilities enable third-party systems to flexibly and easily integrate with our platform.
- Multi-channel visualization capabilities support integrated views of threats, incidents and status of response to improve management visibility and control.
- Supports easy-to-use native mobile applications, including multiple secure mobile applications for message initiation, management and reporting.
- Supports push notifications and two-way conversations that enable mobile users to send and receive secure messages such as text, pictures, videos and the users' current geographic locations.

Our Contact Stores

Our contact stores manage approximately 270 million contact profiles and connections from more than 4,400 customers based in 49 countries as of December 31, 2018, up from 15 million contact profiles as of December 31, 2012. They are initially created through an upload of contacts from the customer and are automatically updated with the most current contact information provided by the customer or by individuals who opt-in to receive notification from our Community Engagement application. Our contact stores are simultaneously enriched by geographic, situational and other real-time data. Our contact stores are repositories for all contact details, attributes and business rules and preferences, such as a person's last-known location, language spoken, special needs, technical certifications and on-call status.

We leverage the data contained in our contact stores in a number of significant ways. Our data asset across multiple verticals enables us to develop best practices for reaching the intended contact, on the correct device, at the right location, at the appropriate time. We also use these data to better understand our customer base and their emerging use cases in order to improve our existing applications and develop new applications.

Everbridge Publishing Network

An important component of our platform is our Everbridge Publishing Network, which allows our customers to share relevant situational awareness information with each other. Public safety agencies, for example, can publish information to the Everbridge Publishing Network about incidents that might prove disruptive to the movement of people, goods and services for businesses within a certain area. If any of those businesses are also customers of ours, they will receive this information from a source they know is vetted and reliable and will be able to take timely steps to mitigate or remediate the situation.

Our Applications

Through our CEM platform, we deliver reliable enterprise-ready applications that provide organizations with the ability to assess threats, locate people, automate actions, monitor incident response, and deliver contextual communications in any volume, in near-real time. We have designed our applications' user interface to be easy to use. We understand that since some of our applications will be utilized to manage complex situations or to send large volumes of messages to key stakeholders during stressful situations, streamlining the user interface to reduce user errors and anxiety is essential. We conduct extensive usability testing and design reviews with our stakeholders, and have applied in our designs the lessons learned over more than a decade of working with critical communications users and professionals.

Our applications enable:

- Communications to key stakeholders during emergency situations.
- Corporate communications with customers and employees.
- Automated outreach to on-call personnel.
- Integrated threat assessment and visualization.
- Integration of physical security data with location awareness data gathered from travel, network and access systems to rapidly find and communicate with employees during disruptive events.
- Securely designed and efficiently implemented communications among healthcare providers and patients.
- Community engagement and collaboration with citizens and businesses.
- Critical IoT communications between machines and from machines to people
- Mobile response plan deployment and management of incidence response.

Our applications include:

- ***Mass Notification.*** Our secure, scalable and reliable Mass Notification application is our most established application and enables enterprises and governmental entities to send contextually aware notifications to individuals or groups to keep them informed before, during and after natural or man-made disasters and other emergencies. We provide robust analytics, map-based targeting, flexible group management, distributed contact data, language localization, multiple options for contact data management and a globally-optimized approach to voice and SMS routing. We also support community engagement functionality, which provides a direct link between residents and emergency management departments with the goal of fostering public safety.

- **Safety Connection.** Our Safety Connection application enables organizations to send notifications based on dynamic last known location of an individual, including the airport, street, building floor or conference room at which the individual was most recently present, while actively incorporating threat and other data to allow for targeted and relevant communications. When fully deployed, the application can also aggregate near real-time data from multiple sources, including building access control systems, wired and wireless network access points, travel management systems and mobile application check-ins. We believe that Safety Connection represents a significant advance in helping organizations use critical communications to keep their constituents safe, as many current solutions use only static office and residential locations that are not sufficiently location-aware relative to an increasingly mobile workforce.
- **Incident Management.** Our Incident Management application enables organizations to automate workflows and make their communications contextually relevant using drag and drop business rules to determine who should be contacted, how they should be contacted and what information is required. We believe that this application decreases costly human errors and reduces downtime, while simultaneously capturing required compliance information. We also support cross-account collaboration and situational intelligence sharing during crises for corporations and communities.
- **IT Alerting.** Our IT Alerting application enables IT professionals to alert and communicate with key members of their teams during an IT incident or outage, including during a cyber security breach. The application integrates with IT service management platforms, including ServiceNow, and uses automatic escalation of alerts, on-call scheduling and mobile alerting to automate manual tasks and keep IT teams collaborating during an incident. We also provide real-time shift calendars with integrated on-call notifications to help users better manage employee resources and get the right message to the right person, at the right time through automated staffing. Taken together, our IT Alerting application has the potential to provide meaningful savings to organizations by reducing mean-time-to-repair. Each minute of unplanned downtime costs organizations an average of approximately \$8,900 according to Ponemon Institute, while 59% of Fortune 500 companies experience 1.6 hours of downtime per week, according to Dunn & Bradstreet. IHS, Inc. estimates information and communication technology downtime costs North American organizations \$700 billion per year.
- **Visual Command Center.** Our Visual Command Center application enables customers to monitor and integrate more than 100 types of threat data, as well as information on internal incidents, to generate and visualize an alert when potential risks occur within proximity of an organization's physical locations, suppliers, assets or people. The solution improves the ability to more quickly understand and assess the impact of threats, execute the correct response, and monitor on-going resolution in order to mitigate risk to personnel safety, business continuity, assets and supply chain operations.
- **Population Alerting.** Our Population Alerting application is used to reach international mobile populations on a regional or country-wide scale. It leverages existing telecom infrastructure to anonymously reach mobile phone users within a geographic area with two-way SMS communications without requiring an existing database of mobile phone numbers. Multichannel alerting can also be accomplished via mobile push notifications, cell broadcast, voice, email, or messaging to electronic display boards or radio. The application has been deployed as part of the national warning system for multiple countries including Sweden, the Netherlands, Greece, Cambodia, and a number of the largest states in India.
- **Community Engagement.** Our Community Engagement application integrates emergency management and community outreach by providing local governments with a unified solution to connect residents to their public safety department, public information resources, and neighbors via social media and mobile applications. This creates a stronger and more engaged community improving the communication reach for emergency personnel, while providing residents with real-time emergency and community information, and allows residents to anonymously opt-in and provide tips. For example, the City of Philadelphia experienced a 70% increase in opt-ins in 2016 with our Community Engagement application.
- **Crisis Commander.** Our Crisis Commander application provides mobile access to crisis, recovery and brand protection plans, as well as the capability to manage a crisis or event through role-based assignments and status updates. Organizations can enhance their overall crisis management efforts by making plans readily available to responders on the most popular mobile platforms regardless of their location. The application also simplifies updating plans for changes to personnel or processes, and enhances visibility into response progress during a critical event.

- **Secure Messaging.** Our Secure Messaging application meets the compliance and security requirements of organizations that need to provide an alternative way for their employees to communicate and share nonpublic information. A tailored version of our Secure Messaging application, CareConverge, is designed for medical professionals and facilitates HIPAA-compliant communications without the need for pagers and other single use devices, supporting the development of a “connected” hospital. CareConverge also facilitates telemedicine by allowing medical professionals to hold video conferences with patients and other medical professionals as well as share medical imaging, lab results and other critical information. Our Secure Messaging application also enables financial services organizations’ employees and customers to securely communicate via text, voice, and video, while remaining FINRA compliant.

Our Technology

The design and development of our applications, and our critical communication and critical event management platforms include the following key attributes:

- **Robust, Enterprise-Grade Scalability and Reliability.** Given the mission-critical nature of our solutions, our multi-tenant platform was designed to provide a robust, high level of resiliency, scalability and redundancy. We use multiple geographically distributed service providers and communications carriers to achieve a high degree of redundancy, fault tolerance and cost-effective operations. We have multiple layers of redundancy and a horizontal scaling model across our infrastructure to deliver high availability and performance. Our redundant data centers are located in Los Angeles, California; Denver, Colorado; San Francisco, California; Ashburn, Virginia; St. Louis, Missouri; and Toronto, Canada as well as in Germany, Norway, Sweden, the United Kingdom and the Netherlands. Similarly, we leverage redundant downstream communications providers to enable our services to remain uninterrupted even if a particular provider encounters technical difficulties.
- **Multi-Modal, Globally Local Communications Delivery.** We optimize international call routing across hundreds of telecommunications providers to enable higher voice quality, improved delivery rates during emergencies and the ability to configure local caller IDs to improve recognition and answer rates. We also work with multiple SMS providers to identify regulatory hurdles and deploy and actively manage an optimal mix of national and international SMS codes to ensure high delivery and response rates.
- **Security and Compliance.** Our security and data protection policies and controls are based on the Federal Information Security Management Act risk management framework defined by the National Institute of Standards and Technology, or NIST, special publication, or SP, 800-37. To meet the rigorous standards of our enterprise and government customers, an independent and accredited third-party security assessment firm annually verifies our compliance with over 800 security and data protection requirements detailed in NIST SP 800-53. Through this process, we map our compliance with other security and data privacy frameworks including ISO 27001 and HIPAA. In addition, we hold certifications including SysTrust Statement on Standards for Attestation Engagements No. 18, Service Operations Controls 2 & 3. We have also been awarded approvals by DHS that enable us to receive priority treatment for vital voice and data circuits or other telecommunications services. More recently, our critical communications solutions received designation under the SAFETY Act and certification by DHS that places us on the approved product list for homeland security and provides us with the highest level of liability protection available under the SAFETY Act. The certification similarly protects our customers from legal liability claims arising from acts of terrorism, as contemplated by the SAFETY Act. Further, our solutions are accredited under FISMA and we are certified under the EU-US Privacy Shield to meet regulatory requirements governing the processing of European Union residents’ personal data outside of the European Union. Our Everbridge Suite solution also achieved authorization under the Federal Risk and Authorization Management Program (FedRAMP) in 2018, that required satisfying a rigorous security and risk management review process and which we believe provides an advantage for selling into the U.S. federal sector.

- **Hybrid Infrastructure.** To provide highly scalable and global solutions, we employ redundant, geographically diverse production implementations of our platform infrastructure in multiple SOC 2-compliant data center facilities in North America and Europe. Within each data center, we utilize a hybrid-cloud architecture that enables us to leverage both proprietary and third-party infrastructure services to enable “on-demand” capacity and performance without substantial upfront investment. Our architecture enables our platform to dynamically determine the best location from which to deliver critical communications on behalf of our customers and solves many international communications delivery challenges by utilizing in-country or in-region telephony, messaging and data communication providers. Our infrastructure is continuously maintained and monitored by dedicated engineers based in redundant network operations centers in the Los Angeles and Boston areas.
- **Dynamic Location Detection.** Our platform can create and update dynamic data sets containing a contact’s last-known location, including the airport, street, building floor or conference room at which the contact was most recently present. Multiple data sources can be aggregated including building access control and badging systems, wired and wireless network access points, and corporate travel management and office hoteling systems. These data are used to best locate a contact in an emergency or critical business situation, independent of the contact’s home or office location. Contacts can also share their location via a three-in-one mobile panic button application, which sends a panic message to the applicable organization’s security team, and also includes the ability to send audio and video content, to check-in to capture and report geo-location data and to establish a safe corridor through a potentially unsafe area.

Our Comprehensive Customer Support Services

We are committed to the success of our customers. We demonstrate this commitment by offering a comprehensive set of support services to help our customers get started quickly, follow best practices, and realize on-going value from our critical communications solution. Our support services include:

- **Rapid Onboarding.** We leverage a proven methodology and domain expertise, honed through thousands of customer on-boardings worldwide, to enable rapid use of our platform and compliance with industry best practices. Promptly after a customer purchases one or more of our applications, our dedicated onboarding team begins to configure our solutions to meet the customer’s needs, including specific messages and scenarios, ad-hoc report templates and incident management reviews. The onboarding service incorporates years of critical communications experiences, including our critical communications certification training through Everbridge University, to improve customer success. The average implementation time for new customers purchasing our solutions is 10 hours.
- **Everbridge University.** We offer online education, training and professional development through Everbridge University, with role-based training modules that can be customized to meet a customer’s needs and that can facilitate formalized knowledge transfer and ensure ongoing self-sufficiency. Everbridge University is available anytime, online and is configured for self-paced use. To date, Everbridge University has delivered over 1 million online training lessons.
- **Dedicated Account Management.** We assign dedicated account managers to all customers. Our account managers work exclusively with customers in a specific industry so they understand the applicable needs and challenges. They act as informed guides to help our customers make effective decisions in deploying our applications. Account managers perform regular service reviews and post-incident analyses of customer communications to incorporate communication best practices and recommend additional applications to meet the customer’s critical communications needs.
- **24/7 Technical Support & Emergency Live Operator Service.** We have established geographically redundant technical support centers in the Los Angeles, California; Boston, Massachusetts; and London, United Kingdom areas. From these support centers, we offer our customers 24/7 support by phone, email or through our online support center. In addition, our support centers offer a 24/7 emergency live operator service to assist customers with sending critical communications.

- **Premium Support Services.** With an understanding of the critical role that our solution plays, we have invested in assembling an expert professional services organization to deliver premium support service packages to our customers. Our professional services team includes certified emergency management and critical communications practitioners. Our premium support services address the unique challenges of customers' organizational structures, operational requirements, implementation and training needs. We believe that we help customers achieve faster time-to-value by providing on-site project management, consultation with a certified critical communications professional, creation of client-specific message and scenarios, development of ad-hoc report templates and on-site emergency and incident management reviews.

Our Customers

Our customer base has grown from 867 customers at the end of 2011 to more than 4,400 customers as of December 31, 2018. We define a customer as a contracting entity from which we generated \$200 or more of revenue in the prior month, either directly or through a channel partner. We do not include customers of our wholly-owned subsidiary, Microtech, which generates an immaterial amount of our revenue in any given year. At the end of 2011 we had 20 customers with contracts valued at \$100,000 or more, whereas as of December 31, 2018 we had 291 customers with contracts valued at \$100,000 or more, including 22 customers with contracts in excess of \$500,000. As of December 31, 2018, our customers were based in 49 countries and included nine of the 10 largest U.S. cities, nine of the 10 largest U.S.-based investment banks, all 25 of the 25 busiest North American airports, six of the 10 largest global consulting firms, six of the 10 largest global auto makers, all four of the largest global accounting firms and five of the 10 largest U.S.-based health insurers. We provide solutions to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and government agencies. Our customers span a wide variety of industries, including technology, energy, financial services, transportation, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education and professional services. For the year ended December 31, 2018, 54% of our revenue was generated from enterprise customers, 33% from government and government-related customers and 13% from healthcare-related customers. No customer contributed more than 3% of our total revenue for the year ended December 31, 2018.

Some of our representative customers by sector include the following:

Enterprise	Healthcare	State and Local Government
Alexion Pharmaceuticals	Alexian Brothers Medical Center	Boston Police Department
Choice Hotels	Boston Children's Hospital	Chicago Department of Aviation
Digital Realty	Catholic Health Initiatives	City of Torrance
DTE Energy	Children's Hospital of Philadelphia	Florida Division of Emergency Management
		Harris County, Texas
East West Bank	Covenant Health System	Los Angeles Police Department
EnerNOC	Doctors Health at Renaissance Health System	Miami International Airport
Ericsson	Florida Health	Muskingum Watershed Conservancy District
Express Scripts	Hawaii Pacific Health	National Capital Region
Facebook	Molina Healthcare	New York City, Emergency Management Department
Hulu	Penn State Health Milton S. Hershey Medical Center	Northeast Region Community Awareness
Olympus Corporation of the Americas	Penrose St. Francis Health Services	Emergency Response
Pearson	Spectrum Health	State of Connecticut, Department of
Sierra Nevada	University Medical Center of El Paso	Emergency Services and Public Protection
Uber	Vanderbilt University Medical Center	University of Louisiana System
Xerox		U.S. Department of Transportation
		Vermont Department of Public Safety

Sales and Marketing

Our sales and marketing organizations collaborate to create brand preference, efficiently and effectively generate leads, build a strong sales pipeline and cultivate customer relationships to help drive revenue growth. Our go-to-market strategy consists of a strong thought-leadership program, digital marketing engine and a diversified sales organization designed to efficiently sell across vertical markets to organizations of all sizes. We have dedicated sales teams focused on corporate customers, healthcare organizations and government customers, which covers U.S. federal, state and local governmental entities.

We believe that our sales and marketing model is economically compelling. We spent \$1.00 to generate each \$1.00 of new sales in each of 2018 and 2017, respectively, which reflects our sales and marketing expense incurred in 2018 and 2017 (other than expense related to employees dedicated to client retention) compared to 12 months of contract value for contracts entered into in 2018 and 2017, and \$0.06 to renew each \$1.00 of renewal sales in each of 2018 and 2017, which reflects our sales and marketing expense related to employees dedicated to client retention compared to 12 months of contract value for contracts renewed in 2018 and 2017.

Sales

We sell our solutions through our telephone and direct inside sales teams, a direct field sales team and a growing partner channel. Our global sales teams focus on both new customer acquisition and up-selling and cross-selling additional and new offerings, respectively, to our existing customers. Our sales teams are organized by geography, consisting of the Americas; Europe, the Middle East and Africa, or EMEA; as well as by target organization size. Our inside sales team focuses typically on small and middle-market transactions, while larger or more complex transactions are generally handled by our direct field sales teams. Our highly trained sales engineers help define customer use cases, manage pilots and train channel partners.

In addition to the vertical and geographic distribution of our salesforce, we have dedicated teams of account executives focused on net new accounts and growth of existing accounts, account managers responsible for renewal of existing accounts, and business development representatives targeting new and growth business opportunity creation. Our sales representatives use phone, email and web meetings to interact with prospects and customers. In 2018, we increased the headcount of our sales organization, and we intend to continue to invest in building our global sales and go-to-market organizations.

We also sell through channel partners both domestically and internationally. To help integrate our applications with other third-party services and take advantage of current and emerging technologies, we seek to enter into alliances with leading technology companies.

Marketing

We focus our marketing efforts on increasing the strength of the Everbridge brand, communicating product advantages and business benefits, generating leads for our salesforce and channel partners, leveraging geographic market strengths and driving product adoption. We run campaigns that take advantage of a network effect in which success within a region encourages other organizations within that area to choose our solutions, in part to be using a system consistent with that of other entities in the area with which they may share information or best practices. We deliver targeted content to demonstrate our thought leadership in critical communications best practices and use digital advertising methods to drive conversion of potential prospects, which convert to opportunities for our sales organization.

Our marketing team focuses on inbound marketing through our industry-leading content, resources, and sharing customer best practices. We rely on multiple marketing and sales automation tools to efficiently market to, and automatically identify qualified individuals using product and industry specific criteria. We use multiple marketing tactics to engage with prospective customers including: email marketing, event marketing, print and digital advertising, and webinar events. We engage with existing customers to provide vertically-based education and awareness and to promote expanded use of our current and new software offerings within these customers. We also host regional and national events to engage both customers and prospects, deliver product training and foster community.

Research and Development

We invest substantial resources in research and development and leverage offshore development in multiple geographies to implement a “follow the sun” engineering strategy and to increase the efficiency of our overall development efforts. We enhance our core technology platform and applications, develop new end market-specific solutions and applications, and conduct application and quality assurance testing. Our technical and engineering team monitors and tests our applications on a regular basis, and we maintain a regular release process to refine, update, and enhance our existing applications. Research and development expense totaled \$41.3 million, \$22.2 million and \$14.8 million for 2018, 2017 and 2016, respectively.

Our Competition

The market for CEM solutions is highly fragmented, intensely competitive and constantly evolving. We compete with an array of established and emerging companies, many of whom are single product or single market focused, as well as in-house solutions. With the introduction of new technologies and market entrants, we expect the competitive environment to remain intense going forward. The primary competitors for our Mass Notification and Incident Management applications include: BlackBerry Limited, F24 AG, Enera Inc., Nuance Communications, Inc., OnSolve, LLC, Rave Wireless, Inc. and SunGard Data Systems Inc. The primary competitors for our IT Alerting application include: PagerDuty, Inc. and xMatters, Inc. The primary competitors for our Secure Messaging application include: DocHalo, LLC, Spok, Inc., Perfect Serve, Inc. and TigerText, Inc. With respect to our recent acquisitions, the primary competitors for our Crisis Commander application includes In Case of Crisis. The primary competitor for our Population Alerting application is one2many.

We compete on the basis of a number of factors, including:

- product functionality, including local and multi-modal delivery in international markets;
- breadth of offerings;
- performance, security, scalability and reliability;
- compliance with local regulations and multi-language support;
- brand recognition, reputation and customer satisfaction;
- ease of implementation, use and maintenance; and
- total cost of ownership.

We believe that we compete favorably with respect to all of these factors and that we are well positioned as a leading provider of targeted and contextually relevant critical communications.

Intellectual Property

Our future success and competitive position depend in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patent, trademark, copyright and trade secret laws and contractual protections in the United States and other jurisdictions.

We have numerous issued patents and patent applications pending. We cannot assure you that any patents will issue from any patent applications, that patents that issue from such applications will give us the protection that we seek or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers.

We have registered the “Everbridge” and “Nixle” names in the United States and have registered the “Everbridge” name in the European Union. We have registrations and/or pending applications for additional marks in the United States; however, we cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights.

We also license software from third parties for integration into our offerings, including open source software and other software available on commercially reasonable terms. We cannot assure you that such third parties will maintain such software or continue to make it available.

We are the registered holder of a variety of domestic and international domain names that include everbridge.com, as well as similar variations on that name.

In order to protect our unpatented proprietary technologies and processes, we rely on trade secret laws and confidentiality agreements with our employees, consultants, vendors and others. Despite our efforts to protect our proprietary technology and trade secrets, unauthorized parties may attempt to misappropriate, reverse engineer or otherwise obtain and use them. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, the contractual provisions that we enter into may not prevent unauthorized use or disclosure of our proprietary technology or intellectual property rights and may not provide an adequate remedy in the event of unauthorized use or disclosure of our proprietary technology or intellectual property rights.

If we become more successful, we believe that competitors will be more likely to try to develop solutions that are similar to ours and that may infringe our proprietary rights. It may also be more likely that competitors or other third parties will claim that our solutions infringe their proprietary rights.

Patent and other intellectual property disputes are common in our industry and we have been involved in such disputes from time to time in the ordinary course of our business. Some companies, including some of our competitors, own large numbers of patents, copyrights and trademarks, which they may use to assert claims against us. Third parties may in the future assert claims of infringement, misappropriation or other violations of intellectual property rights against us. They may also assert such claims against our customers whom we typically indemnify against claims that our solution infringes, misappropriates or otherwise violates the intellectual property rights of third parties. As the numbers of products and competitors in our market increase and overlaps occur, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violation of intellectual property rights by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from our business.

Government Regulation

We are subject to a number of U.S. federal and state and foreign laws and regulations that involve matters central to our business. These laws and regulations may involve privacy, data protection, intellectual property, competition, consumer protection, export taxation or other subjects. Many of the laws and regulations to which we are subject are still evolving and being tested in courts and could be interpreted in ways that could harm our business. In addition, the application and interpretation of these laws and regulations often are uncertain, particularly in the new and rapidly evolving industry in which we operate. Because global laws and regulations have continued to develop and evolve rapidly, it is possible that we may not be, or may not have been, compliant with each such applicable law or regulation. For a discussion of risks related to these various areas of government regulation, see the risk factors set forth in Part I, Item 1A of this Annual Report on Form 10-K.

Culture and Employees

We believe that our culture has been a key contributor to our success to-date and that the critical nature of the solutions that we provide promotes a sense of greater purpose and fulfillment in our employees. We have invested in building a strong corporate culture and believe it is one of our most important and sustainable sources of competitive advantage.

As of December 31, 2018, we had 777 full-time employees, including 173 in data center operations and customer support, 286 in sales and marketing, 229 in research and development and 89 in general and administrative. As of December 31, 2018, we had 558 full-time employees in the United States and 219 full-time employees internationally. None of our U.S. employees are covered by collective bargaining agreements. We believe our employee relations are good and we have not experienced any work stoppages.

Facilities

Our principal executive offices are located in Burlington, Massachusetts, where we occupy an approximately 73,500 square-foot facility under a lease expiring on May 31, 2024, and in Pasadena, California, where we occupy an approximately 19,000 square-foot facility under a lease expiring on December 31, 2023. We also have offices in San Francisco, California; Lansing, Michigan; Colchester, United Kingdom; London, United Kingdom; Bangalore, India; McLean, Virginia; Singapore; Munich, Germany; Tilburg, the Netherlands; Oslo, Norway; Norsborg, Sweden; and Beijing, China.

Legal Proceedings

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Corporate Information

We were initially incorporated under the laws of the State of Delaware under the name 3n Global, Inc. in January 2008. 3n Global, Inc. was initially a wholly-owned subsidiary of National Notification Network, LLC, which was formed in November 2002 as a limited liability company organized under the laws of the State of California. In May 2008, pursuant to a merger agreement between 3n Global, Inc. and National Notification Network, LLC, National Notification Network, LLC merged with and into 3n Global, Inc. We changed our name to Everbridge, Inc. in April 2009.

Our principal executive offices are located at 25 Corporate Drive, Suite 400 Burlington, Massachusetts. Our telephone number is (818) 230-9700. Our website address is www.everbridge.com.

“Everbridge, Inc.,” the Everbridge logo, and other trademarks or service marks of Everbridge, Inc. appearing in this Annual Report on Form 10-K are the property of Everbridge, Inc. This Annual Report on Form 10-K contains additional trade names, trademarks and service marks of others, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Annual Report on Form 10-K may appear without the ® or TM symbols.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on or through our website at www.ir.Everbridge.com as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. The SEC also maintains a website, www.sec.gov, which contains reports and other information regarding issuers that file electronically with the SEC. We are not, however, including the information contained on our website, or information that may be accessed through links on our website, as part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties including those described below. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, as well as our other public filings with the Securities and Exchange Commission. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks or others not specified below materialize, our business, financial condition and results of operations could be materially adversely affected. In that case, the trading price of our common stock could decline.

Risks Related to Our Business and Our Industry

If our business does not grow as we expect, or if we fail to manage our growth effectively, our operating results and business prospects would suffer.

We increased our number of full-time employees from 460 to 581 to 777 as of December 31, 2016, 2017 and 2018, respectively. In 2018, we made a significant investment in our sales organization, growing our headcount by 33%, and our revenue increased by \$42.7 million for the year ended December 31, 2018 compared to 2017, due in part to the increase in our customer base.

However, our business may not continue to grow as quickly or at all in the future, which would adversely affect our revenue and business prospects. Our business growth depends on a number of factors including:

- our ability to execute upon our business plan effectively;
- our ability to accelerate our acquisition of new customers;
- our ability to further sell to our existing customers new applications and features and to additional departments in their organizations;
- our ability to develop new applications to target new markets and use cases;
- our ability to expand our international footprint;
- the growth of the market in which we operate;
- our ability to maintain our technology leadership position; and
- our ability to acquire and integrate complementary business, technologies and teams we need.

Further, our growth has placed, and will continue to place, a strain on our managerial, operational, financial and other resources, and our future operating results depend to a large extent on our ability to successfully manage our anticipated expansion and growth. To manage our growth successfully and handle the responsibilities of being a public company, we believe we must effectively, among other things:

- increase our customer base and upsell and cross-sell additional and new applications to our existing customers;
- invest in sales and marketing and expand our channel partner relationships;
- develop new applications that target new markets and use cases;
- expand our international operations; and
- improve our platform and applications, financial and operational systems, procedures and controls.

We intend to continue our investment in sales and marketing, platform and applications, research and development, and general and administrative functions and other areas to grow our business. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our operating results.

If we are unable to manage our growth effectively in a manner that preserves the key aspects of our corporate culture, we may not be able to take advantage of market opportunities or develop new applications or upgrades to our existing applications and we may fail to satisfy customer requirements, maintain the quality and security of our applications, execute on our business plan or respond to competitive pressures, which could result in our financial results suffering and a decline in our stock price.

We have not been profitable on a consistent basis historically and may not achieve or maintain profitability in the future.

We have posted a net loss in each year since inception, including net losses of \$47.5 million, \$19.6 million and \$11.3 million in the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, we had an accumulated deficit of \$147.7 million. While we have experienced significant revenue growth in recent periods and profitability solely in the quarters ended March 31, 2014, June 30, 2014 and September 30, 2014, we are not certain whether or when we will obtain a high enough volume of sales of our applications to sustain or increase our growth or achieve or maintain profitability in the future. Our ability to achieve or maintain profitability also has been and will continue to be impacted by non-cash stock-based compensation. We also expect our costs to increase in future periods, which could negatively affect our future operating results if our revenue does not increase. In particular, we expect to continue to expend substantial financial and other resources on:

- sales and marketing, including a significant expansion of our sales organization, both domestically and internationally;
- research and development related to our platform and applications, including investments in our research and development team;
- continued international expansion of our business; and
- general and administration expenses, including legal and accounting expenses related to being a public company.

These investments may not result in increased revenue or growth in our business. If we are unable to increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position and results of operations will be harmed, and we may not be able to achieve or maintain profitability over the long term. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our financial performance may be harmed, and we may not achieve or maintain profitability in the future.

To date, we have derived a substantial portion of our revenue from the sale of our Mass Notification application. If we are unable to renew or increase sales of this application, or if we are unable to increase sales of our other applications, our business and operating results could be adversely affected.

While we have introduced nine new event management applications since 2014, one of which was introduced in the middle of 2014, three of which were introduced in 2015, one of which was introduced in 2016, two of which were added in 2017, and two of which we added in 2018, we derived 62%, 74% and 86% of our revenue from sales of our Mass Notification application in 2018, 2017 and 2016, respectively, and expect to continue to derive a substantial portion of our revenue from sales of this application in the near term. As a result, our operating results could suffer due to:

- any decline in demand for our Mass Notification application;
- pricing or other competitive pressures from competing products;
- the introduction of applications and technologies that serve as a replacement or substitute for, or represent an improvement over, our Mass Notification application;
- technological innovations or new standards that our Mass Notification application do not address; and
- sensitivity to current or future prices offered by us or competing solutions.

Because of our reliance on our Mass Notification application, our inability to renew or increase sales of this application or a decline in prices of this application would harm our business and operating results more seriously than if we derived significant revenue from a variety of applications. Any factor adversely affecting sales of our historical or new applications, including release cycles, market acceptance, competition, performance and reliability, reputation and economic and market conditions, could adversely affect our business and operating results.

If we are unable to develop upgrades to our platform, develop new applications, sell our platform and applications into new markets or further penetrate our existing market, our revenue may not grow.

Our ability to increase sales will depend in large part on our ability to enhance and improve our platform and applications, introduce new applications in a timely manner, develop new use cases for our platform and further penetrate our existing market. The success of any enhancement to our platform or new applications depends on several factors, including the timely completion, introduction and market acceptance of enhanced or new applications, the ability to maintain and develop relationships with channel partners and communications carriers, the ability to attract, retain and effectively train sales and marketing personnel and the effectiveness of our marketing programs. Any new application that we develop or acquire may not be introduced in a timely or cost-effective manner, and may not achieve the broad market acceptance necessary to generate significant revenue. Any new markets into which we attempt to sell our applications, including new vertical markets and new countries or regions, may not be receptive. Our ability to further penetrate our existing markets depends on the quality of our platform and applications and our ability to design our platform and applications to meet consumer demand. Any failure to enhance or improve our platform and applications as well as introduce new applications may adversely affect our revenue growth and operating results.

If we are unable to attract new customers or sell additional applications to our existing customers, our revenue and revenue growth will be harmed.

A part of our growth strategy is to add new customers and sell additional applications to our existing customers. Our ability to maintain existing customers, sell them new applications and to add new customers will depend in significant part on our ability to anticipate industry evolution, practices and standards and to continue to introduce and enhance the applications we offer on a timely basis to keep pace with technological developments. However, we may prove unsuccessful in developing new applications and improving existing applications. In addition, the success of any new application depends on several factors, including the timely completion, introduction and market acceptance of the application. Any new applications we develop or acquire might not be introduced in a timely or cost-effective manner and might not achieve the broad market acceptance necessary to generate significant revenue. If any of our competitors implements new technologies before we are able to implement them or better anticipates market opportunities, those competitors may be able to provide more effective or cheaper products than ours. As a result, we may be unable to renew our agreements with existing customers, attract new customers or grow or maintain our business from existing customers, which could harm our revenue and growth.

Failure to effectively develop and expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our platform and applications.

To increase total customers and achieve broader market acceptance of our platform and applications, we will need to expand our sales and marketing organization, including the vertical and geographic distribution of our salesforce and our teams of account executives focused on new accounts, account managers responsible for renewal and growth of existing accounts, and business development representatives targeting new and growth business opportunity creation. We will continue to dedicate significant resources to our global sales and marketing organizations. The effectiveness of our sales and marketing teams has varied over time and may vary in the future, and depends in part on our ability to maintain and improve our platform and applications. All of these efforts will require us to invest significant financial and other resources and we are unlikely to see the benefits, if any, of these increases until future periods after incurring these expenses. Our business will be seriously harmed if our efforts do not generate a correspondingly significant increase in revenue. We may not achieve revenue growth from expanding our salesforce if we are unable to hire, develop and retain talented sales personnel, if our new sales personnel are unable to achieve desired productivity levels in a reasonable period of time or if our sales and marketing programs are not effective.

The nature of our business exposes us to inherent liability risks.

Our applications, including our Mass Notification, Incident Management, IT Alerting, Safety Connection, Community Engagement, Visual Command Center, Crisis Commander and Secure Messaging applications, are designed to communicate life-saving or damage-mitigating information to the right people, on the right device, in the right location, at the right time during public safety threats and critical business events. Due to the nature of such applications, we are potentially exposed to greater risks of liability for employee acts or omissions or system failures than may be inherent in other businesses. Although substantially all of our customer agreements contain provisions limiting our liability to our customers, we cannot assure you that these limitations will be enforced or the costs of any litigation related to actual or alleged omissions or failures would have a material adverse effect on us even if we prevail. Further, certain of our insurance policies and the laws of some states may limit or prohibit insurance coverage for punitive or certain other types of damages or liability arising from gross negligence and we cannot assure you that we are adequately insured against the risks that we face.

Because we generally recognize revenue ratably over the term of our contract with a customer, downturns or upturns in sales will not be fully reflected in our operating results until future periods.

Our revenue is primarily generated from subscriptions to our critical event management applications. Our customers do not have the right to take possession of our software platform and applications. Revenue from subscriptions, including additional fees for items such as incremental usage, is recognized ratably over the subscription period beginning on the date that the subscription is made available to the customer. Our agreements with our customers typically range from one to three years. As a result, much of the revenue that we report in each quarter is attributable to agreements entered into during previous quarters. Consequently, a decline in sales, customer renewals or market acceptance of our applications in any one quarter would not necessarily be fully reflected in the revenue in that quarter, and would negatively affect our revenue and profitability in future quarters. This ratable revenue recognition also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers generally is recognized over the applicable agreement term.

We operate in an emerging and evolving market, which may develop more slowly or differently than we expect. If our market does not grow as we expect, or if we cannot expand our platform and applications to meet the demands of this market, our revenue may decline, fail to grow or fail to grow at an accelerated rate, and we may incur operating losses.

The market for CEM solutions is in an early stage of development, and it is uncertain whether this market will develop, and even if it does develop, how rapidly or how consistently it will develop or whether our platform and applications will be accepted into the markets in which we operate and plan to operate. Our success will depend, to a substantial extent, on the widespread adoption of our platform and applications as an alternative to historical mass notification systems. Some organizations may be reluctant or unwilling to use our platform and applications for a number of reasons, including concerns about additional costs, uncertainty regarding the reliability and security of cloud-based offerings or lack of awareness of the benefits of our platform and applications. Many organizations have invested substantial personnel and financial resources to integrate traditional on-premise applications into their businesses, and therefore may be reluctant or unwilling to migrate to cloud-based applications. Our ability to expand sales of our platform and applications into new markets depends on several factors, including the awareness of our platform and applications; the timely completion, introduction and market acceptance of enhancements to our platform and applications or new applications that we may introduce; our ability to attract, retain and effectively train sales and marketing personnel; our ability to develop relationships with channel partners and communication carriers; the effectiveness of our marketing programs; the costs of our platform and applications; and the success of our competitors. If we are unsuccessful in developing and marketing our platform and applications into new markets, or if organizations do not perceive or value the benefits of our platform and applications, the market for our platform and applications might not continue to develop or might develop more slowly than we expect, either of which would harm our revenue and growth prospects.

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Our estimates and forecasts relating to the size and expected growth of our addressable market may prove to be inaccurate. Even if the market in which we compete meets our size estimates and forecasted growth, our business could fail to grow at similar rates, if at all.

The markets in which we participate are competitive, and if we do not compete effectively, our operating results could be harmed.

The market for critical event management solutions is highly fragmented, competitive and constantly evolving. With the introduction of new technologies and market entrants, we expect that the competitive environment in which we compete will remain intense going forward. Some of our competitors have made or may make acquisitions or may enter into partnerships or other strategic relationships to provide a more comprehensive offering than they individually had offered or achieve greater economies of scale. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships or strategic relationships. We compete on the basis of a number of factors, including:

- application functionality, including local and multi-modal delivery in international markets;
- breadth of offerings;
- performance, security, scalability and reliability;
- compliance with local regulations and multi-language support;
- brand recognition, reputation and customer satisfaction;
- ease of application implementation, use and maintenance; and
- total cost of ownership.

We face competition from in-house solutions, large integrated systems vendors and established and emerging cloud and SaaS and other software providers. Our competitors vary in size and in the breadth and scope of the products and services offered. Many of our competitors and potential competitors have greater name recognition, longer operating histories, more established customer relationships, larger marketing budgets and greater resources than we do. While some of our competitors provide a platform with applications to support one or more use cases, many others provide point-solutions that address a single use case. Further, other potential competitors not currently offering competitive applications may expand their offerings to compete with our solutions. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards and customer requirements. An existing competitor or new entrant could introduce new technology that reduces demand for our solutions. In addition to application and technology competition, we face pricing competition. Some of our competitors offer their applications or services at a lower price, which has resulted in pricing pressures. Some of our larger competitors have the operating flexibility to bundle competing applications and services with other offerings, including offering them at a lower price as part of a larger sale. For all of these reasons, we may not be able to compete successfully and competition could result in reduced sales, reduced margins, losses or the failure of our applications to achieve or maintain market acceptance, any of which could harm our business.

We may not be able to scale our business quickly enough to meet our customers' growing needs and if we are not able to grow efficiently, our operating results could be harmed.

As usage of our platform and applications grows, we will need to continue making significant investments to develop and implement new applications, technologies, security features and cloud-based infrastructure operations. In addition, we will need to appropriately scale our internal business systems and our services organization, including customer support and professional services, to serve our growing customer base, particularly as our customer demographics change over time. Any failure of, or delay in, these efforts could impair the performance of our platform and applications and reduce customer satisfaction. Even if we are able to upgrade our systems and expand our staff, any such expansion may be expensive and complex, requiring management's time and attention. To the extent that we do not effectively scale our platform and operations to meet the growing needs of our customers, we may not be able to grow as quickly as we anticipate, our customers may reduce or cancel use of our applications and professional services, we may be unable to compete effectively and our business and operating results may be harmed.

Our quarterly results of operations may fluctuate, and if we fail to meet or exceed the expectations of investors or securities analysts, our stock price could decline.

Our quarterly revenue and results of operations have historically varied from period to period, and we expect that they will continue to do so as a result of a variety of factors, including many that are outside of our control. Our future revenue is difficult to predict. Our expense levels are relatively fixed in the short term and are based, in part, on our expectations as to future revenue. If revenue levels are below our expectations, we may incur higher losses and may never attain or maintain consistent profitability. Our operating results may be disproportionately affected by a reduction in revenue because a proportionately smaller amount of our expenses varies with our revenues. If our quarterly revenue or results of operations fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Fluctuations in our results of operations may be due to a number of factors, including:

- fluctuations in demand for our platform and applications;
- changes in our business or pricing policies in response to competitive pricing actions or otherwise;
- the timing and success of introductions of new applications or upgrades to our platform;
- the impact of acquisition transaction-related amortization expenses and other certain expenses on our gross profit;
- competition, including entry into the industry by new competitors and new offerings by existing competitors;
- changes in the business or pricing policies of our competitors;
- the amount and timing of expenditures, including those related to expanding our operations, increasing research and development, enhancing our platform, introducing new applications or growing our sales and marketing teams;
- our ability to effectively manage growth within existing and new markets, both domestically and internationally;
- our ability to successfully manage any future acquisitions of businesses or technologies;
- the strength of regional, national and global economies; and
- the impact of natural disasters or man-made problems such as cyber incidents and terrorism.

Due to the foregoing factors and the other risks discussed in this Annual Report on Form 10-K, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance nor should you consider our recent revenue growth or results in any single period to be indicative of our future performance.

Interruptions or delays in service from our third-party data center providers could impair our ability to make our platform and applications available to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers, limited growth and reduction in revenue.

We currently serve part of our platform functions from third-party data center hosting facilities operated by Century Link and located in the Los Angeles, California and Denver, Colorado areas. In addition, we serve ancillary functions for our customers from third-party data center hosting facilities operated by Interoute located in the United Kingdom, Germany and the Netherlands, and by Elastichost in Toronto, Canada. We also rely on Amazon Web Services located in California and Virginia to host certain of our platform functions and applications. Our operations depend, in part, on our third-party facility providers' abilities to protect these facilities against damage or interruption from natural disasters, power or telecommunications failures, cyber incidents, criminal acts and similar events. In the event that any of our third-party facilities arrangements are terminated, or if there is a lapse of service or damage to a facility, we could experience interruptions in our platform as well as delays and additional expenses in arranging new facilities and services. Any changes in third-party service levels at our data centers or any errors, defects, disruptions, cyber incidents or other performance problems with our solutions could harm our reputation.

Any damage to, or failure of, the systems of our third-party providers could result in interruptions to our platform. Despite precautions taken at our data centers, the occurrence of spikes in usage volume, natural disasters, cyber incidents, acts of terrorism, vandalism or sabotage, closure of a facility without adequate notice or other unanticipated problems could result in lengthy interruptions in the availability of our platform and applications. Problems faced by our third-party data center locations, with the telecommunications network providers with whom they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers. Because of the nature of the services that we provide to our customers during public safety threats and critical business events, any such interruption may arise when our customers are most reliant on our applications, thereby compounding the impact of any interruption on our business. Interruptions in our services might reduce our revenue, cause us to issue refunds to customers and subject us to potential liability.

Further, our insurance policies may not adequately compensate us for any losses that we may incur in the event of damage or interruption. Although we benefit from liability protection under the Support Anti-Terrorism by Fostering Effective Technology Act of 2002, the occurrence of any of the foregoing could reduce our revenue, subject us to liability, cause us to issue credits to customers or cause customers not to renew their subscriptions for our applications, any of which could materially adversely affect our business.

Failures or reduced accessibility of third-party software on which we rely could impair the availability of our platform and applications and adversely affect our business.

We license software from third parties for integration into our platform and applications, including open source software. These licenses might not continue to be available to us on acceptable terms, or at all. While we are not substantially dependent upon any third-party software, the loss of the right to use all or a significant portion of our third-party software required for the development, maintenance and delivery of our applications could result in delays in the provision of our applications until we develop or identify, obtain and integrate equivalent technology, which could harm our business.

Any errors or defects in the hardware or software we use could result in errors, interruptions, cyber incidents or a failure of our applications. Any significant interruption in the availability of all or a significant portion of such software could have an adverse impact on our business unless and until we can replace the functionality provided by these applications at a similar cost. Furthermore, this software may not be available on commercially reasonable terms, or at all. The loss of the right to use all or a significant portion of this software could limit access to our platform and applications. Additionally, we rely upon third parties' abilities to enhance their current applications, develop new applications on a timely and cost-effective basis and respond to emerging industry standards and other technological changes. We may be unable to effect changes to such third-party technologies, which may prevent us from rapidly responding to evolving customer requirements. We also may be unable to replace the functionality provided by the third-party software currently offered in conjunction with our applications in the event that such software becomes obsolete or incompatible with future versions of our platform and applications or is otherwise not adequately maintained or updated.

If we do not or cannot maintain the compatibility of our platform with third-party applications that our customers use in their businesses, our revenue will decline.

As a significant percentage of our customers choose to integrate our solutions with certain capabilities provided by third-party providers, the functionality and popularity of our solutions depend, in part, on our ability to integrate our platform and applications with certain third-party systems. Third-party providers may change the features of their technologies, restrict our access to their applications or alter the terms governing use of their applications in an adverse manner. Such changes could functionally limit or terminate our ability to use these third-party technologies in conjunction with our platform and applications, which could negatively impact our solutions and harm our business. If we fail to integrate our solutions with new third-party applications that our customers use, we may not be able to offer the functionality that our customers need, which would negatively impact our ability to generate revenue and adversely impact our business.

Changes in the mix of sizes or types of businesses or government agencies that purchase our platform and applications purchased or used by our customers could affect our operating results.

We have sold and will continue to sell to enterprises of all sizes, municipal and regional governmental agencies, non-profit organizations, educational institutions and healthcare organizations. Sales to larger organizations may entail longer sales cycles and more significant selling efforts. Selling to small businesses may involve greater credit risk and uncertainty. Changes in the sizes or types of businesses that purchase our applications could cause our operating results to be adversely affected.

If our, our customers' or our third-party providers' security measures are compromised or unauthorized access to the data of our customers or their employees, customers or constituents is otherwise obtained, our platform may be perceived as not being secure, our customers may be harmed and may curtail or cease their use of our applications, our reputation may be damaged and we may incur significant liabilities.

Our operations involve the storage and transmission of data of our customers and their employees, customers and constituents, including personally identifiable information such as contact information and physical location. Security incidents, whether as a result of third-party action, employee or customer error, technology impairment or failure, malfeasance or criminal activity, could result in unauthorized access to, or loss or unauthorized disclosure of, this information, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation, impair our sales and harm our customers and our business. Cyber incidents and malicious internet-based activity continue to increase generally, and providers of cloud-based services have been targeted. If third parties with whom we work, such as vendors or developers, violate applicable laws or our security policies, such violations may also put our customers' information at risk and could in turn have an adverse effect on our business. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because they change frequently and often are not detected until after an incident has occurred. As we increase our customer base and our brand becomes more widely known and recognized, third parties may increasingly seek to compromise our security controls or gain unauthorized access to our sensitive corporate information or customers' data. Further, because of the nature of the services that we provide to our customers during public safety threats and critical business events, we may be a unique target for attacks.

Many governments have enacted laws requiring companies to notify individuals of data security incidents or unauthorized transfers involving certain types of personal data. In addition, some of our customers contractually require notification of any data security incident. Accordingly, security incidents experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results. Further, the costs of compliance with notification laws and contractual obligations may be significant and any requirement that we provide such notifications as a result of an actual or alleged compromise could have a material and adverse effect on our business.

While we maintain general liability insurance coverage and coverage for errors or omissions, we cannot assure you that such coverage would be adequate or would otherwise protect us from liabilities or damages with respect to claims alleging compromises of personal data or that such coverage will continue to be available on acceptable terms or at all.

If our computer systems are or become vulnerable to security breaches or we are unable to comply with our security obligations, we may face reputational damage and lose clients and revenue.

The services we provide are often critical to our clients' businesses. Certain of our client contracts may require us to comply with security obligations, which could include maintaining network security and backup data, ensuring our network is virus-free, maintaining business continuity planning procedures, and verifying the integrity of employees that work with our clients by conducting background checks. Any failure in our systems or breach of security relating to the services we provide to the client could damage our reputation or result in a claim for substantial damages against us. Our liability for breaches of data security requirements, for which we may be required to indemnify our clients, may be extensive. Any significant failure of our equipment or systems, or any major disruption to basic infrastructure like power and telecommunications in the locations in which we operate, could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, and adversely affect our results of operations.

In addition, we often have access to or are required to collect and store confidential client and customer data. If any person, including any of our employees or former employees, penetrates our network security, accidentally exposes our data or code, or misappropriates data or code that belongs to us, our clients, or our clients' customers, we could be subject to significant liability from our clients or from our clients' customers for breaching contractual confidentiality provisions or privacy laws. Unauthorized disclosure of sensitive or confidential client and customer data, whether through breach of our computer systems, systems failure, loss or theft of confidential information or intellectual property belonging to our clients or our clients' customers, or otherwise, could damage our reputation, cause us to lose clients and revenues, and result in financial and other potential losses by us.

If our applications fail to function in a manner that allows our customers to operate in compliance with regulations and/or industry standards, our revenue and operating results could be harmed.

Certain of our customers require applications that ensure secure processing, communication and storage of sensitive information given the nature of the content being distributed and associated applicable regulatory requirements. In particular, our healthcare customers rely on our applications to communicate in a manner that is designed to comply with the requirements of the Health Insurance Portability and Accountability Act of 1996, the 2009 Health Information Technology for Economic and Clinical Health Act, the Final Omnibus Rule of January 25, 2013, which are collectively referred to as HIPAA, and which impose privacy and data security standards that protect individually identifiable health information by limiting the uses and disclosures of individually identifiable health information and requiring that certain data security standards be implemented to protect this information. As a "business associate" to "covered entities" that are subject to HIPAA, we also have our own compliance obligations directly under HIPAA and pursuant to the business associate agreements that we are required to enter into with our customers that are HIPAA-covered entities.

Governments and industry organizations may also adopt new laws, regulations or requirements, or make changes to existing laws or regulations, that could impact the demand for, or value of, our applications. If we are unable to adapt our applications to changing legal and regulatory standards or other requirements in a timely manner, or if our applications fail to allow our customers to communicate in compliance with applicable laws and regulations, our customers may lose confidence in our applications and could switch to products offered by our competitors, or threaten or bring legal actions against us.

In addition, governmental and other customers may require our applications to comply with certain privacy, security or other certifications and standards. For instance, with regard to transfers of personal data, the EU-US Safe Harbor program, which provided a valid legal basis for transfers of personal data from Europe to the United States, was invalidated in October 2015, which had a significant impact on the transfer of data from the European Union to U.S. companies, including us. We are certified under the EU-US Privacy Shield, the successor regime to the EU-US Safe Harbor. While we now have Privacy Shield certification and other legally recognized mechanisms in place that we believe allow for the lawful transfer of EU customer and employee information to the United States, it is possible that these mechanisms may also be challenged or evolve to include new legal requirements that could have an impact on how we move this data. If our applications fail to maintain compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our applications to such customers, or may otherwise be at a competitive disadvantage, either of which would harm our business, results of operations and financial condition. If our policies and practices are, or are perceived to be, insufficient or if our customers have concerns regarding the transfer of data from the European Union to the United States, we could be subject to enforcement actions or investigations by EU Data Protection Authorities or lawsuits by private parties, and our business could be negatively impacted.

If we fail to offer high-quality customer support, our business and reputation may suffer.

We offer our customers implementation services and 24/7 support through our customer support centers as well as education, professional development and certification through Everbridge University as well as a range of consulting services. Consulting service offerings include onsite implementation packages, Certified Emergency Management professional operational reviews, dedicated client care representatives, custom web-based training, and development of client-specific communications materials to increase internal awareness of system value.

Providing this education, training and support requires that our personnel who manage our training resources or provide customer support have specific experience, knowledge and expertise, making it more difficult for us to hire qualified personnel and to scale up our support operations. The importance of high-quality customer support will increase as we expand our business and pursue new customers and larger organizations. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services or scale our services if our business grows. We also may be unable to modify the format of our support services or change our pricing to compete with changes in support services provided by our competitors. Increased customer demand for these services, without corresponding revenue, could increase our costs and harm our operating results. If we do not help our customers use applications within our platform and provide effective ongoing support, our ability to sell additional applications to, or to retain, existing customers may suffer and our reputation with existing or potential customers may be harmed.

Our strategy includes pursuing acquisitions, and our potential inability to successfully integrate newly-acquired technologies, assets or businesses may harm our financial results. Future acquisitions of technologies, assets or businesses, which are paid for partially or entirely through the issuance of stock or stock rights, could dilute the ownership of our existing stockholders.

We may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our platform and applications, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

We have acquired businesses and technology in the past. For example, we acquired Vocal Limited in March 2014, the assets of Nixle, LLC in December 2014, technology from Tapestry Telemed LLC in December 2014, Svensk Krisledning AB in December 2017, IDV Solutions LLC in January 2017, Unified Messaging Systems ASA in April 2018, certain assets of PlanetRisk, Inc. in April 2018 and Respond B.V. in May 2018, however we cannot be certain that we will be able to complete the tender offer and close the transaction. We believe that part of our continued growth will be driven by acquisitions of other companies or their technologies, assets, businesses and teams. Any acquisitions we complete will give rise to risks, including:

- incurring higher than anticipated capital expenditures and operating expenses;
- failing to assimilate the operations and personnel or failing to retain the key personnel of the acquired company or business;
- failing to integrate the acquired technologies, or incurring significant expense to integrate acquired technologies, into our platform and applications;
- disrupting our ongoing business;
- diverting our management's attention and other company resources;
- failing to maintain uniform standards, controls and policies;
- incurring significant accounting charges;
- impairing relationships with our customers and employees;
- finding that the acquired technology, asset or business does not further our business strategy, that we overpaid for the technology, asset or business or that we may be required to write off acquired assets or investments partially or entirely;

- failing to realize the expected synergies of the transaction;
- being exposed to unforeseen liabilities and contingencies that were not identified prior to acquiring the company; and
- being unable to generate sufficient revenue and profits from acquisitions to offset the associated acquisition costs.

Fully integrating an acquired technology, asset or business into our operations may take a significant amount of time. We may not be successful in overcoming these risks or any other problems encountered with acquisitions. To the extent that we do not successfully avoid or overcome the risks or problems related to any such acquisitions, our results of operations and financial condition could be harmed. Acquisitions also could impact our financial position and capital requirements, or could cause fluctuations in our quarterly and annual results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings. In addition, failure to maintain effective financial controls and reporting systems and procedures during and after integration of an acquired business could also impact our ability to produce timely and accurate financial statements. We may incur significant costs in our efforts to engage in strategic transactions and these expenditures may not result in successful acquisitions.

We expect that the consideration we might pay for any future acquisitions of technologies, assets, businesses or teams could include stock, rights to purchase stock, cash or some combination of the foregoing. If we issue stock or rights to purchase stock in connection with future acquisitions, net income per share and then-existing holders of our common stock may experience dilution.

We rely on the performance of our senior management and highly skilled personnel, and if we are unable to attract, retain and motivate well-qualified employees, our business and results of operations could be harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of our senior management and key personnel. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract them. In addition, the loss of any of our senior management or key personnel could interrupt our ability to execute our business plan, as such individuals may be difficult to replace. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business and results of operations could be harmed.

Uncertain or weakened global economic conditions may adversely affect our industry, business and results of operations.

Our overall performance depends on domestic and worldwide economic conditions, which may remain challenging for the foreseeable future. Financial developments seemingly unrelated to us or to our industry may adversely affect us and our planned international expansion. The U.S. economy and other key international economies have been impacted by threatened sovereign defaults and ratings downgrades, falling demand for a variety of goods and services, restricted credit, threats to major multinational companies, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our applications and services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions or affect renewal rates, any of which could adversely affect our operating results. We cannot predict the timing, strength or duration of the economic recovery or any subsequent economic slowdown worldwide, in the United States, or in our industry.

Any future litigation against us could be costly and time-consuming to defend.

We have in the past and may in the future become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business such as claims brought by our customers in connection with commercial disputes or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, overall financial condition and operating results. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance, which could reduce the trading price of our stock.

Because our long-term growth strategy involves further expansion of our sales to customers outside the United States, our business will be susceptible to risks associated with international operations.

A component of our growth strategy involves the further expansion of our operations and customer base internationally. We opened our first international office in Beijing, China in April 2012 and subsequently opened an office in Windsor, England in September 2012 as part of our geographic expansion. In March 2014, we acquired Vocal Limited, a mass notification company based in Colchester, England. In December 2016, we acquired Svensk Krisledning AB, a SaaS mobile crisis management company based in Norsborg, Sweden. In April 2018, we acquired Unified Messaging Systems ASA, a critical communication and population alerting systems company based in Oslo, Norway. In May 2018, we acquired Respond B.V., a critical communication solutions company based in the Netherlands. For the years ended December 31, 2018 and 2017, approximately 19% and 10% of our revenue, respectively, was derived from customers located outside of the United States. We intend to further expand our local presence in regions such as Europe, the Middle East and Asia. Our current international operations and future initiatives will involve a variety of risks, including:

- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- economic or political instability in foreign markets;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;
- more stringent regulations relating to technology, including with respect to privacy, data security and the unauthorized use of, access to, or deletion of commercial and personal information, particularly in the European Union;
- difficulties in maintaining our company culture with a dispersed and distant workforce;
- unexpected changes in regulatory requirements, taxes or trade laws;
- differing labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- limited or insufficient intellectual property protection;
- political instability or terrorist activities;

- likelihood of potential or actual violations of domestic and international anticorruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, or of U.S. and international export control and sanctions regulations, which likelihood may increase with an increase of sales or operations in foreign jurisdictions and operations in certain industries; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

Our limited experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer. We continue to implement policies and procedures to facilitate our compliance with U.S. laws and regulations applicable to or arising from our international business. Inadequacies in our past or current compliance practices may increase the risk of inadvertent violations of such laws and regulations, which could lead to financial and other penalties that could damage our reputation and impose costs on us.

If we cannot maintain our company culture as we grow, our success and our business may be harmed.

We believe our culture has been a key contributor to our success to-date and that the critical nature of the solutions that we provide promotes a sense of greater purpose and fulfillment in our employees. We have invested in building a strong corporate culture and believe it is one of our most important and sustainable sources of competitive advantage. Any failure to preserve our culture could negatively affect our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives. As we grow and develop the infrastructure of a public company, we may find it difficult to maintain these important aspects of our company culture. If we fail to maintain our company culture, our business may be adversely impacted.

We may be subject to additional obligations to collect and remit sales tax and other taxes, and we may be subject to tax liability for past sales, which could harm our business.

State, local and foreign jurisdictions have differing rules and regulations governing sales, use, value added and other taxes, and these rules and regulations are subject to varying interpretations that may change over time. Further, these jurisdictions' rules regarding tax nexus are complex and vary significantly. If one or more jurisdictions were to assert that we have failed to collect taxes for sales of applications that leverage our platform, we could face the possibility of tax assessments and audits. A successful assertion that we should be collecting additional sales, use, value added or other taxes in those jurisdictions where we have not historically done so and do not accrue for such taxes could result in substantial tax liabilities and related penalties for past sales or otherwise harm our business and operating results.

We face exposure to foreign currency exchange rate fluctuations.

As our international operations expand, our exposure to the effects of fluctuations in currency exchange rates grows. While we have primarily transacted with customers and vendors in U.S. dollars historically, we expect to continue to expand the number of transactions with our customers that are denominated in foreign currencies in the future. Fluctuations in the value of the U.S. dollar and foreign currencies may make our subscriptions more expensive for international customers, which could harm our business. Additionally, we incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency for such locations. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in an increase to the U.S. dollar equivalent of such expenses. These fluctuations could cause our results of operations to differ from our expectations or the expectations of our investors. Additionally, such foreign currency exchange rate fluctuations could make it more difficult to detect underlying trends in our business and results of operations.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds to invest in future growth opportunities. Additional financing may not be available on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could seriously harm our business and operating results. If we incur debt, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. As a result, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

We issued convertible notes that have rights senior to our common stock.

In November 2017, we issued \$115 million aggregate principal amount of 1.50% convertible senior notes due November 1, 2022, unless earlier repurchased by us or converted by the holder pursuant to their terms, or the Notes. The Notes rank senior in right of payment to our common stock and any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of our liabilities that are not so subordinated; effectively junior in right of payment to any of our secured indebtedness, to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt ranking senior or equal in right of payment to the Notes will be available to pay obligations on the Notes only after the secured debt has been repaid in full from these assets, and our assets will be available to pay common stockholders only after all debt obligations have been repaid. There may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding or any or all shares of our common stock then outstanding.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

As of December 31, 2018, we had \$115.0 million (undiscounted) principal amount of indebtedness under the Notes. Our indebtedness may:

- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

In addition, any future indebtedness that we may incur may, contain financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full. If we default under the Credit Agreement, any then outstanding borrowings thereunder could become immediately due and payable, the Credit Agreement lender could refuse to permit additional borrowings under the facility, or it could lead to defaults under agreements governing our current or future indebtedness, including the indenture governing the Notes.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component was treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we recorded a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We reported lower net income in our financial results because ASC 470-20 requires interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

The conditional conversion feature of the Notes, may adversely affect our financial condition and operating results.

Based on the market price of our common stock during the 30 trading days preceding September 30, 2018, the Notes are convertible at the option of the debt holder as of December 31, 2018. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Our sales cycle can be unpredictable, time-consuming and costly, which could harm our business and operating results.

Our sales process involves educating prospective customers and existing customers about the use, technical capabilities and benefits of our platform and applications. Prospective customers, especially larger organizations, often undertake a prolonged evaluation process, which typically involves not only our solutions, but also those of our competitors and lasts from four to nine months or longer. We may spend substantial time, effort and money on our sales and marketing efforts without any assurance that our efforts will produce any sales.

Events affecting our customers' businesses may occur during the sales cycle that could affect the size or timing of a purchase, contributing to more unpredictability in our business and operating results. As a result of these factors, we may face greater costs, longer sales cycles and less predictability in the future.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2018, we had federal and state net operating loss carryforwards, or NOLs, of \$104.8 million and \$85.7 million, respectively, due to prior period losses, which expire in various years beginning in 2026 if not utilized. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. We have not completed a Section 382 study at this time; however, should a study be completed, certain NOLs may be subject to such limitations. Any future annual limitation may result in the expiration of NOLs before utilization. Additionally, state NOLs generated in one state cannot be used to offset income generated in another state. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations

Our effective tax rate could be adversely impacted by several factors, including:

- Changes in the relative amounts of income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- Changes in tax laws, tax treaties and regulations or the interpretation of them;
- Changes to our assessment about the realizability of our deferred tax assets that are based on estimates of our future results, the prudence and feasibility of possible tax planning strategies, and the economic and political environments in which we do business;
- The outcome of current and future tax audits, examinations or administrative appeals;
- Changes in generally accepted accounting principles that affect the accounting for taxes; and
- Limitations or adverse findings regarding our ability to do business in some jurisdictions.

We may have additional tax liabilities

We are subject to income taxes in the U.S. and many foreign jurisdictions and are commonly audited by various tax authorities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Significant judgment is required in determining our worldwide provision for income taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial statements in the period or periods for which that determination is made.

Tax laws or regulations could be enacted or changed and existing tax laws or regulations could be applied to us or to our customers in a manner that could increase the costs of our software solutions and adversely impact our operating results.

The application of federal, state, local and foreign tax laws to services provided electronically is continuously evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted or amended at any time, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the Internet. These enactments or amendments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and could ultimately result in a negative impact on our operating results.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, modified or applied adversely to us, possibly with retroactive effect, which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties, as well as interest on past amounts. If we are unsuccessful in collecting such taxes due from our customers, we could be held liable for such costs, thereby adversely impacting our operating results.

Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events and to interruption by man-made problems such as cyber incidents or terrorism.

Our business and operations are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins and similar events affecting us or third-party vendors we rely on, any of which could have a material adverse impact on our business, operating results and financial condition. Acts of terrorism, which may be targeted at metropolitan areas that have higher population density than rural areas, could cause disruptions in our or our customers' businesses or the economy as a whole. Our servers and those of our third-party vendors may also be vulnerable to cyber incidents, break-ins and similar disruptions from unauthorized tampering with our computer systems, which could lead to interruptions, delays, loss of critical data or the unauthorized disclosure of confidential customer data. We or our customers may not have sufficient protection or recovery plans in place, and our business interruption insurance may be insufficient to compensate us for losses that may occur. As we rely heavily on our servers, computer and communications systems, that of third parties and the Internet to conduct our business and provide high quality customer service, such disruptions could have an adverse effect on our business, operating results and financial condition.

Legislative actions and new accounting pronouncements are likely to impact our future financial position or results of operations.

Future changes in financial accounting standards may cause adverse, unexpected revenue fluctuations and affect our financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with frequency in the past and are expected to occur again in the future and as a result we may be required to make changes in our accounting policies. Those changes could adversely affect our reported revenues and expenses, future profitability or financial position. Compliance with new regulations regarding corporate governance and public disclosure may result in additional expenses.

For example, in May 2014, the FASB, issued ASU 2014-09, Revenue from Contracts with Customers which replaced previous revenue recognition guidance under U.S. GAAP when it became effective for us on January 1, 2018. We adopted ASU 2014-09 on January 1, 2018 with no impact to revenue but sales-based commissions will now be recorded over the period of benefit which was determined to be four years, versus our historical amortization period of one year.

The application of existing or future financial accounting standards, particularly those relating to the way we account for revenues and costs, could have a significant impact on our reported results. In addition, compliance with new regulations regarding corporate governance and public disclosure may result in additional expenses. As a result, we intend to invest all reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from business activities to compliance activities.

Impairment of goodwill and other intangible assets would result in a decrease in our earnings.

Current accounting rules provide that goodwill and other intangible assets with indefinite useful lives may not be amortized but instead must be tested for impairment at least annually. These rules also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We have substantial goodwill and other intangible assets, and we would be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. Any impairment charges or changes to the estimated amortization periods would result in a decrease in our earnings.

Risks Related to Our Intellectual Property

If we fail to protect our intellectual property and proprietary rights adequately, our business could be harmed.

Our future success and competitive position depend in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patent, trademark, copyright and trade secret laws and contractual protections in the United States and other jurisdictions, some of which afford only limited protection.

We have numerous issued patents and patent applications pending as of December 31, 2018. We cannot assure you that any patents will issue from any patent applications, that patents that issue from such applications will give us the protection that we seek or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers. In addition, we have registered the “Everbridge” and “Nixle” names in the United States, and have registered the “Everbridge” name in the European Union. We have registrations and/or pending applications for additional marks in the United States and various other countries; however, we cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights.

In order to protect our unpatented proprietary technologies and processes, we rely on trade secret laws and confidentiality agreements with our employees, consultants, vendors and others. Despite our efforts to protect our proprietary technology and trade secrets, unauthorized parties may attempt to misappropriate, reverse engineer or otherwise obtain and use them. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, the contractual provisions that we enter into may not prevent unauthorized use or disclosure of our proprietary technology or intellectual property rights and may not provide an adequate remedy in the event of unauthorized use or disclosure of our proprietary technology or intellectual property rights. Effective trade secret protection may not be available in every country in which our services are available or where we have employees or independent contractors. The loss of trade secret protection could make it easier for third parties to compete with our solutions by copying functionality. In addition, any changes in, or unexpected interpretations of, the trade secret and employment laws in any country in which we operate may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

In addition, to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Failure to adequately enforce our intellectual property rights could also result in the impairment or loss of those rights. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Patent, copyright, trademark and trade secret laws offer us only limited protection and the laws of many of the countries in which we sell our services do not protect proprietary rights to the same extent as the United States and Europe. Accordingly, defense of our trademarks and proprietary technology may become an increasingly important issue as we continue to expand our operations and solution development into countries that provide a lower level of intellectual property protection than the United States or Europe. Policing unauthorized use of our intellectual property and technology is difficult and the steps we take may not prevent misappropriation of the intellectual property or technology on which we rely. For example, in the event of inadvertent or malicious disclosure of our proprietary technology, trade secret laws may no longer afford protection to our intellectual property rights in the areas not otherwise covered by patents or copyrights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

We may elect to initiate litigation in the future to enforce or protect our proprietary rights or to determine the validity and scope of the rights of others. That litigation may not be ultimately successful and could result in substantial costs to us, the reduction or loss in intellectual property protection for our technology, the diversion of our management's attention and harm to our reputation, any of which could materially and adversely affect our business and results of operations.

Our failure or inability to adequately protect our intellectual property and proprietary rights could harm our business, financial condition and results of operations.

An assertion by a third party that we are infringing its intellectual property could subject us to costly and time-consuming litigation or expensive licenses that could harm our business and results of operations.

Patent and other intellectual property disputes are common in our industry and we have been involved in such disputes from time to time in the ordinary course of our business. Some companies, including some of our competitors, own large numbers of patents, copyrights and trademarks, which they may use to assert claims against us. Third parties may in the future assert claims of infringement, misappropriation or other violations of intellectual property rights against us. They may also assert such claims against our customers whom we typically indemnify against claims that our solution infringes, misappropriates or otherwise violates the intellectual property rights of third parties. As the numbers of products and competitors in our market increase and overlaps occur, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violation of intellectual property rights by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from our business.

As we seek to extend our platform and applications, we could be constrained by the intellectual property rights of others and it may also be more likely that competitors or other third parties will claim that our solutions infringe their proprietary rights. We might not prevail in any intellectual property infringement litigation given the complex technical issues and inherent uncertainties in such litigation. Defending such claims, regardless of their merit, could be time-consuming and distracting to management, result in costly litigation or settlement, cause development delays or require us to enter into royalty or licensing agreements. In addition, we currently have a limited portfolio of issued patents compared to our larger competitors, and therefore may not be able to effectively utilize our intellectual property portfolio to assert defenses or counterclaims in response to patent infringement claims or litigation brought against us by third parties. Further, litigation may involve patent holding companies or other adverse patent owners who have no relevant applications or revenue and against which our potential patents provide no deterrence, and many other potential litigants have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. If our platform or any of our applications exceed the scope of in-bound licenses or violate any third-party proprietary rights, we could be required to withdraw those applications from the market, re-develop those applications or seek to obtain licenses from third parties, which might not be available on reasonable terms or at all. Any efforts to re-develop our platform and our applications, obtain licenses from third parties on favorable terms or license a substitute technology might not be successful and, in any case, might substantially increase our costs and harm our business, financial condition and results of operations. If we were compelled to withdraw any of our applications from the market, our business, financial condition and results of operations could be harmed.

We have indemnity obligations to our customers and certain of our channel partners for certain expenses and liabilities resulting from intellectual property infringement claims regarding our platform and our applications, which could force us to incur substantial costs.

We have indemnity obligations to our customers and certain of our channel partners for intellectual property infringement claims regarding our platform and our applications. As a result, in the case of infringement claims against these customers and channel partners, we could be required to indemnify them for losses resulting from such claims or to refund amounts they have paid to us. We also expect that some of our channel partners with whom we do not have express contractual obligations to indemnify for intellectual property infringement claims may seek indemnification from us in connection with infringement claims brought against them. We may elect to indemnify these channel partners where we have no contractual obligation to indemnify them and we will evaluate each such request on a case-by-case basis. If a channel partner elects to invest resources in enforcing a claim for indemnification against us, we could incur significant costs disputing it. If we do not succeed in disputing it, we could face substantial liability.

We may be subject to damages resulting from claims that our employees or contractors have wrongfully used or disclosed alleged trade secrets of their former employers or other parties.

We have in the past and may in the future be subject to claims that employees or contractors, or we, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of our competitors or other parties. Litigation may be necessary to defend against these claims. If we fail in defending against such claims, a court could order us to pay substantial damages and prohibit us from using technologies or features that are essential to our solutions, if such technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of these parties. In addition, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to develop, market and support potential solutions or enhancements, which could severely harm our business. Even if we are successful in defending against these claims, such litigation could result in substantial costs and be a distraction to management.

The use of open source software in our platform and applications may expose us to additional risks and harm our intellectual property.

Our platform and some of our applications use or incorporate software that is subject to one or more open source licenses and we may incorporate additional open source software in the future. Open source software is typically freely accessible, usable and modifiable; however, certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any modifications or derivative works of the open source code available to others on potentially unfavorable terms or at no cost. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code.

The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and accordingly there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our platform and applications. In that event, we could be required to seek licenses from third parties in order to continue offering our platform and applications, to re-develop our platform and applications, to discontinue sales of our platform and applications or to release our proprietary software code in source code form under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our applications.

Although we are not aware of any use of open source software in our platform and applications that would require us to disclose all or a portion of the source code underlying our core applications, it is possible that such use may have inadvertently occurred in deploying our platform and applications, or that persons or entities may claim such disclosure to be required. Disclosing our proprietary source code could allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of sales for us. Disclosing the source code of our proprietary software could also make it easier for cyber attackers and other third parties to discover vulnerabilities in or to defeat the protections of our products, which could result in our products failing to provide our customers with the security they expect. Any of these events could have a material adverse effect on our business, operating results and financial condition. Additionally, if a third-party software provider has incorporated certain types of open source software into software we license from such third party for our platform and applications without our knowledge, we could, under certain circumstances, be required to disclose the source code to our platform and applications. This could harm our intellectual property position and our business, results of operations and financial condition.

Risks Related to Government Regulation

Failure to comply with governmental laws and regulations could harm our business.

Our business is subject to regulation by various federal, state, local and foreign governments. For example, the Telephone Consumer Protection Act of 1991, or TCPA, restricts telemarketing and the use of automatic text messages without proper consent. The scope and interpretation of the laws that are or may be applicable to the delivery of text messages are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers to comply with these laws by obtaining proper consent, we could face direct liability. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, injunctions or other collateral consequences. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, reputation, results of operations and financial condition.

A portion of our revenue is generated by subscriptions sold to governmental entities and heavily regulated organizations, which are subject to a number of challenges and risks.

A portion of our revenue is generated by subscriptions sold to government entities. Additionally, many of our current and prospective customers, such as those in the financial services, and healthcare and life sciences industries, are highly regulated and may be required to comply with more stringent regulations in connection with subscribing to and implementing our applications. Selling subscriptions to these entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully complete a sale.

Furthermore, engaging in sales activities to foreign governments introduces additional compliance risks specific to the Foreign Corrupt Practices Act, the U.K. Bribery Act and other similar statutory requirements prohibiting bribery and corruption in the jurisdictions in which we operate. Governmental and highly regulated entities often require contract terms that differ from our standard arrangements. For example, the federal government provides grants to certain state and local governments for our applications and if such governmental entities do not continue to receive these grants, they have the ability to terminate their contracts without penalty. Governmental and highly regulated entities impose compliance requirements that are complicated, require preferential pricing or "most favored nation" terms and conditions, or are otherwise time consuming and expensive to satisfy. If we undertake to meet special standards or requirements and do not meet them, we could be subject to increased liability from our customers or regulators. Even if we do meet these special standards or requirements, the additional costs associated with providing our applications to government and highly regulated customers could harm our margins. Moreover, changes in the underlying regulatory conditions that affect these types of customers could harm our ability to efficiently provide our applications to them and to grow or maintain our customer base.

Governmental demand and payment for our applications may also be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions.

We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could harm our business. Compliance with such laws could also impair our efforts to maintain and expand our customer base, and thereby decrease our revenue.

Our handling and storage of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the U.S. Federal Trade Commission, or FTC, and various state, local and foreign agencies. We collect personally identifiable information and other data directly from our customers and through our channel partners. We also process or otherwise handle personally identifiable information about our customers' employees, customers and constituents in certain circumstances. We use this information to provide applications to our customers and to support, expand and improve our business. We may also share customers' personally identifiable information with third parties as described in our privacy policy and/or as otherwise authorized by our customers.

The U.S. federal and various state and foreign governments have adopted or proposed legislation that regulates the collection, distribution, use and storage of personal information of individuals and that mandates security requirements with respect to certain personally identifiable information. In the United States, the FTC and numerous state attorneys general are imposing standards for the online collection, distribution, use and storage of data by applying federal and state consumer protection laws. The lack of a clear and universal standard for protecting such information means, however, that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other requirements or our practices. Any failure or perceived failure by us to comply with privacy or security laws, policies, legal obligations or industry standards or any security incident that results in the unauthorized release or transfer of sensitive corporate information, personally identifiable information or other customer data may result in governmental enforcement actions, litigation, fines and penalties and/or adverse publicity, and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business.

Some proposed laws or regulations concerning privacy, data protection and information security are in their early stages, and we cannot yet determine how these laws and regulations may be interpreted nor can we determine the impact these proposed laws and regulations, may have on our business. Such proposed laws and regulations may require companies to implement privacy and security policies, permit users to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal information for certain purposes. In addition, a foreign government could require that any personal information collected in a country not be disseminated outside of that country, and we may not be currently equipped to comply with such a requirement. Our failure to comply with federal, state and international data privacy laws and regulators could harm our ability to successfully operate our business and pursue our business goals.

In addition, several foreign countries and governmental bodies, including the European Union and Canada, have regulations governing the collection and use of personal information obtained from their residents, which are often more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of personal information that identifies or may be used to identify an individual, such as names, email addresses and in some jurisdictions, Internet Protocol, or IP, addresses. Such regulations and laws may be modified and new laws may be enacted in the future.

Within the European Union, legislators have adopted the General Data Protection Regulation, or GDPR, which went into effect in May 2018. The GDPR includes more stringent operational requirements on entities that process personal data (as compared to existing EU law), including significant penalties for non-compliance, more robust obligations on data processors and data controllers, greater rights for data subjects (potentially requiring significant changes to both our technology and operations), and heavier documentation requirements for data protection compliance programs. Specifically, the GDPR introduces numerous privacy-related changes for companies operating in the EU, including greater control over personal data by data subjects (e.g., the “right to be forgotten”), increased data portability for EU consumers, data breach notification requirements and increased fines. Under the GDPR, fines of up to 20 million euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater, could be imposed for violations of certain GDPR requirements. The GDPR requirements apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information.

While we have taken steps to mitigate the impact of the GDPR on us, such as implementing standard contractual clauses and self-certifying under the EU-US Privacy Shield, the efficacy and longevity of these mechanisms remains uncertain. Potential or actual legal proceedings could lead to one or both of these mechanisms being declared invalid. Further, despite our ongoing efforts to maintain compliance with the GDPR, we may not be successful either due to various factors within our control (such as limited financial or human resources) or outside our control (such as a lack of vendor cooperation). It’s also possible that local data protection authorities (DPAs) may have different interpretations of the GDPR, leading to potential inconsistencies amongst various EU states.

Globally, governments and agencies have adopted and could in the future adopt, modify, apply or enforce laws, policies, regulations, and standards covering user privacy, data security, technologies such as cookies that are used to collect, store and/or process data, marketing online, the use of data to inform marketing, the taxation of products and services, unfair and deceptive practices, and the collection (including the collection of information), use, processing, transfer, storage and/or disclosure of data associated with unique individual internet users.

New regulation or legislative actions (or new interpretations of existing laws, regulations or standards) regarding data privacy and security, together with applicable industry standards, may increase the costs of doing business and could have a material adverse impact on our operations. If our privacy or data security measures fail to comply with current or future laws and regulations, we may be subject to litigation, regulatory investigations, fines or other liabilities, as well as negative publicity and a potential loss of business, which could have a material adverse effect on our reputation and business. Moreover, if future laws and regulations limit our customers’ ability to use and share personal information or our ability to store, process and share personal information, demand for our applications could decrease, our costs could increase, and our business, results of operations and financial condition could be harmed.

Potential regulatory requirements placed on our applications and content could impose increased costs on us, delay or prevent our introduction of new applications, and impair the function or value of our existing applications.

Certain of our existing applications, such as CareConverge, a tailored version of our Secure Messaging application that is designed to comply with HIPAA, are and are likely to continue to be subject to increasing regulatory requirements in a number of ways and as we continue to introduce new applications, we may be subject to additional regulatory requirements and other risks that could be costly and difficult to comply with or that could harm our business. In addition, we market our applications and professional services in certain countries outside of the United States and plan to expand our local presence in regions such as Europe, the Middle East and Asia. If additional legal and/or regulatory requirements are implemented in the foreign countries in which we provide our services, the cost of developing or selling our applications may increase. As these requirements proliferate and as existing legal requirements become subject to new interpretations, we must change or adapt our applications and professional services to comply. Changing regulatory requirements might render certain of our applications obsolete or might block us from accomplishing our work or from developing new applications. This might in turn impose additional costs upon us to comply or to further develop our applications. It might also make introduction of new applications or service types more costly or more time-consuming than we currently anticipate. It might even prevent introduction by us of new applications or cause the continuation of our existing applications or professional services to become unprofitable or impossible.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile and you may lose some or all of your investment.

The market price of our common stock may be highly volatile and may fluctuate substantially as a result of a variety of factors, some of which are related in complex ways. Our stock price has ranged from an intraday low of \$29.25 to an intraday high of \$63.00 for the year ended December 31, 2018. Factors that may affect the market price of our common stock include:

- actual or anticipated fluctuations in our financial condition and operating results;
- variance in our financial performance from expectations of securities analysts;
- changes in the prices of our applications;
- changes in our projected operating and financial results;
- changes in laws or regulations applicable to our platform and applications;
- announcements by us or our competitors of significant business developments, acquisitions or new applications;
- our involvement in any litigation;
- our sale of our common stock or other securities in the future;
- changes in senior management or key personnel;
- trading volume of our common stock;
- changes in the anticipated future size and growth rate of our market; and
- general economic, regulatory and market conditions.

Recently, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial costs and divert our management's attention.

Conversion of the Notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their Notes, or may otherwise depress the price of our common stock.

The conversion of some or all of the convertible Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the Notes. Based on the market price of our common stock during the 30 trading days preceding September 30, 2018, the Notes are convertible at the option of the debt holder as of December 31, 2018. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the price of our common stock.

The capped call transactions entered into when we issued the convertible notes may affect the value of our common stock.

In connection with the pricing of the Notes, we entered into capped call transactions with the option counterparties. The capped call transactions are expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. In connection with establishing their initial hedges of the capped call transactions, the option counterparties or their respective affiliates entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Notes. The option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes). This activity could cause or avoid an increase or a decrease in the market price of our common stock.

An active public trading market for our common stock may not be sustained.

Prior to the completion of our initial public offering, or IPO in September 2016, no public market for our common stock existed. Although our common stock is listed on the NASDAQ Global Market, we cannot assure you that an active public trading market for our common stock will continue to develop or be sustained. If an active market for our common stock does not continue to develop or is not sustained, it may be difficult for investors in our common stock to sell shares without depressing the market price for the shares or to sell the shares at all. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

As a result of becoming a public company, we are obligated to maintain a system of effective internal control over financial reporting and any failure to maintain the adequacy of these internal controls may harm investor confidence in our company and, as a result, the value of our common stock.

The Sarbanes-Oxley Act of 2002 requires that we maintain effective internal control over financial reporting and disclosure controls and procedures. We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. However, as an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, our auditors have not been required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404. As of the end of our fiscal year ended December 31, 2018, we qualified as a “large accelerated filer” and, as a result, ceased to qualify as an emerging growth company. As a result, commencing with this Annual Report, we are required to have our auditors formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404.

Our compliance with Section 404 necessitates that we incur substantial accounting expense and expend significant management efforts. We will continue to dedicate internal resources, engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting and to compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404. However, we cannot assure you that our independent registered public accounting firm will be able to attest to the effectiveness of our internal control over financial reporting. We may not be able to remediate any material weaknesses that may be identified, or to complete our evaluation, testing and any required remediation in a timely fashion and our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

Any failure to maintain adequate internal controls over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion on the effectiveness of our internal controls when they are required to issue such opinion, investors could lose confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the Nasdaq Stock Market, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We do not anticipate paying any cash dividends in the foreseeable future, and accordingly, stockholders must rely on stock appreciation for any return on their investment.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends to holders of our common stock in the foreseeable future. In addition, our ability to pay cash dividends is currently prohibited by the terms of the Credit Agreement and may be prohibited by future credit agreements. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may have the effect of delaying or preventing a change in control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue preferred stock, without further stockholder action and with voting liquidation, dividend and other rights superior to our common stock;
- require that any action to be taken by our stockholders be affected at a duly called annual or special meeting and not by written consent, and limit the ability of our stockholders to call special meetings;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for director nominees;
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
- require the approval of holders of two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or amend or repeal the provisions of our certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action by written consent or call a special meeting;
- prohibit cumulative voting in the election of directors; and
- provide that vacancies on our board of directors may be filled only by the vote of a majority of directors then in office, even though less than a quorum.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that you would receive a premium for your common stock in an acquisition.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our amended and restated certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or (4) any action asserting a claim governed by the internal affairs doctrine. Our amended and restated certificate of incorporation further provides that any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have notice of and consented to the foregoing provision. The forum selection clause in our amended and restated certificate of incorporation may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Future sales of our common stock in the public market could cause our share price to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales, particularly sales by our directors, executive officers and significant stockholders, may have on the prevailing market price of our common stock. Additionally, the shares of common stock subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans, as well as shares issuable upon vesting of restricted stock awards, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations.

Additionally, certain holders of our common stock have the right, subject to various conditions and limitations, to request we include their shares of our common stock in registration statements we may file relating to our securities.

In addition, in the future, we may issue common stock or other securities if we need to raise additional capital. The number of new shares of our common stock issued in connection with raising additional capital could constitute a material portion of our then-outstanding shares of our common stock.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Our principal executive offices are located in Burlington, Massachusetts, where we occupy an approximately 73,500 square-foot facility under a lease expiring on May 31, 2024, and in Pasadena, California, where we occupy an approximately 19,000 square-foot facility under a lease expiring on December 31, 2023. We also have offices in San Francisco, California; Lansing, Michigan; Colchester, United Kingdom; London, United Kingdom; Bangalore, India; McLean, Virginia; Singapore; Beijing, China; Tilburg, the Netherlands; Oslo, Norway; and Norsborg, Sweden.

We believe that our current facilities are suitable and adequate to meet our current needs. We intend to add new facilities or expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Item 3. Legal Proceedings.

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures.

Not applicable

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock, is listed on The Nasdaq Global Market under the symbol “EVBG.”

The following table sets forth the reported high and low sales prices of our common stock for the periods indicated, as quoted on The NASDAQ Global Market:

	High	Low
Year ended December 31, 2018:		
First Quarter	\$ 39.12	\$ 29.25
Second Quarter	\$ 53.42	\$ 34.76
Third Quarter	\$ 63.00	\$ 44.12
Fourth Quarter	\$ 59.83	\$ 41.94
Year Ended December 31, 2017		
First Quarter	\$ 21.25	\$ 16.63
Second Quarter	\$ 26.87	\$ 19.45
Third Quarter	\$ 26.52	\$ 21.56
Fourth Quarter	\$ 30.20	\$ 23.87

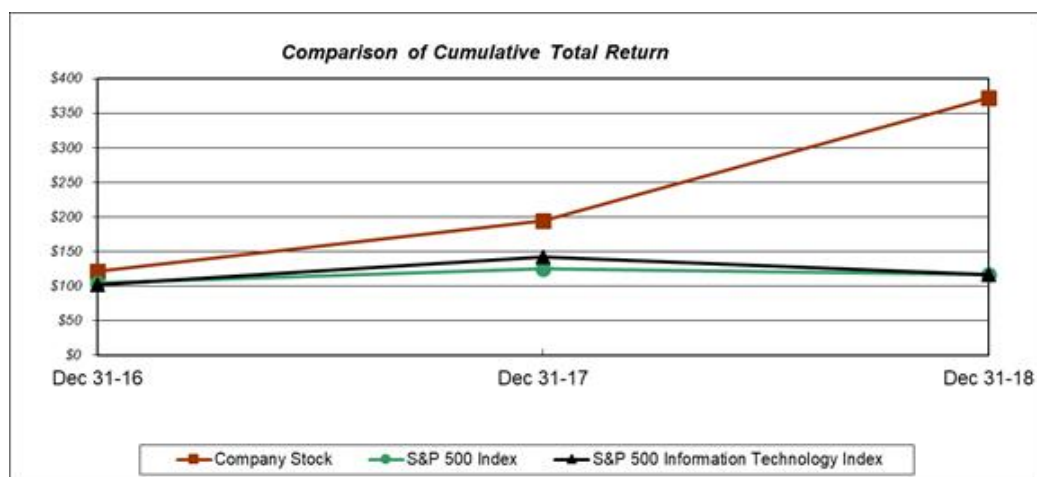
As of December 31, 2018, there were 495 holders of record of our common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Stock Performance Graph

This section is not “soliciting material,” is not deemed “filed” with the SEC and shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing

The following graph compares the cumulative total return for an investment of \$100 in our common stock, the S&P 500 Stock Index and the S&P 500 Information Technology Index. Data for the S&P 500 Stock Index and the S&P 500 Information Technology Index assume reinvestment of dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



	September 16, 2016	December 31, 2016	December 31, 2017	December 31, 2018
Everbridge, Inc.	\$ 100.00	\$ 121.00	\$ 195.00	\$ 372.00
S&P 500 Stock Index	\$ 100.00	\$ 105.00	\$ 125.00	\$ 116.00
S&P 500 Information Technology Index	\$ 100.00	\$ 102.00	\$ 142.00	\$ 116.00

Recent Sale of Unregistered Securities

None

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plan is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

Item 6. Selected Financial Data.**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected historical financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and the related notes appearing in Item 8, “Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K to fully understand the factors that may affect the comparability of the information presented below.

The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

The following selected consolidated statements of operations data for the years ended December 31, 2018, 2017 and 2016, and the consolidated balance sheet data as of December 31, 2018 and 2017, have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the year ended December 31, 2015 and 2014 and the consolidated balance sheet data as of December 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. The selected consolidated financial data for the year ended December 31, 2018 and as of December 31, 2018 reflects the adoption of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“Topic 606”). See Note 15 of the notes to consolidated financial statements for a summary of adjustments. The summary consolidated financial data for the years ended December 31, 2017, 2016, 2015 and 2014 and as of December 31, 2017, 2016, 2015 and 2014 does not reflect the adoption of Topic 606.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except shares and per share data)				
Revenue	\$ 147,094	\$ 104,352	\$ 76,846	\$ 58,720	\$ 42,421
Cost of revenue ⁽¹⁾	46,810	31,503	23,767	19,789	12,089
Gross profit	100,284	72,849	53,079	38,931	30,332
Operating expenses:					
Sales and marketing ⁽¹⁾	\$ 69,608	\$ 46,998	\$ 34,847	\$ 25,925	\$ 15,818
Research and development ⁽¹⁾	41,305	22,241	14,765	11,521	7,365
General and administrative ⁽¹⁾	31,462	22,895	14,293	12,272	7,435
Total operating expenses	142,375	92,134	63,905	49,718	30,618
Operating loss	(42,091)	(19,285)	(10,826)	(10,787)	(286)
Other expenses, net	(4,628)	(302)	(484)	(599)	(426)
Loss before income taxes	(46,719)	(19,587)	(11,310)	(11,386)	(712)
(Provision for) benefit from income taxes	(796)	(47)	24	562	89
Net loss	<u>\$ (47,515)</u>	<u>\$ (19,634)</u>	<u>\$ (11,286)</u>	<u>\$ (10,824)</u>	<u>\$ (623)</u>
Net loss attributable to common shareholders	\$ (47,515)	\$ (19,634)	\$ (11,286)	\$ (10,824)	\$ (623)
Net loss per share attributable to common shareholders - basic	\$ (1.63)	\$ (0.70)	\$ (0.68)	\$ (0.88)	\$ (0.05)
Net loss per share attributable to common shareholders - diluted	\$ (1.63)	\$ (0.70)	\$ (0.68)	\$ (0.88)	\$ (0.05)
Weighted average shares outstanding - basic	29,107,267	27,862,375	16,659,561	12,257,413	11,788,883
Weighted average shares outstanding - diluted	29,107,267	27,862,375	16,659,561	12,257,413	11,788,883

(1) Includes stock-based compensation expense and depreciation and amortization expense as follows:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Stock-based compensation expense:					
Cost of revenue	\$ 2,306	\$ 578	\$ 180	\$ 150	\$ 82
Sales and marketing	9,282	2,419	725	315	120
Research and development	7,106	1,514	348	297	147
General and administrative	7,131	4,788	1,848	760	27
Total	\$ 25,825	\$ 9,299	\$ 3,101	\$ 1,522	\$ 376

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Depreciation and amortization expense:					
Cost of revenue	\$ 7,741	\$ 7,263	\$ 6,247	\$ 4,457	\$ 1,615
Sales and marketing	384	304	208	227	101
Research and development	309	203	265	134	31
General and administrative	5,259	2,437	1,022	1,158	765
Total	\$ 13,693	\$ 10,207	\$ 7,742	\$ 5,976	\$ 2,512

(2) See notes (2) and (12) to our consolidated financial statements for further details on the calculation of basic and diluted net loss per share attributable to common stockholders.

	As of December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 59,978	\$ 102,754	\$ 60,765	\$ 8,578	\$ 4,412
Working capital, excluding deferred revenue	135,206	166,589	70,488	15,160	1,760
Total assets	262,180	236,413	108,322	53,509	40,066
Total deferred revenue	95,636	73,072	52,634	40,467	28,844
Total debt	94,524	89,481	—	16,970	6,863
Total liabilities	220,022	180,422	65,970	69,560	45,393
Total stockholders' equity (deficit)	42,158	55,991	42,352	(16,051)	(5,327)

Item 7. 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 our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those under “Risk Factors” included in Part I, Item 1A or in other parts of this Annual Report on Form 10-K.

Overview

Everbridge is a global software company that provides enterprise software applications that automate and accelerate organizations’ operational response to critical events in order to keep people safe and businesses running faster. During public safety threats such as active shooter situations, terrorist attacks or severe weather conditions, as well as critical business events such as IT outages, cyber-attacks or other incidents such as product recalls or supply-chain interruptions, our SaaS-based platform enables our customers to quickly and reliably aggregate and assess threat data, locate people at risk and responders able to assist, automate the initiation of pre-defined emergency processes 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 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 over 200 countries and territories, in 22 languages and dialects – all simultaneously. Our Critical Event Management platform is comprised of a comprehensive set of software applications that address the full spectrum of tasks an organization has to perform to manage a critical event, including Mass Notification, Incident Management, Safety Connection, IT Alerting, Visual Command Center, Population Alerting, Crisis Commander, Community Engagement and Secure Messaging. We believe that our broad suite of integrated, enterprise applications delivered via a single global platform is a significant competitive advantage in the market for Critical Event Management solutions, which we refer to generally as CEM.

Our customer base has grown from 867 customers at the end of 2011 to more than 4,400 customers as of December 31, 2018. As of December 31, 2018, our customers were based in 49 countries and included nine of the 10 largest U.S. cities, nine of the 10 largest U.S.-based investment banks, all 25 of the 25 busiest North American airports, six of the 10 largest global consulting firms, six of the 10 largest global auto makers, all four of the largest global accounting firms and five of the 10 largest U.S.-based health insurers. 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 communications 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 2.3 years as of December 31, 2018, and generally bill and collect payment annually in advance. We derive most of our revenue from subscriptions to applications. Over 90% 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. Historically, we derived more than 62% of our revenue in each of the last three fiscal years from sales of our Mass Notification application. 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 \$147.1 million in 2018, \$104.4 million in 2017, \$76.8 million in 2016 and \$58.7 million in 2015, representing year-over-year increases of 41% in 2018, 36% in 2017 and 31% in 2016. We had net losses of \$47.5 million, \$19.6 million, \$11.3 million and \$10.8 million in 2018, 2017, 2016 and 2015, respectively.

As of December 31, 2018, and 2017, 19% and 16% of our customers, respectively, were located outside of the United States and these customers generated 19% and 10% of our total revenue for the years ended December 31, 2018 and 2017, respectively.

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 communications solutions and our ability to effectively compete. In order to further penetrate the market for critical communications 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. The complete details of the offer, including all terms and conditions, are included in an offer document complying with the requirements of the Norwegian Securities Trading Act and which has been distributed to UMS shareholders. This Annual Report does not in itself constitute an offer. The offer will only be made on the basis of the offer document and can only be accepted pursuant to the terms of such document.

Recent Developments

In April 2018, we acquired all of the outstanding shares of Unified Messaging Systems ASA, or UMS, in exchange for cash consideration of \$31.9 million, net of cash acquired. UMS is an industry leader in the area of critical communication and population alerting systems and is headquartered in Oslo, Norway.

In May 2018, we acquired certain assets from PlanetRisk, Inc., or PlanetRisk, in exchange for cash consideration of \$2.0 million. PlanetRisk is a provider of data analytics and visualization solutions and is headquartered in Tysons Corner, Virginia.

In May 2018, we acquired all of the outstanding shares of Respond B.V., or Respond, for a total purchase price of \$2.3 million. Respond is a provider of critical communication solutions and is headquartered in the Netherlands.

In January 2019, we completed a follow-on public offering in which we sold 2,645,000 shares of our common stock, which included 345,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of \$55.25 per share. We received net proceeds of \$139.7 million, after deducting underwriting discounts and commissions.

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.

Other Metrics

We regularly monitor a number of financial and operating metrics in order to measure our current performance and estimate our future performance. Our other business metrics may be calculated in a manner different than similar other business metrics used by other companies.

	Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Adjusted EBITDA	\$ (2,697)	\$ 135	\$ 5
Adjusted gross margin	\$ 103,858	\$ 75,041	\$ 55,577
Free cash flow	\$ (6,925)	\$ (2,964)	\$ 3,039

- Adjusted EBITDA.** Adjusted EBITDA represents our net loss before interest income and interest expense, income tax expense and benefit, depreciation and amortization expense and stock-based compensation expense. 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 and stock-based compensation expense. 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 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 board of directors. 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:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net loss	\$ (47,515)	\$ (19,634)	\$ (11,286)
Interest expense, net	4,504	216	472
Provision for (benefit from) income taxes	796	47	(24)
Depreciation and amortization	13,693	10,207	7,742
Stock-based compensation	25,825	9,299	3,101
Adjusted EBITDA	\$ (2,697)	\$ 135	\$ 5

- Adjusted Gross Margin.** Adjusted gross margin represents gross profit plus stock-based compensation and amortization of acquired intangibles. Adjusted gross margin is a measure used by management to understand and evaluate our core operating performance and trends and to generate future operating plans. The exclusion of stock-based compensation expense and amortization of acquired intangibles facilitates comparisons of our operating performance on a period-to-period basis. In the near term, we expect these expenses to continue to negatively impact our gross profit. Adjusted gross margin is not a measure calculated in accordance with GAAP. We believe that adjusted gross margin provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. Nevertheless, our use of adjusted gross margin 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. You should consider adjusted gross margin alongside our other GAAP-based financial performance measures, gross profit and our other GAAP financial results. The following table presents a reconciliation of adjusted gross margin to gross profit, the most directly comparable GAAP measure, for each of the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Gross profit	\$ 100,284	\$ 72,849	\$ 53,079
Amortization of acquired intangibles	1,268	1,614	2,318
Stock-based compensation	2,306	578	180
Adjusted gross margin	<u>\$ 103,858</u>	<u>\$ 75,041</u>	<u>\$ 55,577</u>

- Free Cash Flow.** Free cash flow represents net cash provided by operating activities minus capital expenditures and capitalized software development costs. Free cash flow is a measure used by management to understand and evaluate our core operating performance and trends and to generate future operating plans. The exclusion of capital expenditures and amounts capitalized for internally-developed software 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 is not a measure calculated in accordance with GAAP. We believe that free cash flow provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. Nevertheless, our use of free cash flow 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. You should consider free cash flow alongside our other GAAP-based financial performance measures, net cash provided by operating activities, and our other GAAP financial results. The following table presents a reconciliation of free cash flow to net cash for operating activities, the most directly comparable GAAP measure, for each of the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net cash provided by operating activities	\$ 3,295	\$ 4,863	\$ 9,503
Capital expenditures	(1,721)	(1,667)	(970)
Capitalized software development costs	(8,499)	(6,160)	(5,494)
Free cash flow	<u>\$ (6,925)</u>	<u>\$ (2,964)</u>	<u>\$ 3,039</u>

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 cost of revenue, non-GAAP gross profit, non-GAAP sales and marketing expense, non-GAAP research and development expense, non-GAAP general and administrative expense, non-GAAP total operating expenses, non-GAAP operating loss and non-GAAP net 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): stock-based compensation expense and amortization of acquired intangibles. 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 exclude stock-based compensation expense because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact our non-cash expense. 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. 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. 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 to non-GAAP financial measures for the years ended 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Cost of revenue	\$ 46,810	\$ 31,503	\$ 23,767
Amortization of acquired intangibles	(1,268)	(1,614)	(2,318)
Stock-based compensation expense	(2,306)	(578)	(180)
Non-GAAP cost of revenue	43,236	29,311	21,269
Gross profit	100,284	72,849	53,079
Amortization of acquired intangibles	1,268	1,614	2,318
Stock-based compensation expense	2,306	578	180
Non-GAAP gross profit	103,858	75,041	55,577
Non-GAAP gross margin	70.61%	71.91%	72.32%
Sales and marketing expense	69,608	46,998	34,847
Stock-based compensation expense	(9,282)	(2,419)	(725)
Non-GAAP sales and marketing	60,326	44,579	34,122
Research and development expense	41,305	22,241	14,765
Stock-based compensation expense	(7,106)	(1,514)	(348)
Non-GAAP research and development	34,199	20,727	14,417
General and administrative expense	31,462	22,895	14,293
Amortization of acquired intangibles	(4,667)	(2,123)	(916)
Stock-based compensation expense	(7,131)	(4,788)	(1,848)
Non-GAAP general and administrative	19,664	15,984	11,529
Total operating expenses	142,375	92,134	63,905
Amortization of acquired intangibles	(4,667)	(2,123)	(916)
Stock-based compensation expense	(23,519)	(8,721)	(2,921)
Non-GAAP total operating expenses	\$ 114,189	\$ 81,290	\$ 60,068
Operating loss	\$ (42,091)	\$ (19,285)	\$ (10,826)
Amortization of acquired intangibles	5,935	3,737	3,234
Stock-based compensation expense	25,825	9,299	3,101
Non-GAAP operating loss	\$ (10,331)	\$ (6,249)	\$ (4,491)
Net loss	\$ (47,515)	\$ (19,634)	\$ (11,286)
Amortization of acquired intangibles	5,935	3,737	3,234
Stock-based compensation expense	25,825	9,299	3,101
Non-GAAP net loss	\$ (15,755)	\$ (6,598)	\$ (4,951)

Components of Results of Operations

Revenue

We derive substantially all of our revenue from the sale of subscriptions to our critical communications and enterprise safety applications. Our customers do not have the right to take possession of the online subscription 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.

We generate an immaterial amount of revenue from set-up fees, which consist of participant process mapping, configuration, customer data migration and integration. We also sell professional services, which have been insignificant to date.

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.

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 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 and amortize these expenses ratably over the term of the corresponding subscription agreement. 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. In the near term, we expect our sales and marketing expense to increase on an absolute dollar basis as we hire new sales representatives in the United States and worldwide and grow our marketing staff.

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. In the near term, we expect our research and development expense to increase on an absolute dollar basis as we continue to increase the functionality of our platform and applications.

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. In the near term, we expect our general and administrative expense to increase on an absolute dollar basis as we incur the costs associated with being a publicly traded company.

Interest Income

Interest income consists of interest earned on our cash and investment balances held at financial institutions.

Interest Expense

Interest expense consists of interest on our outstanding debt obligations.

Other Expenses, Net

Other expenses, 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 results of operations for the year ended December 31, 2018 and as of December 31, 2018 reflects the adoption of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("Topic 606"). See Note 15 of the notes to consolidated financial statements for a summary of adjustments. The summary consolidated financial data for the years ended December 31, 2017 and 2016 and as of December 31, 2017 and 2016 does not reflect the adoption of Topic 606. The period-to-period comparison of our historical results is not necessarily indicative of the results that may be expected in the future.

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Revenue	\$ 147,094	\$ 104,352	\$ 76,846
Cost of revenue ⁽¹⁾	46,810	31,503	23,767
Gross profit	100,284	72,849	53,079
Operating expenses:			
Sales and marketing ⁽¹⁾	69,608	46,998	34,847
Research and development ⁽¹⁾	41,305	22,241	14,765
General and administrative ⁽¹⁾	31,462	22,895	14,293
Total operating expenses	142,375	92,134	63,905
Operating loss	(42,091)	(19,285)	(10,826)
Other expenses, net	(4,628)	(302)	(484)
Loss before income taxes	(46,719)	(19,587)	(11,310)
(Provision for) benefit from income taxes	(796)	(47)	24
Net loss	\$ (47,515)	\$ (19,634)	\$ (11,286)

(1) Includes stock-based compensation expense and depreciation and amortization as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Stock-based compensation expense:			
Cost of revenue	\$ 2,306	\$ 578	\$ 180
Sales and marketing	9,282	2,419	725
Research and development	7,106	1,514	348
General and administrative	7,131	4,788	1,848
Total	<u>\$ 25,825</u>	<u>\$ 9,299</u>	<u>\$ 3,101</u>

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Depreciation and amortization expense:			
Cost of revenue	\$ 7,741	\$ 7,263	\$ 6,247
Sales and marketing	384	304	208
Research and development	309	203	265
General and administrative	5,259	2,437	1,022
Total	<u>\$ 13,693</u>	<u>\$ 10,207</u>	<u>\$ 7,742</u>

	Year Ended December 31,		
	2018	2017	2016
Consolidated Statements of Operations, as a percentage of revenue(1)			
Revenue	100%	100%	100%
Cost of revenue	32%	30%	31%
Gross profit	68%	70%	69%
Operating expenses:			
Sales and marketing	47%	45%	45%
Research and development	28%	21%	19%
General and administrative	21%	22%	19%
Total operating expenses	97%	88%	83%
Operating loss	(29)%	(18)%	(14)%
Other expenses, net	(3)%	(0)%	(1)%
Loss before income taxes	(32)%	(19)%	(15)%
(Provision for) benefit from income taxes	*	*	*
Net loss	<u>(32)%</u>	<u>(19)%</u>	<u>(15)%</u>

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

* Represents less than 1% of revenue.

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Revenue

	Year Ended December 31,		Change	
	2018	2017	\$	%
	(dollars in thousands)			
Revenue	\$ 147,094	\$ 104,352	\$ 42,742	41.0%

Revenue increased by \$42.7 million in 2018 compared to 2017. The increase was primarily due to a \$42.7 million increase in sales of our solutions driven by expansion of our customer base from 3,711 customers as of December 31, 2017 to 4,422 as of December 31, 2018, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

	Year Ended December 31,		Change	
	2018	2017	\$	%
	(dollars in thousands)			
Cost of revenue	\$ 46,810	\$ 31,503	\$ 15,307	48.6%
Gross margin %	68%	70%		

Cost of revenue increased by \$15.3 million in 2018 compared to 2017. The increase was primarily due to a \$7.2 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 128 employees as of December 31, 2017 to 173 employees as of December 31, 2018. The remaining increase was principally the result of a \$7.0 million increase in hosting, software and messaging costs, a \$0.6 million increase attributed to office related expenses to support revenue generating activities and a \$0.4 million increase in depreciation and amortization expense attributable to our acquired intangible assets.

Gross margin percentage decreased due to our continued investment in personnel and infrastructure to support our growth in revenue.

Operating Expenses

Sales and Marketing Expense

	Year Ended December 31,		Change	
	2018	2017	\$	%
	(dollars in thousands)			
Sales and marketing	\$ 69,608	\$ 46,998	\$ 22,610	48.1%
% of revenue	47%	45%		

Sales and marketing expense increased by \$22.6 million in 2018 compared to 2017. The increase was primarily due to a \$20.0 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 215 employees as of December 31, 2017 to 286 employees as of December 31, 2018. The remaining increase was principally the result of a \$1.8 million increase in trade show and advertising costs and a \$0.8 million increase attributed to office related expenses to support the sales team. The adoption of ASC 606 did not have a material impact on the change in commission expense when compared to year over year.

Research and Development Expense

	Year Ended December 31,		Change	
	2018	2017	\$	%
	(dollars in thousands)			
Research and development	\$ 41,305	\$ 22,241	\$ 19,064	85.7%
% of revenue	28%	21%		

Research and development expense increased by \$19.1 million in 2018 compared to 2017. The increase was primarily due to a \$18.1 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 159 employees as of December 31, 2017 to 229 employees as of December 31, 2018. The remaining increase was principally the result of a \$2.9 million increase in hosting and software related cost to support research and development activities and an increase of \$0.3 million in software subscription cost which was offset by a \$1.0 million decrease in office related expenses to support R&D activities. A total of \$7.8 million of internally-developed software costs during 2018 and \$6.3 million of internally-developed software costs during 2017 were capitalized, resulting in a decrease of the expense by \$1.4 million compared to 2017.

General and Administrative Expense

	Year Ended December 31,		Change	
	2018	2017	\$	%
	(dollars in thousands)			
General and administrative	\$ 31,462	\$ 22,895	\$ 8,567	37.4%
% of revenue	21%	22%		

General and administrative expense increased by \$8.6 million in 2018 compared to 2017. The increase was primarily due to a \$3.7 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 79 employees as of December 31, 2017 to 89 employees as of December 31, 2018. There was an additional increase of \$2.8 million in depreciation and amortization, an increase of \$1.5 million to support compliance as a public company, an increase of \$0.4 million in software subscription cost and a \$0.2 million increase in office related expenses to support the administrative team.

Other Expense, Net

	Year Ended December 31,		Change	
	2018	2017	\$	%
	(dollars in thousands)			
Other expense, net	\$ 4,628	\$ 302	\$ 4,326	1432.5%
% of revenue	3%	0%		

Other expense, net decreased by \$4.3 million in 2018 compared to 2017 as a result of an increase in interest expense of \$5.7 million related to interest expense due under our convertible senior notes. This increase was offset by an increase of \$1.4 million of interest income earned on our short-term investments.

Income Taxes

	Year Ended December 31,		Change	
	2018	2017	\$	%
	(dollars in thousands)			
Provision for income taxes	\$ 796	\$ 47	\$ 749	1593.6%
% of revenue	1%	0%		

Income tax expense increased by \$0.7 million in 2018 compared to 2017. The increase in taxes was primarily related to an increase in foreign taxes resulting from the acquisitions of UMS and Respond.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Revenue

	Year Ended December 31,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Revenue	\$ 104,352	\$ 76,846	\$ 27,506	35.8%

Revenue increased by \$27.5 million in 2017 compared to 2016. The increase was primarily due to a \$27.5 million increase in sales of our solutions driven by expansion of our customer base from 3,205 customers as of December 31, 2016 to 3,711 as of December 31, 2017, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

	Year Ended December 31,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Cost of revenue	\$ 31,503	\$ 23,767	\$ 7,736	32.5%
Gross margin %	70%	69%		

Cost of revenue increased by \$7.7 million in 2017 compared to 2016. The increase was primarily due to a \$4.3 million increase in employee-related costs associated with our increased headcount from 97 employees as of December 31, 2016 to 128 employees as of December 31, 2017. The remaining increase was principally the result of a \$1.0 million increase in depreciation and amortization expense attributable to our acquired intangible assets, a \$2.1 million increase in hosting, software and messaging costs and a \$0.3 million increase attributed to office related expenses to support revenue generating activities.

Gross margin percentage increased due to our continued investment in personnel to support our growth in revenue, which was greater than our growth in expenses.

Operating Expenses

Sales and Marketing Expense

	Year Ended December 31,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Sales and marketing	\$ 46,998	\$ 34,847	\$ 12,151	34.9%
% of revenue	45%	45%		

Sales and marketing expense increased by \$12.2 million in 2017 compared to 2016. The increase was primarily due to a \$10.3 million increase in employee-related costs associated with our increased headcount from 180 employees as of December 31, 2016 to 215 employees as of December 31, 2017. The remaining increase was principally the result of a \$1.0 million increase in trade show and advertising costs and a \$0.8 million increase attributed to office related expenses to support the sales team.

Research and Development Expense

	Year Ended December 31,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Research and development	\$ 22,241	\$ 14,765	\$ 7,476	50.6%
% of revenue	21%	19%		

Research and development expense increased by \$7.5 million in 2017 compared to 2016. The increase was primarily due to a \$7.2 million increase in employee-related costs associated with our increased headcount from 121 employees as of December 31, 2016 to 159 employees as of December 31, 2017. The remaining increase was principally the result of a \$0.7 million increase in hosting and software related cost to support research and development activities and a \$0.4 million increase in office related expenses to support R&D activities. A total of \$6.3 million of internally-developed software costs during 2017 and \$5.5 million of internally-developed software costs during 2016 were capitalized, resulting in a decrease of the expense by \$0.8 million in 2017.

General and Administrative Expense

	Year Ended December 31,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
General and administrative	\$ 22,895	\$ 14,293	\$ 8,602	60.2%
% of revenue	22%	19%		

General and administrative expense increased by \$8.6 million in 2017 compared to 2016. The increase was primarily due to a \$7.0 million increase in employee-related costs associated with our increased headcount from 62 employees as of December 31, 2016 to 79 employees as of December 31, 2017. There was an additional increase of \$0.4 million to support compliance as a public company, \$0.5 million in office related expenses to support the administrative team and a \$1.4 million increase in depreciation and amortization. These increases were offset by a \$0.7 million decrease in other expenses primarily as result of the gain recognized on the fair value adjustment for the contingent consideration attributed to the acquisition of IDV Solutions, LLC.

Other Expense, Net

	Year Ended December 31,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Other expense, net	\$ 302	\$ 484	\$ (182)	(37.6)%
% of revenue	0%	0%		

Other expense, net decreased by \$0.2 million in 2017 compared to 2016 as a result of an increase in interest expense of \$0.2 million related to interest expense due under our convertible senior notes in 2017 compared to interest under our term loan and revolving line of credit in 2016, which were paid off in September 2016 with the proceeds of our initial public offering, or IPO. This increase was offset by an increase of \$0.4 million of interest income earned on our short-term investments.

Income Taxes

	Year Ended December 31,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Provision for (benefit from) income taxes	\$ 47	\$ (24)	\$ 71	295.8%
% of revenue	0%	(0)%		

Income tax expense increased by \$0.1 million in 2017 compared to 2016. There were no material items driving the change.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash from operating activities, along with equity issuances and debt financing arrangements. Our principal source of liquidity is cash and cash equivalents totaling \$60.0 million as of December 31, 2018, which includes a portion of the \$98.2 million received in November 2017 as a result of our convertible senior notes after deducting debt issuance cost and the cost for the capped call transactions entered into in connection with the note offering. In addition, we completed a follow-on offering in January 2019 in which the company raised \$139.7 million, net of underwriters fees and commissions. We have generated significant losses since inception and expect to continue to generate losses for the foreseeable future.

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. 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 this Annual Report on Form 10-K titled “Risk Factors.” 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.

Cash Flows

The following table shows a summary of our cash flows for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Cash, cash equivalents and restricted cash at beginning of period	\$ 103,051	\$ 60,765	\$ 8,578
Cash provided by operating activities	3,295	4,863	9,503
Cash used in investing activities	(48,413)	(70,972)	(9,020)
Cash provided by financing activities	3,099	108,475	51,470
Effects of exchange rates on cash and cash equivalents	(964)	(80)	234
Cash, cash equivalents and restricted cash at end of period	<u>\$ 60,068</u>	<u>\$ 103,051</u>	<u>\$ 60,765</u>

At December 31, 2018, \$4.5 million of the \$60.0 million of cash and cash equivalents was held by foreign subsidiaries. Our intention is to indefinitely reinvest foreign earnings in our foreign subsidiaries. If these earnings were used to fund domestic operations, they would be subject to additional income taxes upon repatriation.

Sources of Funds

Initial and Follow-On Public Offerings

On September 21, 2016, we closed our initial public offering in which we issued and sold 6,250,000 shares of common stock at a public offering price of \$12.00 per share for net proceeds of approximately \$66.1 million, after deducting underwriting discounts and offering expenses paid or payable by us.

In April 2017, we completed a follow-on public offering in which we sold 553,825 shares of our common stock, which included 26,825 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of \$19.85 per share. We received net proceeds of \$9.9 million, after deducting underwriting discounts and commissions and offering expenses paid by us.

In January 2019, we completed a follow-on public offering in which we sold 2,645,000 shares of our common stock, which included 345,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of \$55.25 per share. We received net proceeds of \$139.7 million, after deducting underwriting discounts and commissions.

Credit Facility

During 2018, we had a revolving line of credit agreement with Western Alliance Bank, which provided for a \$15.0 million revolving secured credit facility that matured on September 28, 2018. During the year ended December 31, 2018, we had no amounts drawn under the credit facility. As of December 31, 2018, the line of credit had expired and was not renewed.

Convertible Senior Notes

In November 2017, we completed a public offering of \$115.0 million aggregate principal amount of 1.5% convertible senior notes due 2022, or the Notes, including \$15.0 million in principal amount of Notes issued upon exercise in full by the underwriters of an option to purchase additional Notes.

The Notes have an initial conversion rate of 29.6626 shares of common stock per \$1,000 principal amount of Notes. This represents an initial effective conversion price of approximately \$33.71 per share of common stock and approximately 3.4 million shares issuable upon conversion. Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest, if any, upon conversion of a Note, except in limited circumstances. Accrued but unpaid interest will be deemed to be paid by cash, shares of our common stock or a combination of cash and shares of our common stock paid or delivered, as the case may be, to the holder upon conversion of a Note.

In connection with the issuance of the Notes, we purchased capped call options that in the aggregate relate to the total number of shares of our common stock underlying the Notes, with an initial strike price of approximately \$33.71 per share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately \$47.20. The cost of the purchased capped calls was \$12.9 million.

Based on the market price of our common stock during the 30 trading days preceding September 30, 2018, the Notes are convertible at the option of the debt holder as of December 31, 2018. No debt holders have exercised their right for conversion as of December 31, 2018.

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.

Operating Activities

Our net loss and cash flows provided by 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 provided \$3.3 million in net cash in 2018, primarily from \$49.1 million in non-cash operating expenses, which was increased by \$1.7 million in changes in operating assets and liabilities and partially offset by our net loss of \$47.5 million. Specifically, we recognized non-cash charges aggregating \$13.7 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$25.6 million for stock-based compensation expense, \$5.5 million in amortization of commissions, \$4.6 million of accretion on the Notes and \$0.3 million for the increase in our accounts receivable provision and sales return reserve, offset by a \$0.5 million decrease in our non-cash investment income and \$0.3 million related to the change in fair value of contingent consideration. The change in operating assets and liabilities reflected a \$13.2 million increase in deferred revenue, a \$4.7 million increase in accrued employee-related expenses due to timing of payments, a \$1.7 million increase in other liabilities and a \$0.3 million increase in accrued expenses due to timing of payments made to vendors. These increases were partially offset by a \$2.6 million increase in accounts receivable, a \$2.0 million increase in prepaid expenses, a \$8.3 million increase in deferred cost due to timing of payments made for commissions, a \$4.0 million increase in other assets and a \$1.3 million decrease in accounts payable due to the timing of payments made.

Operating activities provided \$4.9 million in 2017, primarily from \$25.2 million of non-cash operating expenses which was offset by \$0.7 million in cash used in operations as a result of changes in operating assets and liabilities, which was decreased by and offset by our net loss of \$19.6 million. Specifically, we recognized non-cash charges aggregating to \$10.2 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$9.2 million for stock-based compensation, \$5.9 million for amortization of deferred commissions, \$0.6 million for the increase in our accounts receivable provision and sales return reserve and \$0.5 million related to the accretion of interest on the Notes, which was offset by a decrease of \$1.2 million for our change in fair value of contingent consideration and \$0.2 million of investment income. The change in operating assets and liabilities reflected a \$16.4 million increase in deferred revenue and a \$3.6 million increase in accrued employee related expenses due to timing of payments to employees. These increases were partially offset by a \$13.1 million increase in accounts receivable, a \$6.6 million increase in other assets, a \$0.6 million increase in prepaid expenses for upfront payments made for prepaid software and insurance, a \$0.1 million decrease in accrued expenses as a result of timing of payments made to vendors and a \$0.2 million decrease in other liabilities.

Investing Activities

Our investing activities consist primarily of capital expenditures for capitalized software development costs and property and equipment purchases, payments for acquisitions, purchase of intangibles and purchases of investments. Cash provided by investing activities consist of maturities of investments and monies received from entering into sale leaseback arrangements.

Investing activities used \$48.4 million in 2018, primarily from our purchase of UMS, PlanetRisk and Respond for an aggregate of \$35.9 million, purchase of short-term investments of \$87.2 million, investment in software development of \$8.5 million, our purchase of property and equipment of \$1.7 million and \$0.2 million in purchases of intangible assets. This was offset by cash provided of \$85.1 million in maturities of our short-term investments.

Investing activities used \$71.0 million in 2017, primarily from our purchase of IDV for \$21.2 million, our investment in software development of \$6.2 million, our purchase of property and equipment of \$1.7 million and \$60.8 million in purchases of short-term investments. This was offset by cash provided of \$0.8 million attributed to landlord reimbursements for tenant improvements in our Burlington, Massachusetts office lease and maturities of our short-term investments of \$18.0 million.

Financing Activities

Cash generated by financing activities includes proceeds from our follow-on public offering, borrowings under the Notes, the issuance of common stock upon the exercise of employee stock options and contributions to our employee stock purchase plan. Cash used in financing activities includes payments for debt issuance costs, offering costs, note payables, capital leases, contingent payments on acquisitions and employee withholding liabilities from the exercise of market based restricted stock units.

Financing activities provided \$3.1 million of cash in 2018, which reflects proceeds of \$1.8 million from the issuance of stock under our employee stock purchase plan and proceeds of \$10.1 million from the exercise of stock options. This amount was offset by a \$7.9 million payment for employee withholding taxes, \$0.4 million of contingent consideration related to our acquisition of IDV and \$0.3 million in offering costs paid in 2018 related to our 2019 follow-on offering.

Financing activities provided \$108.5 million of cash in 2017, which reflects proceeds of \$111.2 million from our offering of the Notes, net of underwriter's commissions and discounts, proceeds of \$9.9 million from our follow-on offering, net of underwriter's discount and commissions, \$2.9 million from the exercise of stock options and proceeds of \$1.5 million from sales of shares under our employee stock purchase plan. These amounts were offset by a \$12.9 million payment on a capped call hedge taken on the Notes, a \$3.8 million payment of contingent consideration related to our Crisis Commander and IDV acquisitions and \$3.0 million payment for offering cost related to the IPO which occurred in 2016 but were not paid until 2017.

Contractual Obligations and Commitments

The following table summarizes our commitments to settle contractual obligations as of December 31, 2018:

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
	(in thousands)				
Debt obligations (1)	\$ 427	\$ 115,000	\$ —	\$ —	\$ 115,427
Capital leases (2)	121	—	—	—	121
Operating leases (2)	3,646	7,547	7,463	1,331	19,987
	<u>\$ 4,194</u>	<u>\$ 122,547</u>	<u>\$ 7,463</u>	<u>\$ 1,331</u>	<u>\$ 135,535</u>

- (1) Debt obligations include the principal amount of the Notes, but exclude interest payments to be made under the Notes. Although the Notes mature in 2022, they can be converted into cash and shares of our 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. Please see Note 9 of the notes to our consolidated financial statements for more information on the terms of the Notes. The debt obligation balance excludes \$20.9 million of debt discount on our balance sheet and shown net of our debt obligations.
- (2) Operating and capital leases include total future minimum rent payments under non-cancelable operating and capital lease agreements as described in note 18 of our consolidated financial statements included in this Annual Report on Form 10-K.

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions and the approximate timing of the actions under the contracts. The table does not include obligations under agreements that we can cancel without a significant penalty.

Backlog

We sell all of our critical communications 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 2.3 years as of December 31, 2018, and generally bill and collect payment annually in advance. Since we bill many of our customers at the beginning of each contract year, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenue, deferred revenue or elsewhere in our consolidated financial statements. We expect that the amount of backlog relative to the total value of our subscription agreements will change from year to year for several reasons, including the specific timing and duration of customer agreements, varying invoicing cycles of agreements, the specific timing of customer renewals and changes in customer financial circumstances. In addition, because revenue for any period is a function of revenue recognized from deferred revenue under contracts in existence at the beginning of the period, as well as contracts that are renewed and new customer contracts that are entered into during the period, backlog at the beginning of any period is not necessarily indicative of future performance. Our presentation of backlog may also differ from that of other companies in our industry. Due to these factors, as well as variances in billing arrangements with customers, we do not utilize backlog as a key management metric internally.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of revenue, assets, liabilities, costs and expenses. 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. Our most critical accounting policies are summarized below.

Revenue Recognition

We derive our revenues primarily from subscription services and professional services. In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU No. 2014-09, *Revenue from Contracts with Customers*, or Topic 606. Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification, or ASC, Topic 605, Revenue Recognition, or Topic 605. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, we refer to Topic 606 and Subtopic 340-40 as the "new revenue standard" or "ASC 606."

We adopted the requirements of the new revenue standard as of January 1, 2018, using the modified retrospective method. Under the new revenue standard, we recognize revenues when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We determine 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, we satisfy a performance obligation

Subscription Services Revenues

Subscription services revenues primarily consist of fees that provide customers access to one or more of our hosted applications for critical communications and enterprise safety applications, with routine customer support. Revenue is generally recognized over time on a ratable basis over the contract term beginning on the date that our 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. Our 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 our 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.

Contracts with Multiple Performance Obligations

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account 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. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the applications sold, customer demographics, geographic locations, and the number and types of users within our contracts.

Deferred Costs

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. For periods beginning January 1, 2018, in accordance with the new revenue standard, these costs are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be four years. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

For periods prior to January 1, 2018, sales commission costs were recorded over a one year period.

Stock-Based Compensation

We recognize compensation expense for option awards and RSUs based on the fair value of the award and on a straight-line basis over the vesting period of the award based on the estimated portion of the award that is expected to vest.

Inherent in the valuation and recording of stock-based compensation for option awards, are several estimates that we made in regard to valuation and expense that will be incurred. We use the Black-Scholes option pricing model to measure the fair value of our option awards when they are granted. For restricted stock units, or RSUs granted, our board of directors determines the fair value based on the closing price of our common stock as reported on the Nasdaq Global Market on the date of grant. We primarily use the daily historical volatility of companies we consider to be our peers. To determine our peer companies, we use the following criteria: software or software-as-a-service companies; similar histories and relatively comparable financial leverage; sufficient public company trading history; and in similar businesses and geographical markets. We use the peers' stock price volatility over the expected life of our granted options to calculate the expected volatility. The expected term of employee option awards is determined using the average midpoint between vesting and the contractual term for outstanding awards, because we do not yet have a sufficient history of option exercises. We consider this appropriate as we expect to see changes to our equity structure in the future and there is no other method that would be more indicative of exercise activity. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. We have not paid dividends and do not anticipate paying a cash dividend in the foreseeable future and, accordingly, use an expected dividend yield of zero.

In 2017 and 2018, we granted market-based RSUs that vest upon satisfaction of certain market-based conditions. These RSUs were valued using the Monte-Carlo simulation model. These RSUs vest based on our common stock achieving certain stock price thresholds which range from \$35 per share to \$65 per share for 30 consecutive trading days as reported on the Nasdaq Stock Global Market, subject to the employee's continued employment with us through the date of achievement. The share price of our common stock on the date of issuance of the market-based restricted stock units was between \$33.06 and \$45.17 per share. The fair value is based on values calculated under the Monte Carlo simulation model on the grant date. The key estimates used in the Monte-Carlo simulation were a risk-free rate of 2.26% to 2.90%, dividend yield of zero, expected term of 10 years and volatility of 50% to 60%. We recognize the compensation expense associated with the market-based RSUs over the implied requisite service period subject to acceleration based on meeting the market-based condition.

In 2018, we granted performance-based RSUs, or PSUs, that vest upon satisfaction of certain performance-based conditions. The PSUs vest based on us achieving certain revenue growth thresholds which range from 20% to 40% compounded annual growth over a measurement period of two years for the first 50% of each grant of PSUs and three years for the remaining PSUs. The vesting of the PSUs is subject to the employee's continued employment with us through the date of achievement. The share price of our common stock on the date of issuance of the PSUs ranged from \$23.17 to \$58.82 per share. The fair value is based on the value of our common stock at the date of issuance and the probability of achieving the performance metric. We have assessed the probability of achievement of the award as highly probable based on past performance of achievement of the performance metric. 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.

Business Combinations

The results of businesses acquired in a business combination are included in our consolidated financial statements from the date of the acquisition. Purchase accounting results in assets and liabilities of an acquired business being recorded at their estimated fair values on the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill.

We perform valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination in order to record the tangible and intangible assets acquired and liabilities assumed based on our best estimate of fair value. Determining the fair value of assets acquired and liabilities assumed requires management to use significant judgment and estimates including the selection of valuation methodologies, estimates of future revenue and cash flows, discount rates and selection of comparable companies. We engage the assistance of valuation specialists in concluding on fair value measurements in connection with determining fair values of assets acquired and liabilities assumed in a business combination.

Transaction costs associated with business combinations are expensed as incurred and are included in general and administrative expense in our consolidated statements of operations and comprehensive loss.

Goodwill Impairment

Goodwill represents the excess of the cost of an acquired entity over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but rather is assessed for impairment at least annually. We performed our annual impairment assessment on November 30, 2018. We operate under one reporting unit and as a result, evaluate goodwill impairment based on our fair value as a whole.

To determine the number of operating segments and reporting units that are present, we analyzed whether there is any customer, product or geographic information that drives the chief operating decision maker's (our chief executive officer) decisions on how to allocate resources and whether any segment management exists. Management has concluded that operating decisions are made at the consolidated company level and there is no segment management in place that reviews results of operations with the chief operating decision maker.

In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, it is more likely than not that the fair value of the reporting unit is greater than its carrying value, then performing the two-step impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any of its reporting units and proceed directly to the use of the two-step impairment test.

When assessing goodwill for impairment for the year ended December 31, 2018, we first performed a qualitative assessment to determine whether it was necessary to perform the two-step quantitative analysis. Based on the qualitative assessment we determined it was unlikely that our reporting unit fair value was less than its carrying value and the two-step impairment test was not required. Based on the results of our most recent annual qualitative assessment performed on November 30, 2018, there was no impairment of goodwill recorded.

Capitalized Software Development Costs

We capitalize certain costs related to the development of our platform and other software applications for internal use. In accordance with authoritative guidance, we begin to capitalize our costs to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software will be used as intended. We stop capitalizing these costs when the software is substantially complete and ready for its intended use, including the completion of all significant testing. These costs are amortized on a straight-line basis over the estimated useful life of the related asset, generally estimated to be three years. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditure will result in additional functionality and expense costs incurred for maintenance and minor upgrades and enhancements. Costs incurred prior to meeting these criteria together with costs incurred for training and maintenance are expensed as incurred and recorded within product development expenses in our consolidated statements of operations. We exercise judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized. To the extent that we change the manner in which we develop and test new features and functionalities related to our platform, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of internal-use software development costs we capitalize and amortize could change in future periods.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 2 of our consolidated financial statements included in this Annual Report on Form 10-K.

Item 7A. 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 change the fair value of our interest sensitive financial instruments by approximately \$0.5 million. In addition, if a 100-basis point change in overall interest rates were to occur in 2019, 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 December 31, 2018.

Changes in interest rates may also impact gains or losses from the conversion of our outstanding convertible senior notes. In November 2017, we issued \$115 million in aggregate principal amount of our 1.50% convertible senior notes due 2022, or the Notes. At our election, the Notes are convertible into cash, shares of our common stock, or a combination of cash and shares of our common stock in each case under certain circumstances, including trading price conditions related to our common stock. Because the trading price of our common stock reached a price for a sustained period at 130% above the conversion price of \$33.71, the Notes are convertible by the holders as of December 31, 2018. Upon conversion, we are required to record a gain or loss for the difference between the fair value of the debt to be extinguished and its corresponding net carrying value. The fair value of the debt to be extinguished depends on our then-current incremental borrowing rate. If our incremental borrowing rate at the time of conversion is higher or lower than the implied interest rate of the Notes, we will record a gain or loss in our consolidated statement of operations during the period in which the Notes are converted. The implicit interest rate for the notes is 6.93%. An incremental borrowing rate that is a hypothetical 100 basis points lower than the implicit interest rate upon conversion of \$115 million aggregate principal amount of the Notes would result in a loss of approximately \$1.2 million.

We are exposed to other interest rate risk in the ordinary course of our business. Our cash, cash equivalents and investments includes 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 \$60.0 million as of December 31, 2018, which consisted of bank deposits and money market funds. To date, fluctuations in interest income have not been significant. Except as described above, we have no outstanding debt subject to interest rate risk as of December 31, 2018.

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, Norwegian Krone and Swedish Kronor. Movements in foreign currencies in which we transact business could significantly affect future net earnings. 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. 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 8. Financial Statements and Supplementary Data.

Financial Statements

The financial statements required to be filed pursuant to this Item 8 are appended to this report. An index of those financial statements is found in Item 15.

Supplementary Data

The following table sets forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters in the period ended December 31, 2018. We have prepared the quarterly financial data on the same basis as the audited consolidated financial statements included in this Annual Report on Form 10-K. In our opinion, the quarterly financial data reflects all adjustments, consisting only of normal recurring adjustment that we consider necessary for a fair presentation of this data. This quarterly financial data should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future.

	Three Months Ended							
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
(in thousands)								
Consolidated Statements of Operations Data:								
Revenue	\$ 22,844	\$ 25,021	\$ 27,312	\$ 29,175	\$ 30,519	\$ 35,822	\$ 38,925	\$ 41,828
Cost of revenue	7,654	7,239	8,076	8,534	9,660	11,532	12,296	13,322
Gross Profit	15,190	17,782	19,236	20,641	20,859	24,290	26,629	28,506
Operating expenses:								
Sales and marketing	10,906	11,057	11,626	13,409	15,776	19,179	16,348	18,305
Research and development	5,277	5,179	5,626	6,159	8,171	12,027	10,350	10,757
General and administrative	5,200	5,065	6,375	6,255	7,844	8,635	7,130	7,853
Total operating expense	21,383	21,301	23,627	25,823	31,791	39,841	33,828	36,915
Operating loss	(6,193)	(3,519)	(4,391)	(5,182)	(10,932)	(15,551)	(7,199)	(8,409)
Other income (expense), net	18	69	81	(470)	(1,314)	(1,178)	(1,165)	(971)
Loss before (provision for) benefit from income taxes	(6,175)	(3,450)	(4,310)	(5,652)	(12,246)	(16,729)	(8,364)	(9,380)
(Provision for) benefit from income taxes	(27)	13	79	(112)	(96)	(189)	(86)	(425)
Net loss	<u>\$ (6,202)</u>	<u>\$ (3,437)</u>	<u>\$ (4,231)</u>	<u>\$ (5,764)</u>	<u>\$ (12,342)</u>	<u>\$ (16,918)</u>	<u>\$ (8,450)</u>	<u>\$ (9,805)</u>
Other Metrics:								
Adjusted EBITDA ⁽¹⁾	\$ (2,324)	\$ (129)	\$ 807	\$ 1,781	\$ (1,798)	\$ (1,845)	\$ 153	\$ 793

- (1) Adjusted EBITDA represents our net loss before interest income and interest expense, income tax expense and benefit, depreciation and amortization expense and stock-based compensation expense. 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 and stock-based compensation expense. 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 GAAP. The following table presents a reconciliation of adjusted EBITDA to net loss, the most directly comparable GAAP measure, for each of the periods indicated. See "Management's Discussion & Analysis of Financial Conditions and Results of Operations—Other Metrics" for a discussion of the limitations of adjusted EBITDA.

	Three Months Ended							
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
(in thousands)								
Net loss	\$ (6,202)	\$ (3,437)	\$ (4,231)	\$ (5,764)	\$ (12,342)	\$ (16,918)	\$ (8,450)	\$ (9,805)
Interest expense (income), net	(50)	(75)	(104)	445	1,116	1,172	1,132	1,084
Provision for (benefit from) income taxes	27	(13)	(79)	112	96	189	86	425
Depreciation and amortization expense	2,933	2,295	2,418	2,561	2,638	3,690	3,844	3,521
Stock-based compensation expense	968	1,101	2,803	4,427	6,694	10,022	3,541	5,568
Total net adjustments	<u>\$ 3,878</u>	<u>\$ 3,308</u>	<u>\$ 5,038</u>	<u>\$ 7,545</u>	<u>\$ 10,544</u>	<u>\$ 15,073</u>	<u>\$ 8,603</u>	<u>\$ 10,598</u>
Adjusted EBITDA	<u>\$ (2,324)</u>	<u>\$ (129)</u>	<u>\$ 807</u>	<u>\$ 1,781</u>	<u>\$ (1,798)</u>	<u>\$ (1,845)</u>	<u>\$ 153</u>	<u>\$ 793</u>

Quarterly Trends in Revenue and Gross Margin

The sequential increases in our quarterly revenue was due primarily to increases in our number of new customers as well as increased revenue from existing customers as they expanded their use of our solutions.

Our gross profit has increased sequentially for the periods presented due primarily to greater growth in revenue than expenses, which expenses are primarily related to our increase in headcount as we invest in the growth of our business. The increase in revenue was partially offset by increases in amortization expense attributed to our acquisitions, capitalized software development costs and stock-based compensation.

Quarterly Trends in Operating Expenses

Our operating expenses generally have increased sequentially for the periods presented due primarily to increases in headcount and other office and infrastructure related expenses to support our growth and becoming a public company. We anticipate our operating expenses will continue to increase in absolute dollar terms as we invest in the long-term growth of our business.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None

Item 9A. 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 Securities Exchange Act of 1934, as amended, or 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 Annual Report on Form 10-K. 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 as of December 31, 2018.

Management’s Annual Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting is effective as of December 31, 2018.

During 2018, we completed the acquisitions of Unified Messaging System ASA, PlanetRisk, Inc. and Respond B.V (the “Acquisitions”). As permitted by the U.S. Securities and Exchange Commission, we excluded the Acquisitions from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2018, since it was not practical for management to conduct an assessment of internal control over financial reporting for this entity between the acquisition date and the date of management's assessment. Excluded from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2018 were total assets and net revenues of approximately 10% and 9%, respectively, of our consolidated total assets and net revenues as of and for the year ended December 31, 2018.

This Annual Report includes an attestation report regarding our internal control over financial reporting by our registered public accounting firm, which appears in the appendix to this Annual Report on Form 10-K .

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 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.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13(a)-15(d) and 15d-15(d) under the Exchange Act that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

As part of our system of corporate governance, our board of directors has adopted a code of business conduct and ethics. The code applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), agents and representatives, including our independent directors and consultants, who are not employees of ours, with regard to their activities related to our business. Our code of business conduct and ethics is available on our website at www.Everbridge.com. We intend to post on this section of our website any amendment to our code of business conduct and ethics, as well as any waivers of our code of business conduct and ethics, that are required to be disclosed by the rules of the SEC or the Nasdaq Stock Market.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

1. Financial Statements. The financial statements as set forth under Item 8 of this Annual Report on Form 10-K are incorporated herein.
 2. Financial Statement Schedules. All financial statement schedules have been omitted because they are not applicable, not required, or the information is shown in the financial statements or related notes.
 3. Exhibits. See (b) below.
- (b) Exhibits:

Exhibit Index

Exhibit Number	Description
2.1(1)	<u>Transaction Agreement dated February 13, 2018, by and among Everbridge, Inc., Everbridge Holdings Limited, and Unified Messaging Systems ASA</u>
3.1(2)	<u>Fifth Amended and Restated Certificate of Incorporation of Everbridge, Inc.</u>
3.2(3)	<u>Amended and Restated Bylaws of Everbridge, Inc.</u>
4.1(4)	<u>Form of common stock certificate of Everbridge, Inc.</u>
4.2(5)	<u>Third Amended and Restated Investors' Rights Agreement by and among Everbridge, Inc. and certain of its stockholders, dated September 9, 2011 as amended and as currently in effect.</u>
4.3(6)	<u>Amendment to Third Amended and Restated Investors' Rights Agreement by and among Everbridge, Inc. and certain of its stockholders, dated November 20, 2017.</u>
4.4(7)	<u>Base Indenture, dated November 20, 2017, between Everbridge, Inc. and U.S. Bank National Association, as Trustee.</u>
4.5(8)	<u>First Supplemental Indenture, Dated November 20, 2017, between Everbridge, Inc. and U.S. Bank, National Association, as Trustee (including the form of 1.5% convertible senior notes due 2022).</u>
10.1*	<u>Lease Agreement, dated as of April 26, 2018 by and between Everbridge, Inc. and PR 155 North Lake, LLC.</u>
10.2+(9)	<u>2008 Equity Incentive Plan, as amended and as currently in effect, and Forms of Stock Option Agreement and Notice of Exercise thereunder.</u>
10.3+(10)	<u>2016 Equity Incentive Plan and Forms of Stock Option Agreement, Notice of Exercise and Stock Option Grant Notice thereunder.</u>
10.4+(11)	<u>Form of Restricted Stock Unit Award Agreement under the Everbridge, Inc. 2016 Equity Incentive Plan, as amended.</u>
10.5+(12)	<u>2016 Employee Stock Purchase Plan.</u>
10.6+(13)	<u>Non-Employee Director Compensation Plan.</u>
10.7+(14)	<u>Form of Indemnification Agreement by and between Everbridge, Inc. and each of its directors and executive officers.</u>
10.8+(15)	<u>Employment Agreement, dated as of July 26, 2012, by and between Everbridge, Inc. and Jaime Ellertson.</u>
10.9+(16)	<u>Employment Agreement, dated as of April 13, 2016, by and between Everbridge, Inc. and Kenneth S. Goldman.</u>

Exhibit Number	Description
10.10+(17)	<u>Employment Agreement, dated as of July 27, 2012, by and between Everbridge, Inc. and Imad Mouline.</u>
10.11+(18)	<u>Employment Agreement, dated as of November 3, 2016, by and between Everbridge, Inc. and Elliot J. Mark.</u>
10.12+(19)	<u>Employment Agreement, dated February 14, 2018, by and between Everbridge, Inc. and Robert Hughes.</u>
10.13+(20)	<u>Amendment to Employment Agreement, dated as of July 16, 2018, by and between Everbridge, Inc. and Robert Hughes</u>
10.14+(21)	<u>Employment Agreement, dated as of May 15, 2018, by and between Everbridge, Inc. and James Totton.</u>
10.15(22)	<u>Loan and Security Agreement, dated as of June 30, 2016, by and between Everbridge, Inc. and Western Alliance Bank, as amended.</u>
10.16(23)	<u>Loan and Security Modification Agreement, dated as of June 27, 2018, by and between Everbridge, Inc. and Western Alliance Bank.</u>
10.17+(24)	<u>2017 Bonus Plan of Everbridge, Inc.</u>
10.18+(25)	<u>2018 Bonus Plan of Everbridge, Inc.</u>
10.19(26)	<u>Lease, dated as of December 16, 2016, by and between Everbridge, Inc. and Burlington Centre Owner, LLC.</u>
10.20*	<u>First Amendment to Lease, dated as of February 6, 2018, by and between Everbridge, Inc. and 25 Corporate Drive LLC.</u>
21.1*	<u>Subsidiaries of Everbridge, Inc.</u>
23.1*	<u>Consent of KPMG, LLP.</u>
23.2*	<u>Consent of Ernst & Young, LLP.</u>
31.1*	<u>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.</u>
31.2*	<u>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.</u>
32.1**	<u>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.</u>
32.2**	<u>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.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

Exhibit Number	Description
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
(1)	Previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-37874), filed with the Securities and Exchange Commission on April 9, 2018, and incorporated herein by reference
(2)	Previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-37874), filed with the Securities and Exchange Commission on September 21, 2016, and incorporated herein by reference.
(3)	Previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-37874), filed with the Securities and Exchange Commission on September 21, 2016, and incorporated herein by reference.
(4)	Previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1/A (File No. 333-213217), filed with the Securities and Exchange Commission on September 6, 2016, and incorporated herein by reference.
(5)	Previously filed as Exhibit 4.2 to the Registrant's Registration Statement on Form S-1/A (File No. 333-213217), filed with the Securities and Exchange Commission on September 6, 2016, and incorporated herein by reference.
(6)	Previously filed as Exhibit 4.3 to the Registrant's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 12, 2018, and incorporated herein by reference.
(7)	Previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 20, 2017, and incorporated herein by reference.
(8)	Previously filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 20, 2017, and incorporated herein by reference.
(9)	Previously filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1/A (File No. 333-213217), filed with the Securities and Exchange Commission on September 6, 2016, and incorporated herein by reference.
(10)	Previously filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-1/A (File No. 333-213217), filed with the Securities and Exchange Commission on September 6, 2016, and incorporated herein by reference.
(11)	Previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on June 14, 2017, and incorporated herein by reference.
(12)	Previously filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1/A (File No. 333-213217), filed with the Securities and Exchange Commission on September 6, 2016, and incorporated herein by reference.
(13)	Previously filed as Exhibit 10.6 to the Registrant's Registration Statement on Form S-1/A (File No. 333-213217), filed with the Securities and Exchange Commission on September 6, 2016, and incorporated herein by reference.
(14)	Previously filed as Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-213217), filed with the Securities and Exchange Commission on August 19, 2016, and incorporated herein by reference.
(15)	Previously filed as Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-213217), filed with the Securities and Exchange Commission on August 19, 2016, and incorporated herein by reference.
(16)	Previously filed as Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (File No. 333-213217), filed with the Securities and Exchange Commission on August 19, 2016, and incorporated herein by reference.
(17)	Previously filed as Exhibit 10.15 to the Registrant's Registration Statement on Form S-1 (File No. 333-213217), filed with the Securities and Exchange Commission on August 19, 2016, and incorporated herein by reference.
(18)	Previously filed as Exhibit 10.17 to the Registrant's Registration Statement on Form S-1/A (File No. 333-213217), filed with the Securities and Exchange Commission on September 6, 2016, and incorporated herein by reference.
(19)	Previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 10, 2018, and incorporated herein by reference.
(20)	Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 20, 2018, and incorporated herein by reference.

- (21) Previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 9, 2018, and incorporated herein by reference.
- (22) Previously filed as Exhibit 10.19 to the Registrant's Registration Statement on Form S-1 (File No. 333-213217), filed with the Securities and Exchange Commission on August 19, 2017, and incorporated herein by reference.
- (23) Previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 9, 2018, and incorporated herein by reference.
- (24) Previously filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on June 14, 2017, and incorporated herein by reference.
- (25) Previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 9, 2018, and incorporated herein by reference.
- (26) Previously filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 23, 2017, and incorporated herein by reference.

- * Filed herewith.
- ** 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.
- + Indicates management contract or compensatory plan.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Everbridge, Inc.

Date: March 1, 2019

By: /s/ Jaime Ellertson
Jaime Ellertson
Chief Executive Officer and Chairman of the Board of Directors

Date: March 1, 2019

By: /s/ Patrick Brickley
Patrick Brickley
Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jaime Ellertson</u> Jaime Ellertson	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	March 1, 2019
<u>/s/ Patrick Brickley</u> Patrick Brickley	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2019
<u>/s/ Phillip E. Huff</u> Phillip E. Huff	Vice President and Corporate Controller (Principal Accounting Officer)	March 1, 2019
<u>/s/ Richard D'Amore</u> Richard D'Amore	Director	March 1, 2019
<u>/s/ Bruns Grayson</u> Bruns Grayson	Director	March 1, 2019
<u>/s/ Alison Dean</u> Alison Dean	Director	March 1, 2019
<u>/s/ Kent Mathy</u> Kent Mathy	Director	March 1, 2019
<u>/s/ Sharon Rowlands</u> Sharon Rowlands	Director	March 1, 2019

EVERBRIDGE, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Everbridge, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Everbridge, Inc.'s and Subsidiaries internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Everbridge, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Unified Messaging Systems ASA, PlanetRisk, Inc., and Respond B.V., which are included in the 2018 consolidated financial statements of the Company and constituted 10% and 9%, respectively, of consolidated total assets and revenue as of December 31, 2018 and for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Unified Messaging Systems ASA, PlanetRisk, Inc., and Respond B.V.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2018, the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"), and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 1, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Everbridge, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Everbridge, Inc. and Subsidiaries (the Company) as of December 31, 2018, the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit) and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for recognizing revenue as a result of the adoption of Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12 effective January 1, 2018.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2018.

Boston, Massachusetts

March 1, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Everbridge, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Everbridge, Inc. and subsidiaries (the Company) as of December 31, 2017, the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the two year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We had served as the Company's auditor since 2012 and our tenure ended on August 9, 2018.

Los Angeles, California
March 12, 2018

EVERBRIDGE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	As of December 31, 2018	As of December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 59,978	\$ 102,754
Restricted cash	90	297
Investments	45,541	42,908
Accounts receivable, net	41,107	31,699
Prepaid expenses	4,890	2,563
Deferred costs	6,503	2,429
Other current assets	4,406	811
Total current assets	162,515	183,461
Property and equipment, net	4,650	2,796
Capitalized software development costs, net	12,893	10,005
Goodwill	48,382	31,328
Intangible assets, net	23,197	8,634
Deferred costs	10,265	—
Deferred tax assets	83	—
Other assets	195	189
Total assets	<u>\$ 262,180</u>	<u>\$ 236,413</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,719	\$ 2,446
Accrued payroll and employee related liabilities	17,108	11,111
Accrued expenses	5,565	1,825
Deferred revenue	92,738	70,090
Notes payable	427	—
Contingent consideration liabilities	—	682
Other current liabilities	1,490	808
Total current liabilities	120,047	86,962
Long-term liabilities:		
Deferred revenue, noncurrent	2,898	2,982
Convertible senior notes	94,097	89,481
Deferred tax liabilities	1,032	482
Other long term liabilities	1,948	515
Total liabilities	220,022	180,422
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001, 10,000,000 shares authorized, no shares issued or outstanding as of December 31, 2018 and December 31, 2017, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 29,700,192 and 28,330,460 shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively	30	28
Additional paid-in capital	194,866	164,995
Accumulated deficit	(147,670)	(109,252)
Accumulated other comprehensive (loss) income	(5,068)	220
Total stockholders' equity	42,158	55,991
Total liabilities and stockholders' equity	<u>\$ 262,180</u>	<u>\$ 236,413</u>

See accompanying notes to consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except share and per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenue	\$ 147,094	\$ 104,352	\$ 76,846
Cost of revenue	46,810	31,503	23,767
Gross profit	100,284	72,849	53,079
Operating expenses:			
Sales and marketing	69,608	46,998	34,847
Research and development	41,305	22,241	14,765
General and administrative	31,462	22,895	14,293
Total operating expenses	142,375	92,134	63,905
Operating loss	(42,091)	(19,285)	(10,826)
Other income (expense), net:			
Interest income	1,842	475	34
Interest expense	(6,346)	(691)	(506)
Other expenses, net	(124)	(86)	(12)
Total other expense, net	(4,628)	(302)	(484)
Loss before income taxes	(46,719)	(19,587)	(11,310)
(Provision for) benefit from income taxes	(796)	(47)	24
Net loss	<u>\$ (47,515)</u>	<u>\$ (19,634)</u>	<u>\$ (11,286)</u>
Net loss per share attributable to common stockholders:			
Basic	<u>\$ (1.63)</u>	<u>\$ (0.70)</u>	<u>\$ (0.68)</u>
Diluted	<u>\$ (1.63)</u>	<u>\$ (0.70)</u>	<u>\$ (0.68)</u>
Weighted-average common shares outstanding:			
Basic	29,107,267	27,862,375	16,659,561
Diluted	29,107,267	27,862,375	16,659,561
Other comprehensive (loss) income:			
Foreign currency translation adjustment, net of taxes	(5,288)	523	(290)
Total other comprehensive (loss) income	(5,288)	523	(290)
Total comprehensive loss	<u>\$ (52,803)</u>	<u>\$ (19,111)</u>	<u>\$ (11,576)</u>

See accompanying notes to consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit)
(in thousands, except share amounts)

	Series A preferred stock		Series A-1 preferred stock		Common stock		Class A common stock		Additional paid-in capital	Accumulated deficit	Accumulated — other comprehensive income (loss)	Total
	Shares	Par value	Shares	Par value	Shares	Par value	Shares	Par value				
Balance at December 31, 2015	3,129,084	\$ 3	5,225,879	\$ 5	11,106,926	\$ 11	1,164,105	\$ 1	\$ 62,274	\$ (78,332)	\$ (13)	\$ (16,051)
Stock-based compensation	—	—	—	—	—	—	—	—	3,101	—	—	3,101
Issuance of common stock in initial public offering, net of issuance costs	—	—	—	—	6,250,000	6	—	—	66,097	—	—	66,103
Conversion of convertible preferred stock and Class A common stock into common stock	(3,129,084)	(3)	(5,225,879)	(5)	9,519,068	9	(1,164,105)	(1)	—	—	—	—
Cashless exercise of common stock warrant	—	—	—	—	100,683	—	—	—	—	—	—	—
Exercise of stock options	—	—	—	—	163,968	1	—	—	749	—	—	750
Exercise of common stock warrant	—	—	—	—	10,029	—	—	—	25	—	—	25
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	(290)	(290)
Net loss	—	—	—	—	—	—	—	—	—	(11,286)	—	(11,286)
Balance at December 31, 2016	—	\$ —	—	\$ —	27,150,674	\$ 27	—	\$ —	\$ 132,246	\$ (89,618)	\$ (303)	\$ 42,352
Stock-based compensation	—	—	—	—	—	—	—	—	9,299	—	—	9,299
Issuance of common stock in follow-on offering, net of issuance costs	—	—	—	—	553,825	1	—	—	9,869	—	—	9,870
Purchase of convertible note capped call hedge	—	—	—	—	—	—	—	—	(12,922)	—	—	(12,922)
Equity component of convertible notes	—	—	—	—	—	—	—	—	22,094	—	—	22,094
Exercise of stock options	—	—	—	—	497,175	—	—	—	2,869	—	—	2,869
Issuance of shares under employee stock purchase plan	—	—	—	—	128,786	—	—	—	1,540	—	—	1,540
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	523	523
Net loss	—	—	—	—	—	—	—	—	—	(19,634)	—	(19,634)
Balance at December 31, 2017	—	\$ —	—	\$ —	28,330,460	\$ 28	—	\$ —	\$ 164,995	\$ (109,252)	\$ 220	\$ 55,991
Cumulative effect of adoption of ASU 2014-09, net of taxes	—	—	—	—	—	—	—	—	—	9,097	—	9,097
Stock-based compensation	—	—	—	—	—	—	—	—	25,825	—	—	25,825
Vesting of restricted stock units	—	—	—	—	671,412	1	—	—	—	—	—	1
Restricted stock units withheld to settle employee tax withholding liability	—	—	—	—	(154,567)	—	—	—	(7,925)	—	—	(7,925)
Exercise of stock options	—	—	—	—	778,370	1	—	—	10,148	—	—	10,149
Issuance of shares under employee stock purchase plan	—	—	—	—	74,517	—	—	—	1,823	—	—	1,823
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	(5,288)	(5,288)
Net loss	—	—	—	—	—	—	—	—	—	(47,515)	—	(47,515)
Balance at December 31, 2018	—	\$ —	—	\$ —	29,700,192	\$ 30	—	\$ —	\$ 194,866	\$ (147,670)	\$ (5,068)	\$ 42,158

See accompanying notes to consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net loss	\$ (47,515)	\$ (19,634)	\$ (11,286)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	13,693	10,207	7,742
Amortization of deferred commissions	5,472	5,947	5,264
Loss on disposal of assets	112	15	74
Deferred income taxes	125	(47)	(138)
Accretion of interest on debt	4,616	493	—
Non-cash interest expense on line of credit and term loan	—	—	67
Non-cash investment income	(498)	(204)	—
Provision for doubtful accounts and sales return reserve	252	637	387
Stock-based compensation	25,589	9,218	3,056
Change in fair value of contingent consideration obligation	(250)	(1,020)	—
Increase (decrease) in operating assets and liabilities:			
Accounts receivable	(2,623)	(13,067)	(2,295)
Prepaid expenses	(1,952)	(551)	(348)
Deferred costs	(8,285)	(89)	(6,529)
Other assets	(4,014)	(6,643)	169
Accounts payable	(1,263)	(90)	(423)
Accrued payroll and employee related liabilities	4,686	3,596	1,312
Accrued expenses	298	(132)	539
Deferred revenue	13,164	16,378	11,982
Other liabilities	1,688	(151)	(70)
Net cash provided by operating activities	3,295	4,863	9,503
Cash flows from investing activities:			
Capital expenditures	(1,721)	(1,667)	(970)
Proceeds from sale leaseback transaction	—	794	—
Payments for acquisition of business, net of acquired cash	(35,857)	(21,235)	(2,306)
Additions to capitalized software development costs	(8,499)	(6,160)	(5,494)
Purchase of short-term investments	(87,204)	(60,764)	—
Maturities of short-term investments	85,069	18,060	—
Purchase of intangibles	(201)	—	(250)
Net cash used in investing activities	(48,413)	(70,972)	(9,020)
Cash flows from financing activities:			
Proceeds from line of credit	—	—	9,500
Payments on line of credit	—	—	(19,500)
Payments of issuance costs relating to line of credit and term loan	—	—	(19)
Principal payments on capital leases	(99)	—	(58)
Proceeds from public offering, net of underwriters discounts and commissions	—	10,444	69,750
Payments of public offering costs	(276)	(872)	(1,960)
Payments on notes payable	(59)	—	(2,018)
(Payments) proceeds from term loan	—	—	(5,000)
Proceeds from issuance of convertible notes	—	115,000	—
Payments of debt issuance costs	(84)	(3,834)	—
Purchase of convertible note capped call hedge	—	(12,922)	—
Restricted stock units withheld to settle employee tax withholding liability	(7,925)	—	—
Payments of contingent consideration obligation	(431)	(3,750)	—
Proceeds from employee stock purchase plan	1,823	1,540	—
Proceeds from warrant exercises	—	—	25
Proceeds from option exercises	10,150	2,869	750
Repurchase of common stock	—	—	—
Net cash provided by financing activities	3,099	108,475	51,470
Effect of exchange rates on cash and cash equivalents	(964)	(80)	234
Net increase in cash and cash equivalents	(42,983)	42,286	52,187
Cash, cash equivalents and restricted cash—beginning of year	103,051	60,765	8,578
Cash, cash equivalents and restricted cash—end of year	\$ 60,068	\$ 103,051	\$ 60,765
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 1,634	\$ —	\$ 495
Taxes, net of (refunds)	\$ 113	\$ 28	\$ (117)
Supplemental disclosure of non-cash activities			
Capitalized assets included in accounts payable and accrued expenses	\$ 1,609	\$ 73	\$ 104
Deferred offering costs in accounts payable and accrued expenses	\$ 21	\$ —	\$ 298
Stock-based compensation capitalized for software development	\$ 236	\$ 81	\$ 45
Note payable issued for asset acquisition	\$ 52	\$ —	\$ —
Note payable issued for business acquisition	\$ 383	\$ —	\$ —
Debt issuance costs included in accounts payable and accrued expenses	\$ —	\$ 84	\$ —

See accompanying notes to 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 provides critical communications and enterprise safety applications that enable customers to automate and accelerate the process of keeping people safe and businesses running during critical events. The Company's SaaS-based platform enables the Company's customers to quickly and reliably deliver messaging to a large group of people during critical situations. The Company's enterprise applications, such as Mass Notification, Incident Management, IT Alerting, Safety Connection, Community Engagement, Secure Messaging, Crisis Commander, Population Alerting and Visual Command Center, automate numerous critical communications processes. The Company generates revenue primarily from subscription fees to the Company's enterprise applications. The Company has operations in the United States, Norway, India, the Netherlands, Sweden, England and China.

Follow-On Public Offerings

In April 2017, the Company completed a follow-on public offering in which the Company sold 553,825 shares of its common stock, which included 26,825 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of \$19.85 per share. In addition, 3,162,164 shares of the Company's common stock were sold by selling stockholders of the Company, which included 73,000 shares sold pursuant to the exercise of employee stock options by certain selling stockholders. The Company received net proceeds of \$9.9 million, after deducting underwriting discounts and commissions and offering expenses paid and payable by the Company. The Company did not receive any proceeds from the sales by the selling stockholders.

In January 2019, the Company completed a follow-on public offering in which the Company sold 2,645,000 shares of its common stock, which included 345,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of \$55.25 per share. The Company received net proceeds of \$139.7 million, after deducting underwriting discounts and commissions.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company's results of operations and those of its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company's accounting and financial reporting policies conform to generally accepted accounting principles in the United States of America, or U.S. GAAP.

Effective January 1, 2018, the Company adopted the requirements of Accounting Standards Update ASU, No. 2014-09, Revenue from Contracts with Customers, as discussed in this Note 2 and Note 15.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Business acquisitions are included in the Company's consolidated financial statements from the date of the acquisition. The Company's purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates.

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, allowances for doubtful accounts, the fair value of assets acquired and liabilities assumed in business combinations, 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 and certain market-based performance equity awards.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition ("Topic 605"), and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Company refers to Topic 606 and Subtopic 340-40 as the "new revenue standard" or "ASC 606."

The Company adopted the requirements of the new revenue standard as of January 1, 2018, utilizing the modified retrospective method of transition. Adoption of the new revenue standard resulted in changes to the Company's accounting policies for revenue recognition and deferred commissions as detailed below. The Company applied the new revenue standard using a practical expedient where the consideration allocated to the remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue for all reporting periods presented before the date of the initial application is not disclosed.

Based on the results of the Company's evaluation, the adoption of the new revenue standard did not have a material impact on its revenue for the year ended December 31, 2018. The primary impact of adopting the new revenue standard relates to the deferral of incremental commission costs of obtaining subscription contracts. Under Topic 605, the Company deferred only direct and incremental commission costs to obtain a contract and amortized those costs over one year. Under the new revenue standard, the Company defers all incremental commission costs to obtain the contract. The Company amortizes these costs over a period of benefit that the Company has determined to be four years. Adoption of the new revenue standard had no impact on total cash provided from or used in operating, financing, or investing activities in the Company's consolidated statements of cash flows. For details on the impact of the Company's adoption of the new revenue standard, see Note 15.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments* (Topic 230), which addresses eight specific cash flow issues to reduce the diversity in practice for appropriate classification on the statement of cash flows. The Company adopted this guidance during the first quarter of 2018, and there was no significant effect of the standard on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash* (Topic 230), which requires that a statement of cash flows explain the change during the period for the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective for the fiscal year beginning January 1, 2018. The Company adopted ASU No. 2016-18 retrospectively, effective January 1, 2018. The adoption of ASU 2016-08 did not have a material impact on the Company's financial statements for the year ended December 31, 2018 and December 31, 2017, respectively.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which provides additional guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update provide new guidance to determine when an integrated set of assets and activities (collectively referred to as a “set”) is not a business. The new guidance requires that, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The new guidance reduces the number of transactions that need to be evaluated as a business. The Company adopted this amendment as of January 1, 2018. The adoption of ASU 2017-01 did not have a material impact on the Company's financial statements for the year ended December 31, 2018.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*, to require lessees to recognize the assets and liabilities on the balance sheet for the rights and obligations created by most leases and continue to recognize expenses on the income statements over the lease term. It will also require disclosure designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. As a result of this new standard, the Company expects to record a lease commitment liability and corresponding right-of-use asset for our leases designated as operating leases in Note 16, “Commitments and Contingencies,” upon adoption. The Company currently plans to adopt the standard using the transition method provided by ASC Update No. 2018-11, *Leases* (Topic 842): *Targeted Improvements*. Under this method, the Company plans to initially apply the new leasing rules on January 1, 2019 and recognize the cumulative effect of initially applying the standard as an adjustment to the Company's opening balance of retained earnings, rather than at the earliest comparative period presented in the financial statements. While the Company is still in the process of determining the effect that the new standard will have on its financial position and results of operations, the Company expects to recognize additional assets and corresponding liabilities on its consolidated balance sheets, as a result of its operating lease portfolio as it exists at the date the Company adopts the new standard on January 1, 2019.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act of 2017. The new standard is effective for the Company beginning on January 1, 2019, with early adoption permitted. The Company will adopt ASU 2018-02 effective January 1, 2019. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

In June 2018, the FASB issued guidance to expand the guidance for stock-based compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company does not believe the adoption of this guidance will have a material impact on the consolidated financial statements.

Other accounting standard updates effective for interim and annual periods beginning after December 31, 2018 are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Accounting standards describe a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1—Quoted prices in active markets for identical assets or liabilities or funds.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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.

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, or 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 located in the United States, Norway and the United Kingdom and are generally denominated in U.S. dollars, Norwegian Krone or British pounds. Each reporting period, the Company reevaluates each customer's ability to satisfy credit obligations and maintains an allowance for doubtful accounts based on the evaluations. No single customer comprised more than 10% of the Company's total revenue for the years ended December 31, 2018, 2017 and 2016. No single customer comprised more than 10% of the Company's accounts receivable balance at December 31, 2018 and 2017.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of funds deposited into money market funds. Cash and cash equivalents are stated at cost which approximates fair value.

Restricted Cash

The Company had restricted cash of \$0.1 million at December 31, 2018 and \$0.3 million at December 31, 2017 related to deposits held on the behalf of customers and escrow fees held in connection with acquisitions.

Short-Term Investments

Short-term investments consist of highly liquid investments, primarily commercial paper, U.S. Treasury and U.S. agency securities, with maturities over three months from the date of purchase. Debt securities, money market funds and U.S. agency bonds that the Company has the ability and positive intent to hold to maturity are carried at amortized cost, which approximates fair value. Short-term investments of \$45.5 million and \$42.9 at December 31, 2018 and December 31, 2017, respectively, were classified as held-to-maturity and primarily comprised of U.S. treasury and U.S. government and agency securities. All held-to-maturity securities at December 31, 2018 have maturity dates within one year. Short-term investments are stated at cost which approximates fair value.

Accounts Receivable

Accounts receivable includes trade accounts receivables from the Company's customers, net of an allowance for doubtful accounts. Accounts receivable are recorded at the invoiced amount and do not bear interest. Allowance for doubtful accounts is established based on various factors including credit profiles of the Company's customers, historical payments and current economic trends. The Company reviews its allowance by assessing individual accounts receivable over a specific aging and amount and all other balances are pooled based on historical collection experience. Accounts receivable are written-off on a case by case basis, net of any amounts that may be collected.

Deferred Offering Costs

Deferred offering costs consist primarily of direct incremental costs related to the Company's follow on offerings of its common stock, which were completed in April 2017 and January 2019. Upon completion of the Company's follow-on offering in April 2017, \$0.6 million was offset against the proceeds of the offering. The Company incurred \$0.3 million of offering cost as of December 31, 2018 related to the January 2019 offering.

Property and Equipment, Net

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally three years for computer software, office computers and system software, five years for system hardware and furniture and equipment, and over the shorter of lease term or useful life of the assets for leasehold improvements. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Company's results of operations.

Assets held under capital lease are recorded at the net present value of the minimum lease payments of the leased asset at the inception of the lease. Depreciation expense is computed using the straight-line method over the shorter of the estimated useful lives of the asset or the period of the related lease for leasehold improvements.

Capitalized Software Development Costs

The Company capitalizes the costs of software developed or obtained for internal use in accordance with ASC Topic 350-40, *Internal Use Software*. Capitalized software development costs consist of costs incurred during the application development stage and include purchased software licenses, implementation costs, consulting costs, and payroll-related costs for projects that qualify for capitalization. These costs relate to major new functionality. All other costs, primarily related to maintenance and minor software fixes, are expensed as incurred.

The Company amortizes the capitalized software development costs on a straight-line basis over the estimated useful life of the software, which is generally three years, beginning when the asset is substantially ready for use. The amortization of capitalized software development costs is reflected in cost of revenue.

Business Combinations

The results of businesses acquired in a business combination are included in the Company's consolidated financial statements from the date of acquisition. Purchase accounting results in assets and liabilities of an acquired business being recorded at their estimated fair values on the acquisition date. Any excess consideration over the value of the assets acquired and liabilities assumed is recognized as goodwill.

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination, and allocates the purchase price to the tangible and intangible assets acquired and liabilities assumed based on its best estimate of fair value. Acquired intangible assets include: tradenames, customer relationships, and developed technology. The Company determines the appropriate useful life of intangible assets by performing an analysis of cash flows based on historical experience of the acquired businesses. Intangible assets are amortized over their estimated useful lives based on the pattern in which the economic benefits associated with the asset are expected to be consumed, which to date has approximated the straight-line method of amortization. The estimated useful lives for tradenames, customer relationships, and technology are generally, two to eight years, five years, and two to seven years, respectively.

Segment Information

The Company's Chief Executive Officer is the chief operating decision maker, who reviews the Company's financial information presented on a consolidated basis for purposes of allocating resources and evaluating the Company's financial performance. Accordingly, the Company has determined that it operates in a single reporting segment.

Long Lived Assets

The Company evaluates the recoverability of its long lived assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable or that the useful lives of those assets are no longer appropriate. Management considers the following potential indicators of impairment of its long-lived assets (asset group): a substantial decrease in the Company's stock price, a significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used, a significant adverse change in legal factors or in the business climate that could affect the value of the long-lived asset (asset group), an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group), and a current expectation that, more likely than not, a long lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. When such events occur, the Company compares the carrying amounts of the assets group to their undiscounted expected future cash flows. If this comparison indicates that there may be an impairment, the amount of the impairment is calculated as the difference between the carrying value and fair value. For the years presented, the Company did not recognize an impairment charge.

Intangible Assets

Intangible assets consist of patents, tradename, customer relationships and acquired technology. The Company records acquired intangible assets at fair value on the date of acquisition. and amortize such assets using the straight-line method over the expected useful life of the asset. The estimated useful life of acquired intangible assets is one to seven years. The Company evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets in accordance with the long lived assets policy states above. If the estimate of an intangible asset's remaining useful life is changed, the Company amortizes the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

Goodwill

Goodwill represents the excess of the aggregate purchase price paid over the fair value of the net assets acquired in our business combinations. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Events or changes in circumstances that could trigger an impairment review include a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, or significant underperformance relative to expected historical or projected future results of operations. The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If, after assessing the totality of events or circumstances, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, additional impairment testing is not required. The Company tests for goodwill impairment annually on November 30.

The Company performed a qualitative goodwill assessment at November 30, 2018 and concluded there was no impairment based on consideration of a number of factors, including the improvement in the Company's key operating metrics over the prior year, improvement in the strength of the general economy and the Company's continued execution against its overall strategic objectives.

Debt Issuance Costs

Debt issuance costs related to the convertible senior notes have been recorded as a reduction of the carrying amount of the debt and are amortized to interest expense using the effective interest method.

Revenue Recognition

The Company derives its revenues primarily from subscription services and professional services. The Company adopted the requirements of the new revenue standard as of January 1, 2018, using the modified retrospective method. Under the new revenue standard, revenues are recognized when control of these 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.

Identify the customer contract

A customer contract is generally identified when the Company and a customer have executed an arrangement that calls for the Company to grant access to its online software products and provide professional services in exchange for consideration from the customer.

Identify performance obligations that are distinct

A performance obligation is a promise to provide a distinct good or service or a series of distinct goods or services. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and a company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The Company has determined that subscriptions for its online software products are distinct because, once a customer has access to the online software product that it purchased, the online software product is fully functional and does not require any additional development, modification, or customization. Professional services sold are distinct because the customer benefits from the on-boarding and training to make better use of the online software products it purchased.

Determine the transaction price

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding sales taxes that are collected on behalf of government agencies. The Company estimates any variable consideration to which it will be entitled at contract inception, and reassesses at each reporting date, when determining the transaction price. The Company does not include variable consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will occur when any uncertainty associated with the variable consideration is resolved. Variable consideration revenue was insignificant for the year ended December 31, 2018.

Allocate the transaction price to the distinct performance obligations

The transaction price is allocated to the separate performance obligation on a relative standalone selling prices ("SSP") basis for those performance obligations with stable observable prices and then the residual method is applied for any performance obligation that has pricing which is highly variable. The Company determines the SSP of its goods and services based upon their average sales price or using other observable inputs, such as similar products or services.

Recognize revenue as the performance obligations are satisfied

Revenues are recognized when or as control of the promised goods or services is transferred to customers. Revenue from subscriptions to our critical event management and enterprise safety applications is recognized ratably over the subscription period beginning on the date the Company's online software products are made available to customers. Most subscription contracts are two years or more. The Company recognizes revenue from professional services as the services are provided.

Disaggregation of Revenue

The Company provides disaggregation of revenue based on geographic region (Note 16) and based on the subscription versus professional services and other classification on the consolidated statements of operations as it believes this best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

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 communications and enterprise safety applications, 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 contracts generally provide 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 of the contract performed.

Contracts with Multiple Performance Obligations

Some 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 its contracts, the applications sold, customer demographics, geographic locations, and the number and types of users within its contracts.

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 doubtful accounts, which is not material. Other receivables represent unbilled receivables related to subscription and professional services contracts.

Deferred Costs

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions related to initial contracts are deferred and then amortized on a straight-line basis over a period of benefit that the Company has determined to be four years. 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. Amortization of deferred commissions is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

For periods prior to January 1, 2018, sales commission costs were recorded over a one year period.

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.

Advertising Expenses

Advertising expenses to promote the Company's services are expensed as incurred. Advertising expenses included in sales and marketing expense were \$1.4 million, \$1.2 million and \$1.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Research and Development

Research and development expenses primarily consist of employee-related costs for research and development staff, including salaries, bonuses, benefits and stock-based compensation and the cost of certain third-party service providers related to the development of the Company's solutions that do not meet the criteria to be capitalized under ASC Topic 350-40, *Internal Use Software*.

Stock-Based Compensation

Stock-based compensation expense is comprised of stock options, which are issued under the Company's 2008 and 2016 equity incentive plans, and restricted stock units, or RSUs, performance-based and market-based RSUs and employee stock purchase plan awards.

Stock-based compensation related to stock options and RSUs is measured at the grant date based on the fair value of the award and is recognized straight-line as expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. The Company utilizes the Black-Scholes pricing model for determining the estimated fair value of the stock options and employee stock purchase plan awards. The Black-Scholes pricing model requires the use of subjective assumptions including the option's expected term, the volatility of the underlying stock, the fair value of the stock and the expected forfeiture rate.

In 2017 and 2018, the Company granted market-based RSUs that vest upon satisfaction of certain market-based conditions. These RSUs were valued using the Monte-Carlo simulation model. The RSUs vest based on the Company achieving certain stock price thresholds which range from \$35 per share to \$65 per share for 30 consecutive trading days as reported on the Nasdaq Global market, subject to the employee's continued employment with the Company through the date of achievement. The fair value is based on values calculated under the Monte Carlo simulation model on the grant date. The key estimates used in the Monte-Carlo simulation were a risk-free rate of 2.26% to 2.90%, dividend yield of zero, expected term of 10 years and volatility of 50% to 60%. The Company recognizes the compensation expense associated with the market-based RSUs over the implied requisite service period subject to acceleration based on meeting the market-based condition.

In 2018, the Company granted performance-based RSUs, or PSUs, that vest upon satisfaction of certain performance-based conditions. The PSUs vest based on the Company achieving certain revenue growth thresholds, which range from 20% to 40% compounded annual growth over a measurement period of two years for the first 50% of each grant of PSUs and three years for the remaining PSUs. The vesting of the PSUs is subject to the employee's continued employment with the Company through the date of achievement. The fair value is based on value of the Company's common stock at the date of issuance and the probability of achieving the performance metric. The Company has assessed the probability of achievement as highly probable based on past performance of achievement of the performance metric. 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.

Income Taxes

The Company accounts for income taxes using the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized.

The calculation of the Company's tax liabilities involves dealing with uncertainties of the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on a two-step approach. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments.

On December 22, 2017, "H.R.1," known as the "2017 Tax Act," was signed into law. The primary impact of H.R.1 on the Company's consolidated results from operations for the year ended December 31, 2017 and consolidated balance sheet as of December 31, 2017 was the revaluation of deferred taxes by \$7.2 million resulting from the reduction in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Given cumulative overseas deficits, no liability for foreign earnings and profits has been established.

Foreign Currency Translation

The functional currency for the Company's foreign subsidiaries is the local currency. For those subsidiaries, the assets and liabilities are translated into U.S. dollars at the exchange rate method at the balance sheet date. Income and expenses are translated at the average exchange rates for the period. Foreign currency exchange gain and losses are recorded in other expenses.

Other Comprehensive Income (Loss)

For all periods presented, the Company's other comprehensive income (loss) is comprised of foreign currency translation adjustments related to the Company's foreign subsidiaries.

Net Loss Per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is computed by dividing the Company's net loss attributable to common stockholders by the weighted-average number of common shares used in the loss per share calculation during the period. Diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive securities, including stock options, restricted stock awards and warrants. Basic and diluted net loss per share attributable to common stockholders was the same for all periods presented as the inclusion of all potentially dilutive securities outstanding was anti-dilutive.

(3) Accounts Receivable, Net

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

	As of December 31,	
	2018	2017
Accounts receivable	\$ 41,818	\$ 32,562
Allowance for doubtful accounts	(711)	(863)
Net accounts receivable	<u>\$ 41,107</u>	<u>\$ 31,699</u>

Bad debt expense for the years ended December 31, 2018, 2017 and 2016 was \$0.1 million, \$0.6 million and \$0.4 million, respectively.

The following table summarizes the changes in the allowance for doubtful accounts (in thousands):

	As of December 31,	
	2018	2017
Allowance, at beginning of period	\$ (863)	\$ (374)
Charged to bad debt expense	(58)	(558)
Write-offs, net of recoveries	210	69
Allowance, at end of period	<u>\$ (711)</u>	<u>\$ (863)</u>

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

	As of December 31,	
	2018	2017
Balance, beginning of period	\$ (100)	\$ (45)
Additions	(193)	(79)
Write-offs	93	24
Balance, end of period	<u>\$ (200)</u>	<u>\$ (100)</u>

As a result of the adoption of the new revenue standard, the Company reclassified its sales reserve from a current asset to a current liability within the consolidated financial statements, effective January 1, 2018.

(4) Property and Equipment

Property and equipment consist of the following at December 31, 2018 and 2017 (in thousands):

	Useful life in years	As of December 31,	
		2018	2017
Furniture and equipment	5	\$ 1,189	\$ 1,127
Leasehold improvements	5	2,776	727
System hardware	5	1,404	1,623
Office computers	3	3,745	2,586
Computer and system software	3	1,385	1,193
		10,499	7,256
Less accumulated depreciation and amortization		(5,849)	(4,460)
Property and equipment, net		<u>\$ 4,650</u>	<u>\$ 2,796</u>

Depreciation and amortization expense for the years ended December 31, 2018, 2017 and 2016 was \$1.8 million, \$1.9 million and \$1.7 million, respectively.

(5) Capitalized Software Development Costs

Capitalized software development costs consisted of the following at December 31, 2018 and 2017 (in thousands):

	Gross carrying amount	Amortization period	As of December 31, 2018	
			Accumulated amortization	Net carrying amount
Capitalized software development costs	\$ 45,677	3 years	\$ (32,784)	\$ 12,893
Total capitalized software development costs	<u>\$ 45,677</u>		<u>\$ (32,784)</u>	<u>\$ 12,893</u>

	Gross carrying amount	Amortization period	As of December 31, 2017	
			Accumulated amortization	Net carrying amount
Capitalized software development costs	\$ 36,899	3 years	\$ (26,894)	\$ 10,005
Total capitalized software development costs	<u>\$ 36,899</u>		<u>\$ (26,894)</u>	<u>\$ 10,005</u>

The Company capitalized software development costs of \$8.8 million, \$6.2 million and \$5.5 million during the years ended December 31, 2018, 2017 and 2016, respectively.

The total amortization expense related to capitalized software development costs for the years ended December 31, 2018, 2017 and 2016 was \$5.9 million, \$5.0 million and \$4.9 million, respectively. Amortization of capitalized software development costs is classified within cost of revenue in the consolidated statements of operations and comprehensive loss.

The expected amortization, as of December 31, 2018, for each of the next three years is as follows:

Year ending December 31:

	(in thousands)
2019	\$ 6,541
2020	4,424
2021	1,928
	<u>\$ 12,893</u>

(6) Fair Value Measurements

The carrying amounts of cash and cash equivalents, short-term investments, 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 years ended December 31, 2018, 2017 and 2016, no impairments were identified of those assets requiring measurement at fair value on a non-recurring basis.

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

Level 1 liabilities.	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and
Level 2 indirectly.	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or
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 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 consolidated balance sheets. At December 31, 2018 the Company's Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017 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:

At December 31, 2018				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in thousands)				
Assets:				
Cash equivalents:				
Money market funds	\$ 47,258	—	—	\$ 47,258
U.S. treasury securities	—	—	—	—
U.S. government and agency securities	—	2,272	—	2,272
Short-term investments:				
U.S. treasury securities	—	38,809	—	38,809
U.S. government and agency securities	—	6,732	—	6,732
Total financial assets	\$ 47,258	\$ 47,813	\$ —	\$ 95,071
Liabilities:				
Contingent consideration	—	—	—	—
Total financial liabilities	\$ —	\$ —	\$ —	\$ —
As of December 31, 2017				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in thousands)				
Assets:				
Cash equivalents:				
Money market funds	\$ 35,521	—	—	\$ 35,521
U.S. treasury securities	—	11,974	—	11,974
U.S. government and agency securities	—	50,352	—	50,352
Short-term investments:				
U.S. treasury securities	—	12,972	—	12,972
U.S. government and agency securities	—	29,936	—	29,936
Total financial assets	\$ 35,521	\$ 105,234	\$ —	\$ 140,755
Liabilities:				
Contingent consideration	—	—	682	682
Total financial liabilities	\$ —	\$ —	\$ 682	\$ 682

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

Investments classified as cash equivalents approximate the fair value due to the short term nature of these investments. For the years ended December 31, 2018, 2017 and 2016, gains or losses realized on the sale of investments were not material. Investments are reviewed periodically to identify possible other-than-temporary impairments. As the Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired for any of the periods presented.

The following table summarizes the changes in Level 3 financial instruments (in thousands).

	Amount
Fair value at December 31, 2016	\$ 388
Foreign currency translation	44
Contingent consideration from IDV acquisition	5,020
Change in fair value of contingent consideration obligation from IDV acquisition	(1,020)
Payments made during the year from IDV acquisition	(3,750)
Fair value at December 31, 2017	\$ 682
Foreign currency translation	(1)
Contingent consideration from IDV acquisition	—
Change in fair value of contingent consideration obligation from IDV acquisition	(250)
Payments made during the year from IDV acquisition	(431)
Fair value at December 31, 2018	\$ —

The Company estimates the fair value of the convertible senior notes based on their last actively traded prices (Level 1) or market-observable inputs (Level 2). As of December 31, 2018, the fair value of the convertible senior notes was determined to be \$189.8 million and the carrying value of the notes were \$94.1 million.

(7) Goodwill and Intangible Assets

Goodwill was \$48.4 million and \$31.3 million as of December 31, 2018 and 2017, respectively. There were no impairments recorded against goodwill in 2018, 2017 or 2016. The following table displays the changes in the gross carrying amount of goodwill (in thousands):

	Amount
Balance at December 31, 2016	\$ 9,676
IDV acquisition	21,196
Foreign currency translation	456
Balance at December 31, 2017	31,328
Change due to acquisitions	19,699
Foreign currency translation	(2,645)
Balance at December 31, 2018	\$ 48,382

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

Intangible assets consisted of the following finite lived intangible assets at December 31, 2018 and 2017 (in thousands):

	Gross carrying amount	Weighted-average life (years)	As of December 31, 2018	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 5,090	3.04	\$ (3,225)	\$ 1,865
Tradenames	3,193	4.51	(1,526)	1,667
Non-compete	240	2.00	(230)	10
Customer relationships	26,990	6.39	(7,335)	19,655
Total intangible assets	<u>\$ 35,513</u>		<u>\$ (12,316)</u>	<u>\$ 23,197</u>

	Gross carrying amount	Weighted-average life (years)	As of December 31, 2017	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 4,065	3.04	\$ (2,017)	\$ 2,048
Tradenames	2,495	5.18	(701)	1,794
Non-compete	240	2.00	(110)	130
Customer relationships	8,556	5.00	(3,894)	4,662
Total intangible assets	<u>\$ 15,356</u>		<u>\$ (6,722)</u>	<u>\$ 8,634</u>

Total amortization expense for the years ended December 31, 2018, 2017 and 2016 was \$5.9 million, \$3.3 million and \$1.2 million, respectively. Amortization expense of tradenames and customer relationships is included within general and administrative expenses, while amortization of developed technology is included in cost of revenue. The Company recorded amortization expense attributed to developed technology of \$1.3 million, \$1.1 million and \$0.2 million for the period ended December 31, 2018, 2017 and 2016, respectively.

The expected amortization of the intangible assets, as of December 31, 2018, for each of the next five years and thereafter is as follows:

	(in thousands)
2019	\$ 5,776
2020	4,411
2021	4,079
2022	2,841
2023	2,687
Thereafter	3,403
	<u>\$ 23,197</u>

(8) Business Combinations

The Company accounted for the acquisitions of Unified Messaging Systems ASA, Respond B.V. and PlanetRisk, Inc. using the acquisition method of accounting for business combinations under ASC 805, *Business Combinations*. The total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date.

Unified Messaging Systems ASA

On April 3, 2018, the Company acquired Unified Messaging Systems ASA, or UMS, in exchange for cash consideration of \$31.9 million, net of cash acquired. UMS is an industry leader in the area of critical communication and population alerting systems and is headquartered in Oslo, Norway. The Company acquired UMS for its customer base and to complement some of the existing facets of the Company's business with existing customers.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

The following table summarizes the allocation of the purchase consideration and acquisition date fair values of the assets acquired and the liabilities assumed for the acquisition of UMS made by the Company. The following table also summarizes the aggregate consideration for UMS as of December 31, 2018 (in thousands):

	UMS
Assets acquired	
Accounts receivable	3,793
Other assets	2,069
Property and equipment	27
Trade names	470
Acquired technology	930
Customer relationships	16,400
Goodwill	18,278
Total assets acquired	<u>\$ 41,967</u>
Liabilities assumed	
Accounts payable and accrued expenses	3,852
Deferred revenue	6,130
Other liabilities	101
Net assets acquired	<u>\$ 31,884</u>
Consideration paid	
Cash paid, net of cash acquired	31,884
Total	<u>\$ 31,884</u>

The weighted average useful life of all identified acquired intangible assets is 6.63 years. The weighted average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 7.0 years and 1.0 years, respectively. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets.

As a result of the acquisition, the Company recorded \$18.3 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of UMS's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of UMS support the amount of goodwill recorded as a result of the purchase price paid for the acquisition, in relation to other acquired tangible and intangible assets. The resulting goodwill from the UMS acquisition is not deductible for income tax purposes.

For the twelve months ended December 31, 2018, the Company incurred transaction costs of \$0.4 million in connection with the UMS acquisition, which were expensed as incurred and included in general and administrative expenses within the accompanying consolidated statements of operations.

PlanetRisk, Inc.

On May 1, 2018, the Company acquired certain assets from PlanetRisk, Inc., or PlanetRisk, in exchange for cash consideration of \$2.0 million. PlanetRisk is a provider of data analytics and visualization solutions. The Company acquired these assets from PlanetRisk for its customer base and to complement some of the existing facets of the Company's business with existing products.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

The following table summarizes the allocation of the purchase consideration and acquisition date fair values of the assets acquired and the liabilities assumed for the acquisition of PlanetRisk made by the Company. The following table also summarizes the aggregate consideration for PlanetRisk as of December 31, 2018 (in thousands):

	PlanetRisk
Assets acquired	
Accounts receivable	2,862
Property and equipment	488
Acquired technology	110
Customer relationships	2,300
Goodwill	228
Total assets acquired	<u>\$ 5,988</u>
Liabilities assumed	
Accounts payable and accrued expenses	717
Deferred revenue	3,030
Other liabilities	220
Net assets acquired	<u>\$ 2,021</u>
Consideration paid	
Cash paid, net of cash acquired	2,021
Total	<u>\$ 2,021</u>

The weighted average useful life of all identified acquired intangible assets is 6.825 years. The weighted average useful lives for acquired technologies and customer relationships are 3.0 years and 7.0 years, respectively. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets.

As a result of the acquisition, the Company recorded \$0.2 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of PlanetRisk's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of PlanetRisk support the amount of goodwill recorded as a result of the purchase price paid for the acquisition, in relation to other acquired tangible and intangible assets. The resulting goodwill from the PlanetRisk acquisition is deductible for income tax purposes.

For the twelve months ended December 31, 2018, the Company incurred transaction costs of \$0.1 million in connection with the PlanetRisk acquisition, which were expensed as incurred and included in general and administrative expenses within the accompanying consolidated statements of operations.

Respond Acquisition

On May 18, 2018, the Company acquired Respond B.V., or Respond, in exchange for current cash consideration of \$2.0 million, net of cash acquired and issued a note to be paid one year after the transaction date in the amount of \$0.4 million, for a total purchase price of \$2.3 million. Respond is a provider of critical communication solutions and is headquartered in the Netherlands. The Company acquired Respond for its customer base and to complement some of the existing facets of the Company's business with its existing customers.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

The following table summarizes the allocation of the purchase consideration and acquisition date fair values of the assets acquired and the liabilities assumed for the acquisition of Respond made by the Company. The following table also summarizes the aggregate consideration for Respond as of December 31, 2018 (in thousands):

	<u>Respond</u>
Assets acquired	
Accounts receivable	86
Other assets	87
Property and equipment	19
Trade names	90
Acquired technology	140
Customer relationships	1,600
Goodwill	1,193
Total assets acquired	<u>\$ 3,215</u>
Liabilities assumed	
Accounts payable and accrued expenses	226
Deferred revenue	240
Other liabilities	414
Net assets acquired	<u>\$ 2,335</u>
Consideration paid	
Cash paid, net of cash acquired	1,952
Note payable	383
Total	<u>\$ 2,335</u>

The weighted average useful life of all identified acquired intangible assets is 6.40 years. The weighted average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 7.0 years and 1.0 years, respectively. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets.

As a result of the acquisition, the Company recorded \$1.2 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of Respond's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of Respond support the amount of goodwill recorded as a result of the purchase price paid for the acquisition, in relation to other acquired tangible and intangible assets. The resulting goodwill from the Respond acquisition is not deductible for income tax purposes.

For the twelve months ended December 31, 2018, the Company incurred transaction costs of \$0.1 million in connection with the Respond acquisition, which were expensed as incurred and included in general and administrative expenses within the accompanying consolidated statements of operations.

Neither the investment in the assets nor the results of operations of the three combined acquisitions were significant to the Company's consolidated financial position or results of operations, and thus pro forma information is not presented.

IDV Acquisition

On January 27, 2017, the Company acquired IDV, in exchange for current cash consideration of \$21.2 million, net of cash acquired and the fair value of contingent future consideration. At the date of acquisition, \$2.5 million was deposited in an escrow account for fifteen months. The escrow fund is available to provide security to the Company to compensate it for losses it may incur as a result of any inaccuracy in the representations or warranties of IDV or the sellers contained in the IDV purchase agreement, any failure to comply with any covenant contained in the IDV purchase agreement or any liabilities or obligations related to the operation of IDV's business prior to the closing of the acquisition.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

In addition, in order to earn any future contingent consideration, IDV is required to meet certain billings thresholds at June 30, 2017 and December 31, 2017. At the date of the acquisition, the Company assessed the probabilities of IDV meeting the future sales and billing thresholds and determined them to be probable. Therefore, contingent consideration was recorded as part of the purchase price allocation and the fair value of the contingent consideration was determined to be \$5.0 million. Based on sales and billings thresholds met as of June 30, 2017, the Company paid \$3.8 million of the contingent consideration and all outstanding contingencies have been resolved as of December 31, 2018. IDV is a provider of threat assessment and operational visualization software located in Lansing, Michigan. The Company acquired IDV for its customer base and to complement some of the existing facets of its business with the Company's existing customers.

The following table summarizes the allocation of the purchase consideration and the estimated fair value of the assets acquired and the liabilities assumed for the acquisition of IDV made by the Company. The following table also summarizes the aggregate consideration for IDV as of December 31, 2017 (in thousands):

Assets acquired	IDV
Accounts receivable	\$ 1,462
Other assets	242
Property and equipment	174
Trade names	1,590
Acquired technology	2,490
Customer relationships	3,400
Non-compete arrangement	240
Goodwill	21,196
Total assets acquired	<u>\$ 30,794</u>
Liabilities assumed	
Accounts payable and accrued expenses	\$ 347
Deferred revenue	4,060
Other liabilities	132
Net assets acquired	<u>\$ 26,255</u>
Consideration paid	
Cash paid, net of cash acquired	\$ 21,235
Acquisition date fair value of contingent consideration	5,020
Total	<u>\$ 26,255</u>

The weighted average useful life of all identified acquired intangible assets is 4.26 years. The weighted average useful lives for acquired technologies, customer relationships, non-compete arrangements and trade names are 3.0 years 5.0 years, 2.0 years and 5.0 years, respectively. Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method and the estimated useful lives of two to five years. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets.

As a result of the acquisition, the Company recorded \$21.2 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of IDV's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of IDV support the amount of goodwill recorded as a result of the purchase price paid for the acquisition, in relation to other acquired tangible and intangible assets. The resulting goodwill from the IDV acquisition is deductible for income tax purposes.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

For the year ended December 31, 2017, the Company incurred transaction costs of \$0.1 million in connection with the IDV acquisition, which were expensed as incurred and included in general and administrative expenses within the accompanying consolidated statements of operations.

Unaudited Pro Forma Financial Information

The following tables reflect the unaudited pro forma combined results of operations for the year ended December 31, 2017 as if the acquisition of IDV had taken place on January 1, 2017. The unaudited pro forma financial information includes the effects of certain adjustments, including the amortization of acquired intangible assets and the associated tax effect and the elimination of the Company's and the acquiree's non-recurring acquisition related expenses:

	<u>Revenue</u>	<u>Net loss</u>
Results of acquired business included in our twelve months ended (in thousands):		
For the year ended December 31, 2017 pro forma	\$ 104,889	\$ (19,779)
	<u>Year Ended December 31,</u>	
	<u>2017</u>	
Basic and diluted earnings per share pro forma	\$	(0.71)

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated at January 1, 2017 nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable.

(9) Convertible Senior Notes

In November 2017, the Company issued \$115.0 million aggregate principal amount of 1.50% convertible senior notes, or the Notes, due November 1, 2022, unless earlier repurchased by the Company or converted by the holder pursuant to their terms. Interest is payable semiannually in arrears on May 1 and November 1 of each year, commencing on May 1, 2018.

The Notes are governed by an Indenture between the Company, as issuer, and U.S. Bank, National Association, as trustee. The Notes are unsecured and rank: senior in right of payment to the Company's future indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to the Company's existing and future indebtedness that is not so subordinated; effectively subordinated 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 subordinated 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 Notes have an initial conversion rate of 29.6626 shares of common stock per \$1,000 principal amount of Notes. This represents an initial effective conversion price of approximately \$33.71 per share of common stock and approximately 3.4 million shares issuable upon conversion. Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest, if any, upon conversion of a 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 Note.

Prior to the close of business on the business day immediately preceding May 1, 2022, the Notes will be convertible at the option of holders during certain periods, only upon satisfaction of certain conditions set forth below. On or after May 1, 2022, 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 Notes at the conversion rate at any time regardless of whether the conditions set forth below have been met.

Holders may convert all or a portion of their Notes prior to the close of business on the business day immediately preceding May 1, 2022, 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, 2018 (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 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 five consecutive trading day period, or the Notes Measurement Period, in which the "trading price" (as the term is defined in the Indenture) per \$1,000 principal amount of notes for each trading day of such Notes Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock on such trading day and the conversion rate on each such trading day;
- If the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date; or
- upon the occurrence of specified corporate events.

Based on the market price of the Company's common stock during the 30 trading days preceding September 30, 2018, the Notes are convertible at the option of the debt holder as of December 31, 2018. No debt holders have exercised their right for conversion as of December 31, 2018. The Notes are classified as long-term on the consolidated balance sheet as of December 31, 2018 as it is the Company's intent to settle all of the debt at maturity or to settle in shares if exercised by the debt holder prior to maturity.

Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its Notes to be approximately 6.93%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the equity component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the Notes, which resulted in a fair value of the liability component of \$92.1 million upon issuance, calculated as the present value of implied future payments based on the \$115.0 million aggregate principal amount. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense over the term of the Notes. The \$22.9 million difference between the aggregate principal amount of \$115.0 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the Notes were not considered redeemable.

In accounting for the transaction costs related to the issuance of the Notes, the Company allocated the total amount incurred to the liability and equity components based on their estimated relative fair values. Transaction costs attributable to the liability component, totaling \$3.2 million, are being amortized to expense over the term of the Notes, and transaction costs attributable to the equity component, totaling \$0.8 million, and were netted with the equity component in shareholders' equity.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

The Notes consist of the following (in thousands):

	Year Ended December 31,	
	2018	2017
Liability component:		
Principal	\$ 115,000	\$ 115,000
Less: debt discount, net of amortization	(20,903)	(25,519)
Net carrying amount	\$ 94,097	\$ 89,481
Equity component (a)	22,094	22,094

(a) Recorded in the consolidated balance sheet within additional paid-in capital, net of \$0.8 million transaction costs in equity.

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

	Year Ended December 31,	
	2018	2017
1.50% coupon	\$ 1,725	\$ 192
Amortization of debt discount and transaction costs	4,616	499
	<u>\$ 6,341</u>	<u>\$ 691</u>

As of December 31, 2018, the fair value of the 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 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments (carrying value excludes the equity component of the Company's convertible notes classified in equity) were as follows (in thousands):

	December 31, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible senior notes	\$ 189,802	\$ 94,097	\$ 126,931	\$ 89,481

In connection with the issuance of the Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and others. The capped call transactions are expected to reduce potential dilution of earnings per share upon conversion of the Notes. 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 Notes, with an initial strike price of approximately \$33.71 per share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately \$47.20. The cost of the purchased capped calls of \$12.9 million was recorded to shareholders' equity and will not be re-measured.

Based on the closing price of our common stock of \$56.76 on December 31, 2018, the if-converted value of the Notes was more than their respective principal amounts.

(10) Stockholders' Equity

Preferred Stock

As of December 31, 2018, the Company had authorized 10,000,000 shares of preferred stock, par value \$0.001, of which no shares were outstanding.

Common Stock

Holders of the Company's common stock are entitled to one vote per share.

As of December 31, 2018, the Company had authorized 100,000,000 shares of common stock, par value \$0.001. At December 31, 2018 and 2017, there are 29,700,192 and 28,330,460 shares of common stock issued and outstanding, respectively.

(11) Stock Plans and Stock-Based Compensation

2016 Plan

The Company's 2016 Equity Incentive Plan, or 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. A total of 3,893,118 shares of the Company's common stock were initially reserved for issuance under the 2016 Plan, which is the sum of (1) 2,000,000 shares, (2) the number of shares reserved for issuance under the Company's 2008 Equity Incentive Plan, or 2008 Plan at the time the 2016 Plan became effective (up to a maximum of 42,934 shares) and (3) shares subject to stock options or other stock awards granted under the 2008 Plan that would have otherwise returned to our 2008 Plan (up to a maximum of 1,850,184 shares). The number of shares of common stock reserved for issuance under the 2016 Plan will automatically increase on January 1 of each year, beginning on January 1, 2017, 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. As of December 31, 2018, there were 1,111,842 shares available for grant under the 2016 Plan and as of December 31, 2017 there were 982,963 shares available to be issued under the 2016 Plan. 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 our 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.

As a result of the adoption of the 2016 Plan, no further grants may be made under the 2008 Plan. The 2008 Plan provided for the grant of stock options to the Company's employees, directors and consultants. Stock option awards were granted with an exercise price equal to the fair market value of the Company's common stock at the date of grant as determined by the Company's board of directors. The option awards generally vested over four years and were exercisable any time after vesting. The stock options expire ten years after the date of grant. As of December 31, 2018, there were an aggregate of 6,890,701 shares reserved for issuance under the 2008 Plan and the 2016 Plan and 1,111,842 available to be issued under the 2016 Plan.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan, or 2016 ESPP became effective on September 15, 2016. A total of 500,000 shares of the Company's common stock were initially reserved for issuance under the 2016 Plan. The number of shares reserved for issuance under the 2016 ESPP will automatically increase on January 1 of each year, beginning on January 1, 2017, 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 of directors.

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. Except for the initial offering period, the 2016 ESPP provides for separate six-month offering periods beginning each March and October 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 year ended December 31, 2018 and 2017, 74,517 and 128,786 shares of common stock, respectively were purchased under the 2016 ESPP. The Company uses the Black-Scholes option pricing model to measure the fair value of the purchase rights issued under the ESPP. As of December 31, 2018 and 2017, total recognized compensation cost was \$0.7 and \$0.6 million, respectively, and unrecognized compensation cost related to the 2016 ESPP was \$0.2 million, which will be amortized over a weighted-average period of 0.25 years. The 2016 ESPP is considered compensatory for purposes of stock-based compensation expense.

Stock Options

The weighted-average grant-date fair value per share of options granted for the years ended December 31, 2018, 2017 and 2016, was \$35.00, \$22.84 and \$14.49, respectively. The Company recorded stock-based compensation expense of \$7.7 million, \$5.3 million and \$3.1 million for the years ended December 31, 2018, 2017 and 2016, respectively, attributed to stock options.

The total intrinsic value of options exercised in 2018, 2017 and 2016 was \$25.7 million, \$9.1 million and \$1.6 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 December 31, 2018, 2017 and 2016 the total intrinsic value of all outstanding options was \$59.9 million, \$32.1 million and \$15.9 million.

There were no excess tax benefits realized for the tax deductions from stock options exercised during the years ended December 31, 2018, 2017 and 2016.

The fair value of stock option grants is determined using the Black-Scholes option pricing model with the following assumptions.

	Year Ended December 31,		
	2018	2017	2016
Employee Stock Options:			
Fair value of common stock	\$33.06 - \$58.75	\$18.05 - \$26.50	\$14.21 - \$18.83
Expected term (in years)	6.00	6.00 - 6.11	5.29 - 6.11
Expected volatility	45% - 50%	50% - 60%	60% - 70%
Risk-free interest rate	2.72% - 2.98%	1.82% - 2.47%	1.21% - 2.55%
Dividend rate	0%	0%	0%
Employee Stock Purchase Plan:			
Expected term (in years)	0.50	0.50	0.50
Expected volatility	40% - 60%	60%	60%
Risk-free interest rate	1.18% - 2.33%	0.45% - 1.18%	0.45%
Dividend rate	0%	0%	0%

- (1) The expected term represents the period that the stock-based compensation awards are expected to be outstanding. Since the Company did not have sufficient historical information to develop reasonable expectations about future exercise behavior, the Company used the simplified method to compute expected term, which reflects the average of the time-to-vesting and the contractual life;
- (2) The expected volatility of the Company's common stock on the date of grant is based on 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 options; and
- (4) The expected dividend yield is assumed to be zero as the Company has never paid dividends and have no current plans to pay any dividends on the Company's common stock.

Total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options was approximately \$12.9 million as of December 31, 2018, and is expected to be recognized over a weighted average period of 1.8 years as of December 31, 2018. The amount of cash received from the exercise of stock options in 2018 and 2017 was \$10.2 million and \$2.9 million, respectively.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

A summary of activities under the 2008 Plan and 2016 Plan is shown as follows for the years ended December 31, 2018 and 2017:

	Stock options outstanding	Weighted average exercise price
Outstanding at December 31, 2016	1,884,425	\$ 10.02
Granted	1,096,881	22.84
Exercised	(497,175)	5.77
Forfeited	(43,841)	15.60
Outstanding at December 31, 2017	2,440,290	16.55
Granted	557,896	35.01
Exercised	(778,370)	13.04
Forfeited	(473,743)	22.35
Outstanding at December 31, 2018	1,746,073	\$ 22.43

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

Stock options outstanding, and options exercisable and vested are as follows:

Outstanding as of December 31, 2018	Remaining contractual life (years)	Weighted average exercise price	Exercisable as of December 31, 2018	Remaining contractual life (years)	Weighted average exercise price
1,746,073	7.89	\$ 22.43	579,319	6.73	\$ 8.13
Outstanding as of December 31, 2017	Remaining contractual life (years)	Weighted average exercise price	Exercisable as of December 31, 2017	Remaining contractual life (years)	Weighted average exercise price
2,440,290	8.28	\$ 16.55	748,148	7.00	\$ 10.39

Vested and nonvested stock option activity under the 2008 Plan and 2016 Plan was as follows:

	Vested		Nonvested	
	Options outstanding	Weighted average exercise price	Options outstanding	Weighted average exercise price
Outstanding at December 31, 2018	579,319	\$ 8.13	1,166,754	\$ 26.58
Outstanding at December 31, 2017	748,148	\$ 10.39	1,692,142	\$ 19.27

Restricted Stock Units

During the twelve months ended December 31, 2018 and 2017, the Company granted 358,904 and 392,000 RSUs, respectively, to members of our senior management pursuant to the 2016 Plan. We account for restricted stock units issued to employees at fair value, based on the market price of our stock on the date of grant. During the year ended December 31, 2018 and 2017 the Company recorded \$5.4 million and \$1.1 million, respectively, of stock-based compensation related to the restricted stock units that had been issued to-date. There were 127,306 and no restricted stock units which vested during the year ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, there was \$20.6 million of unrecognized compensation expense related to unvested employee restricted stock unit awards which is expected to be recognized over a weighted-average period of approximately 2.4 years. For restricted stock unit awards 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

As of December 31, 2018, the Company has granted 288,902 performance-based restricted stock units, or PSUs, to members of its management pursuant to the 2016 Plan. The PSUs vest based on the Company achieving certain revenue growth thresholds which range from 20% to 40% compounded annual growth over a measurement period of two years for the first 50% of each grant of PSUs and three years for the remaining PSUs. The vesting of the PSU's is subject to the employee's continued employment with the Company through the date of achievement. The share price of the Company's common stock on the date of issuance of the PSUs ranged from \$23.17 to \$58.82 per share. The fair value is based on value of the Company's common stock at the date of issuance and the probability of achieving the performance metric. The Company has assessed the probability of achievement of the award at 100% based on past performance of achievement of the performance metric. Compensation cost is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions. For the twelve months ended December 31, 2018 and 2017, the Company recognized \$1.5 million and none, respectively, for stock compensation expense in connection with these awards.

As of December 31, 2018, there was \$13.9 million of unrecognized compensation expense related to unvested PSUs that would be recognized if all of the performance targets were met, which is expected to be recognized over a weighted-average period of approximately 2.3 years.

None of the PSUs had vested as of December 31, 2018.

Market-Based Restricted Stock Units

During the twelve months ended December 31, 2018 and 2017, the Company granted 57,500 and 392,000 market-based restricted stock units to members of our senior management pursuant to the 2016 Plan. The restricted stock units vest based on the Company achieving certain stock price thresholds which range from \$35 per share to \$65 per share for 30 consecutive trading days as reported by The Nasdaq Global Market, subject to the employee's continued employment with the Company through the date of achievement. The share price of our common stock on the date of issuance of the market-based restricted stock units was between \$33.06 and \$45.17 per share. The fair value is based on values calculated under the Monte Carlo simulation model on the grant date. The key estimates used in the Monte-Carlo simulation were a risk-free rate of 2.26% to 2.90%, dividend yield of zero, expected term of 10 years and volatility of 50% to 60%. Compensation cost is not adjusted in future periods for subsequent changes in the expected outcome of market related conditions. For the years ended December 31, 2018 and 2017, The Company recognized \$10.5 million and \$2.9 million, respectively, of stock compensation expense in connection with these awards.

As of December 31, 2018, there was no unrecognized compensation expense related to unvested market-based awards.

There were 544,106 market-based RSUs that vested during the year ended December 31, 2018 as the Company achieved the market-based target and achieved vesting at 125%. None of the market-based RSUs had vested during the year ended December 31, 2017.

A summary of activity in connection with our RSUs and market-based RSUs for the year ended December 31, 2018 is as follows:

	Number of Shares
Outstanding as of December 31, 2017	784,000
Granted	705,306
Vested	(671,412)
Forfeited	(24,376)
Outstanding as of December 31, 2018	<u>793,518</u>

Stock-Based Compensation Expense

The Company recorded the total stock-based compensation expense as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Cost of revenue	\$ 2,306	\$ 578	\$ 180
Sales and marketing	9,282	2,419	725
Research and development	7,106	1,514	348
General and administrative	7,131	4,788	1,848
Total	<u>\$ 25,825</u>	<u>\$ 9,299</u>	<u>\$ 3,101</u>

(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. As it relates to the Notes, the Company uses the if converted method 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:

	Year Ended December 31,		
	2018	2017	2016
Stock options	1,746,073	2,440,290	1,884,425
Shares to be issued under ESPP	22,683	44,320	83,790
Restricted stock units	793,518	784,000	—
Convertible senior notes	3,411,199	3,411,199	—
Total	<u>5,973,473</u>	<u>6,679,809</u>	<u>1,968,215</u>

The Company is required to reserve and keep available from the Company's authorized but unissued shares of common stock a number of shares equal to the number of shares subject to outstanding awards under the 2008 Plan and the number of shares reserved for issuance under each of the 2016 Plan and 2016 ESPP.

In connection with the issuance of the Notes in November 2017, the Company paid \$12.9 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 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 Plan, 2016 Plan and 2016 ESPP.

The amount of such shares of the Company's common stock reserved for these purposes at December 31, 2018 is as follows:

	Number of Shares
Stock options issued and outstanding	1,746,073
Additional shares available for grant under equity plans	1,808,539
Total	<u>3,554,612</u>

(13) Income Taxes

The components of loss before income taxes are as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Domestic	\$ (41,985)	\$ (16,642)	\$ (8,572)
Foreign	(4,734)	(2,945)	(2,738)
Total	<u>\$ (46,719)</u>	<u>\$ (19,587)</u>	<u>\$ (11,310)</u>

For purposes of reconciling the Company's provision for income taxes at the statutory rate and the Company's provision (benefit) for income taxes at the effective tax rate, a notional 26% tax rate was applied as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Income tax at federal statutory rate	\$ (9,811)	\$ (6,659)	\$ (3,846)
Increase/(decrease) in tax resulting from:			
State income tax expense, net of federal tax effect	(2,749)	(421)	(183)
Nondeductible permanent items	(1,522)	1,506	1,012
Foreign rate differential	552	599	662
Tax rate change	134	7,226	(13)
Adjustment to deferred taxes	307	37	(132)
Change in valuation allowance	15,805	(2,291)	2,351
Uncertain tax positions	143	76	83
Nonqualified stock option and performance award windfall upon exercise	(1,983)	—	—
Other	(80)	(26)	42
Total	<u>\$ 796</u>	<u>\$ 47</u>	<u>\$ (24)</u>

The difference between the statutory federal income tax rate and the Company's effective tax rate in 2018, 2017 and 2016 is primarily attributable to the effect of state income taxes, difference between the U.S. and foreign tax rates, deferred tax state rate adjustment, share-based compensation and other non-deductible permanent items, and the change in valuation allowance. The Company's China, India, Norway, Netherlands, Sweden and U.K. subsidiaries were subject to 25%, 30%, 22%, 25%, 22% and 19% applicable statutory income tax rates, respectively, for the periods presented.

The provision for (benefit from) income taxes is as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current:			
Federal	\$ —	\$ (23)	\$ —
State	48	51	31
Foreign	753	31	109
	<u>801</u>	<u>59</u>	<u>140</u>
Deferred:			
Federal	(11,425)	3,307	(1,823)
State	(3,250)	(669)	(396)
Foreign	(1,135)	(359)	(296)
	<u>(15,810)</u>	<u>2,279</u>	<u>(2,515)</u>
Change in valuation allowance	15,805	(2,291)	2,351
Total	<u>\$ 796</u>	<u>\$ 47</u>	<u>\$ (24)</u>

The net deferred tax assets (liabilities) at December 31, 2018 and 2017 are comprised of the following:

	As of December 31,	
	2018	2017
	(in thousands)	
Deferred tax assets		
Deferred rent	\$ 278	\$ 133
AMT credit	11	9
Accrued expenses	2,057	1,474
Deferred revenue	549	292
Net operating loss carryforward	34,662	14,957
Other assets	2,343	1,643
Property and equipment	123	—
Intangible assets	836	—
Valuation allowance	(25,079)	(10,911)
Total net deferred tax assets	15,780	7,597
Deferred tax liabilities		
Deferred commissions	(3,215)	—
Intangible assets	(7,295)	(2,210)
Property and equipment	—	(190)
Debt discount	(4,986)	(5,679)
Other	(1,233)	—
Total deferred tax liabilities	(16,729)	(8,079)
Total non-current deferred income tax liabilities	\$ (949)	\$ (482)

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized based on an assessment of positive and negative evidence, including estimates of future taxable income necessary to realize future deductible amounts. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2018. Such objective evidence limits the ability to consider other subjective evidence such as its projections for future growth. On the basis of this evaluation, at December 31, 2018 and 2017, a valuation allowance of \$25.1 million and \$10.9 million, respectively, has been recorded.

As of December 31, 2018, the Company has accumulated federal and state net operating loss carryforwards of \$104.8 million and \$85.7 million, respectively. Of the \$104.8 million of federal net operating loss carryforwards, \$52.1 million was generated before January 1, 2018 and is subject to the 20-year carryforward period (“pre-Tax Act losses”). The remaining \$52.7 million (“post-Tax Act losses”) can be carried forward indefinitely but is subject to the 80% taxable income limitation. The pre Tax Act U.S. federal and state net operating loss carryforwards will expire in varying amounts through 2037. Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a corporation’s ability to utilize its Net Operating Losses, or NOLs, if it experiences an “ownership change.” In general terms, an ownership change may result from transactions increasing the ownership percentage of certain stockholders in the stock of the corporation by more than 50% over a three-year period. In the event of an ownership change, utilization of the NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of the Company’s stock at the time of the ownership change by the applicable long-term tax exempt rate. The Company has not completed a Section 382 study at this time; however should a study be completed certain NOLs may be subject to such limitations. Any future annual limitation may result in the expiration of NOLs before utilization.

As of December 31, 2018 and 2017, the Company had combined foreign net operating loss carry-forwards available to reduce future taxable income of approximately \$25.5 million and \$4.6 million, respectively. As of December 31, 2018 and 2017, valuation allowances of \$25.1 million and \$4.5 million, respectively, had been recorded against the related deferred tax assets for those loss carry-forwards that are not more likely than not to be fully utilized in reducing future taxable income.

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

On December 22, 2017, the United States government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act, or the Tax Act. The Tax Act significantly revises the existing tax law by, among other things, lowering the United States corporate income tax rate from 35% to 21% beginning in 2018. The SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date.

The Company reviewed and incorporated the impact of the Tax Act in its tax calculations and disclosures. The primary impact on the Company stems from the re-measurement of its deferred taxes at the new corporate tax rate of 21%, which reduced the Company's net deferred tax assets, before valuation allowance, by \$7.2 million. Due to the full valuation allowance, the change in deferred taxes was fully offset by the change in valuation allowance, except for an immaterial amount that was reflected in income tax expense related to the rate re-measurement of the tax-deductible goodwill. The accounting for the Act is now complete and no significant adjustments were made to the provisional estimates. The Tax Act did not have a significant impact on the Company's Consolidated Financial Statements for the year ended December 31, 2018.

The following changes occurred in the amount of unrecognized tax benefits during the years ended December 31, 2018, 2017, and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Beginning balance of unrecognized tax benefits	\$ 326	\$ 250	\$ 167
Additions for current year tax positions	142	65	75
Additions/reductions for prior year tax positions	(14)	—	0
Ending balance (excluding interest and penalties)	454	315	242
Interest and penalties	15	11	8
Total	<u>\$ 469</u>	<u>\$ 326</u>	<u>\$ 250</u>

For the period ended December 31, 2018, 2017 and 2016, the Company has recorded income tax expense of \$143,000, \$76,000 and \$83,000, respectively, related to uncertain tax positions. The Company's policy is to recognize potential interest and penalties related to unrecognized tax benefits associated with uncertain tax positions, if any, in the income tax provision. At December 31, 2018, 2017 and 2016, the Company had accrued \$15,000, \$11,000 and \$8,000 in interest and penalties related to uncertain tax positions.

The Company is subject to taxation in the United States and various states along with other foreign countries. Due to the presence of net operating loss carryforwards, all of the income tax years remain open for examination by the IRS and various state and foreign taxing authorities. However, the Company's future results may include favorable or unfavorable adjustments to its estimates in the period the audits are resolved, which may impact the Company's effective tax rate. The Company does not believe that it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. The Company has not been notified that it is under audit by the IRS or state taxing authorities for any of the tax years currently open.

Deferred income taxes have not been provided for undistributed earnings of the Company's consolidated foreign subsidiaries because of the Company's intent to reinvest such earnings indefinitely in active foreign operations. At December 31, 2018, the Company had \$0.6 million in unremitted earnings that were permanently reinvested related to its consolidated foreign subsidiaries.

(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, or 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 mass notification use cases, all of the Company's applications operate on and leverage a single technology platform and are deployed and sold in an identical way. In addition, the Company 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

On January 1, 2018, the Company adopted the new revenue standard and applied it to all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to the Company's consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard was as follows (in thousands):

	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
BALANCE SHEET			
ASSETS			
Accounts receivable, net	\$ 31,699	\$ 100	\$ 31,799
Deferred costs	2,429	2,132	4,561
Deferred costs (non-current)	—	6,965	6,965
LIABILITIES AND STOCKHOLDERS' EQUITY			
Other current liabilities	\$ 808	\$ 100	\$ 908
Deferred revenue (current and non-current)	73,072	—	73,072
Accumulated deficit	(109,252)	9,097	(100,155)

The impact of the adoption of the new revenue standard on the Company's consolidated balance sheet and consolidated statement of operations was as follows (in thousands):

	December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
BALANCE SHEET			
ASSETS			
Accounts receivable, net	\$ 41,107	\$ 40,907	\$ 200
Deferred costs	6,503	4,580	1,923
Deferred costs (non-current)	10,265	—	10,265
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deferred revenue (current and non-current)	95,636	95,636	—
Other current liabilities	1,490	1,290	200
Accumulated deficit	(147,670)	(159,858)	12,188

Everbridge, Inc.
Notes to the Consolidated Financial Statements—(Continued)

	For the Year Ended December 31, 2018		
	As Reported	Activity Without Adoption of ASC 606	Effect of Change Higher/(Lower)
STATEMENT OF OPERATIONS			
Revenue	\$ 147,094	\$ 147,094	\$ —
Net loss	(47,515)	(50,606)	3,091

The following table disaggregates the Company's revenue by geography which provides information as to the major source of revenue (in thousands).

	For the Year Ended December 31, 2018
Primary Geographic Markets	
United States	\$ 119,589
International	27,505
Total	<u>\$ 147,094</u>

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

	Year Ended December 31,	
	2018	2017(1)
Subscription services	\$ 137,556	\$ 100,000
Professional services	9,538	4,352
Total revenues	<u>\$ 147,094</u>	<u>\$ 104,352</u>

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

Contract Assets

The Company does not have material amounts of contract assets since revenue is recognized as control of goods is transferred or as services are performed. There are a small number of professional services that may occur over a period of time, but that period of time is generally very short in duration. Any contract assets that may arise are recorded in other assets in the Company's consolidated balance sheet. As of December 31, 2018, the Company had \$2.1 million in unbilled receivables related to services performed which were not billed.

Contract Liabilities

The Company's contract liabilities consist of deferred revenue. There are no other material contract liabilities. The Company classifies deferred revenue as current or noncurrent on the consolidated balance sheet based on the timing of when it expects to recognize revenue.

Deferred Costs

Deferred costs, which primarily consist of deferred sales commissions on initial contracts sold, was \$16.8 million as of December 31, 2018. For the twelve months ended December 31, 2018, amortization expense for the deferred costs was \$5.5 million and there was no impairment loss in relation to the costs capitalized. For the twelve months ended December 31, 2017, amortization expense for the deferred costs based on our policy under Topic 605, was \$5.9 million and capitalized commissions totaled \$2.4 million.

Deferred Revenue

\$62.5 million of subscription services revenue was recognized during the twelve months ended December 31, 2018 and was included in the deferred revenue balances at the beginning of the respective period. Professional services revenue recognized in the same period from deferred revenue balances at the beginning of the respective periods was not material.

As of December 31, 2018, approximately \$201.7 million of revenue is expected to be recognized from remaining performance obligations.

The Company expects to recognize revenue on approximately \$117.2 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter which is generally two to three years.

(16) Geographic Concentrations

Revenue by location is determined by the billing address of the customer. Approximately 81%, 90% and 90% of the Company's revenue was from the United States for the fiscal years ended December 31, 2018, 2017 and 2016, respectively. No other individual country comprised more than 7% of total revenue for the fiscal years ended December 31, 2018, 2017 and 2016. Property and equipment by geographic location is based on the location of the legal entity that owns the asset. As of December 31, 2018 and 2017, more than 88% of the Company's property and equipment was located in the United States.

(17) Employee Benefit Plan

The Company maintains a 401(k) plan for the benefit of the Company's eligible employees. The plan covers all employees who have attained minimum service requirements. The 401(k) plan allows each participant to contribute up to an amount not to exceed an annual statutory maximum. The Company may, at our discretion, make matching contributions to the 401(k) plan. There was \$0.6 million and no cash contributions made to the plan by the Company for the years ended December 31, 2018 and 2017. Contribution expense recognized for the 401(k) plan was \$0.5 million, \$0.7 million and \$0 for the years ended December 31, 2018, 2017, and 2016, respectively.

(18) Commitments and Contingencies

The following table summarizes the Company's lease and debt obligations at December 31, 2018 (in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
	(in thousands)				
Debt obligations (1)	\$ 427	\$ 115,000	\$ —	\$ —	\$ 115,427
Capital leases (2)	121	—	—	—	121
Operating leases (2)	3,646	7,547	7,463	1,331	19,987
	<u>\$ 4,194</u>	<u>\$ 122,547</u>	<u>\$ 7,463</u>	<u>\$ 1,331</u>	<u>\$ 135,535</u>

- (1) The debt obligations include the principal amount of the note payable and the Notes, but exclude interest payments to be made under the Notes. Although the Notes mature in 2022, they can be converted into cash and shares of our 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 Notes balance excludes \$20.9 million of debt discount capitalized on our balance sheet and shown net of our debt obligations.
- (2) Operating and capital leases include total future minimum rent payments under non-cancelable operating and capital lease agreements.

(a) Leases

The Company leases office space in Pasadena, California; Burlington, Massachusetts; San Francisco, California; Lansing, Michigan; Colchester, United Kingdom; London, United Kingdom; McLean, Virginia; Singapore; Munich, Germany; Tilburg, the Netherlands; Oslo, Norway; Norsborg, Sweden; and Beijing, China under operating leases and recognizes escalating rent expense on a straight-line basis over the expected lease term.

Future minimum lease payments under non-cancelable operating leases in effect at December 31, 2018 are as follows (in thousands):

	Operating
2019	\$ 3,646
2020	3,856
2021	3,691
2022	3,719
2023	3,744
Thereafter	1,331
Total minimum lease payments	<u>\$ 19,987</u>

(b) Rent

Rent expense for the years ended December 31, 2018, 2017 and 2016 was \$3.8 million, \$2.5 million and \$1.6 million, respectively.

Deferred rent at December 31, 2018 and 2017 was \$1.0 million and \$0.5 million, respectively, and was recorded in other current and long-term liabilities.

(c) Litigation

In the normal course of business, the Company has been subjected to various unasserted claims. The Company does not believe these will have a material adverse impact to the financial statements.

(d) 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.

(19) Subsequent Events

In January 2019, the Company completed a follow-on public offering in which the Company sold 2,645,000 shares of its common stock, which included 345,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of \$55.25 per share. The Company received aggregate proceeds of \$139.7 million, after deducting underwriting discounts and commission.

LEASE AGREEMENT

By and Between

PR 155 NORTH LAKE, LLC,
a Delaware limited liability company
("Landlord")
and

EVERBRIDGE, INC.,
a Delaware corporation
("Tenant")

April 26, 2018

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LEASE AGREEMENT

THIS LEASE AGREEMENT, (this "Lease") is made and entered into as of April 26, 2018, by and between PR 155 NORTH LAKE, LLC, a Delaware limited liability company ("Landlord"), and Tenant identified in the Basic Lease Information below.

BASIC LEASE INFORMATION

Tenant: EVERBRIDGE, INC., a Delaware corporation.

Premises: Suite 900 on the ninth (9th) floor of the Building, containing 19,634 square feet of rentable area, outlined in Exhibit B to this Lease.

Building: The Building commonly known as 155 North Lake Avenue, Pasadena, California. The rentable area of the Building is 210,611 square feet.

Base Rent:

<u>Period</u>	<u>Monthly Base Rent</u>
07/01/2018 – 06/31/2019	\$58,116.64
07/01/2019 – 06/31/2020	\$59,860.14
07/01/2020 – 06/31/2021	\$61,655.94
07/01/2021 – 06/31/2022	\$63,505.62
07/01/2022 – 06/31/2023	\$65,410.79
07/01/2023 – 12/31/2023	\$67,373.11

Security Deposit Amount: \$67,373.11. Rent Payable Upon Execution: \$58,116.64. Tenant's Building Percentage 9.322%.

Base Year: Calendar year 2018. Commencement Date: July 1, 2018.

Expiration Date: December 31, 2023. Landlord's Address:

c/o PGIM Real Estate
101 California Street, 40th Floor
San Francisco, CA 94111
Attn: PRISA Asset Manager

With a copy by the same method to:

c/o PGIM Real Estate
7 Giralda Farms
Madison, New Jersey 07940
Attention: Legal Department

With a copy by the same method to:

McCarthy Cook & Co.
575 Anton Boulevard, Suite 350
Costa Mesa, California 92626
Attention: Brian M. Harnetiaux

Address for rental payment:

PR 155 North Lake, LLC
PO Box 101451
Pasadena, CA 91189-1451

Tenant's Address:

Everbridge, Inc.
25 Corporate Drive
4th Floor
Burlington, MA 01803
Attention: Elliot J. Mark, Senior Vice President & General Counsel

With a copy by the same method to:

Cushman & Wakefield of California, Inc.
900 Wilshire Boulevard, 24th floor
Los Angeles, CA 90017
Attention: John Winnek

Landlord's Broker: CBRE, Inc.

Tenant's Broker: Cushman & Wakefield

Maximum Parking Allocation: Fifty-nine (59) parking passes, which is based on three (3) parking passes per 1,000 rentable square feet of area in the Premises.

The Basic Lease Information is incorporated into and made part of this Lease.

Each reference in this Lease to any Basic Lease Information shall mean the applicable information set forth in the Basic Lease Information, except that in the event of any conflict between an item in the Basic Lease Information and this Lease, this Lease shall control. Additional defined terms used in the Basic Lease Information shall have the meanings given those terms in this Lease.

ARTICLE 1
PREMISES; COMMON AREAS

1.1 Subject to all of the terms and conditions hereinafter set forth, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises. The property shown on Exhibit A to this Lease and all improvements thereon and appurtenances on that land thereto, including, but not limited to, the Building, access roadways, and all other related areas, shall be collectively hereinafter referred to as the "Project." The parties hereto hereby acknowledge that the purpose of Exhibit A and Exhibit B is to show the approximate location of the Premises in the Building and the general layout of the Project and such Exhibits are not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the Building or the Project, the precise area of the Premises, the Building or the Project, the specific location of the Building, "Common Areas," as that term is defined in Section 1.3, below, or the elements thereof or of the accessways to the Premises, or the Project, or the identity or existence of any other tenant or occupant of the Project.

1.2 For purposes of this Lease, (1) "rentable area" and "usable area" shall be calculated pursuant to the Office Buildings: Standard Methods of Measurement (ANSI/BOMA Z65.1, 2010); (2) "rentable square feet" and "rentable footage" shall have the same meaning as the term "rentable area;" and (3) "usable square feet" and "usable square footage" shall have the same meaning as the term "usable area." Notwithstanding anything to the contrary in this Lease, the recital of the rentable area herein above set forth is for descriptive purposes only and the parties stipulate to the square footage set forth in the Basic Lease Information. Tenant shall have no right to terminate this Lease or receive any adjustment or rebate of any Base Rent or Additional Rent (as hereinafter defined) payable hereunder if said recital is incorrect. Tenant has inspected the Premises and is fully familiar with the scope and size thereof and agrees to pay the full Base Rent and Additional Rent set forth herein in consideration for the use and occupancy of said space, regardless of the actual number of square feet contained therein.

1.3 Tenant shall have the non-exclusive right to use in common with other tenants in the Project, and subject to the rules and regulations referred to in Article 27 of this Lease, those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project (such areas, together with such other portions of the Project designated by Landlord, in its discretion, including certain areas designated for the exclusive use of certain tenants, or to be shared by Landlord and certain tenants, are collectively referred to herein as the "Common Areas"). The manner in which the Common Areas are maintained and operated shall be at the reasonable discretion of Landlord and the use thereof shall be subject to such rules, regulations and restrictions as Landlord may make from time to time. Landlord reserves the right to close temporarily, make alterations or additions to, or change the location of elements of the Project and the Common Areas. Subject to "Applicable Laws," as that term is defined in Section 5.1(a) of this Lease, except when and where Tenant's right of access is specifically excluded in this Lease, and except in the event of an emergency, Tenant shall have the right of access to the Premises, the Building, and the parking facilities servicing the Building twenty-four (24) hours per day, seven (7) days per week during the "Term," as that term is defined in Section 2.1, below.

ARTICLE 2
TERM AND CONDITION OF PREMISES

2.1 The term of this Lease (the "Term") shall commence on the Commencement Date and end on the Expiration Date, unless sooner terminated (the "Termination Date") as hereinafter provided. The Commencement Date of this Lease and the obligation of Tenant to pay Base Rent, Additional Rent and all other charges hereunder shall not be delayed or postponed by reason of any delay by Tenant in performing changes or alterations in the Premises not required to be performed by Landlord. In the event the Term shall commence on a day other than the first day of a month, then the Base Rent shall be immediately paid for such partial month prorated in accordance with Section 4.4 below. Tenant acknowledges that Tenant will be in possession of the Premises prior to the Commencement Date pursuant to a sublease. Landlord shall therefore have no obligation to deliver possession of the Premises to Tenant. In the event that Landlord shall deliver to Tenant a Commencement Date Memorandum in the form attached hereto as Exhibit E, setting forth the Commencement Date and the Expiration Date, then Tenant shall execute and return such Commencement Date Memorandum to Landlord within five (5) days after Tenant's receipt thereof. Tenant's failure to execute such Commencement Date Memorandum shall not affect Tenant's liability hereunder.

2.2 Except as expressly set forth in this Lease and in the Tenant Work Letter attached hereto as Exhibit C (the "Tenant Work Letter"), Landlord shall not be obligated to provide or pay for any improvement, remodeling or refurbishment work or services related to the improvement, remodeling or refurbishment of the Premises, and Tenant shall accept the Premises in its "As Is" condition on the Commencement Date.

2.3 The taking of possession of the Premises by Tenant shall be conclusive evidence that the Premises and the Building were in good and satisfactory condition at such time. Except as set forth in Exhibit C, neither Landlord nor Landlord's agents have made any representations or promises with respect to the condition of the Building, the Premises, the land upon which the Building is constructed, or any other matter or thing affecting or related to the Building or the Premises, except as herein expressly set forth, and no rights, easements or licenses are acquired by Tenant by implication or otherwise except as expressly set forth in this Lease.

2.4 Notwithstanding Section 2.3 above, Landlord warrants that the roof, structural components of the Building, HVAC system, electrical and plumbing systems, elevator, parking lot or site lighting (the "Covered Items"), other than those constructed by Tenant, shall be in good operating condition on the date possession of the Premises is delivered to Tenant. If a non-compliance with such warranty exists as of the delivery of possession, or if one of such Covered Items should malfunction or fail within sixty (60) days after the delivery of possession to Tenant, Landlord shall, as Landlord's sole obligation with respect to such matter, promptly after receipt of written notice from Tenant setting forth in reasonable detail the nature and extent of such non-compliance, malfunction or failure, rectify the same at Landlord's expense. If Tenant does not give Landlord the required notice within sixty (60) days after the delivery of possession to Tenant, Landlord shall have no obligation with respect to that warranty other than obligations regarding the Covered Items set forth elsewhere in this Lease.

ARTICLE 3
USE, NUISANCE, OR HAZARD

3.1 The Premises shall be used and occupied by Tenant solely for general office purposes consistent with a first-class office building and for no other purposes without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

3.2 Tenant shall not use, occupy, or permit the use or occupancy of the Premises for any purpose which Landlord, in its reasonable discretion, deems to be illegal, immoral, or dangerous; permit any public or private nuisance; do or permit any act or thing which may disturb the quiet enjoyment of any other tenant of the Building; keep any substance or carry on or permit any operation which might introduce offensive odors or conditions into other portions of the Project, use any apparatus which might make undue noise or set up vibrations in or about the Project; permit anything to be done which would increase the premiums paid by Landlord for special causes of loss form property insurance on the Project or its contents or cause a cancellation of any insurance policy covering the Project or any part thereof or any of its contents; or permit anything to be done which is prohibited by or which shall in any way conflict with any law, statute, ordinance, or governmental rule, regulation or covenants, conditions and restrictions affecting the Project, including without limitation the CC&R's (as defined below) now or hereinafter in force. Should Tenant do any of the foregoing without the prior written consent of Landlord, and the same is not cured within five (5) business days after written notice from Landlord (which five (5) business day period shall be subject to extension if the nature of the breach is such that it is not possible to cure the same within such five (5) business day period so long as the Tenant commences the cure of such breach within such five (5) day period and diligently prosecutes the same to completion) it shall constitute an Event of Default (as hereinafter defined) and shall enable Landlord to resort to any of its remedies hereunder.

3.3 The ownership, operation, maintenance and use of the Project shall be subject to certain conditions and restrictions contained in an instrument ("CC&R's") recorded or to be recorded against title to the Project. Tenant agrees that regardless of when those CC&R's are so recorded, this Lease and all provisions hereof shall be subject and subordinate thereto and Tenant shall comply therewith. Accordingly, as a consequence of that subordination, during any period in which the entire Project is not owned by Landlord, (a) the portion of Operating Expenses and Taxes (each as defined below) for the Common Areas shall be allocated among the owners of the Project as provided in the CC&R's, and (b) the CC&R's shall govern the maintenance and insuring of the portions of the Project not owned by Landlord. Tenant shall, promptly upon request of Landlord, sign all true and accurate documents reasonably required to carry out the foregoing into effect.

ARTICLE 4
RENT

4.1 Tenant hereby agrees to pay Landlord the Base Rent. For purposes of Rent adjustment under the Lease, the number of months is measured from the first day of the calendar month in which the Commencement Date falls. Each monthly installment (the "Monthly Rent") shall be payable by check or by money order on or before the first day of each calendar month. In addition to the Base Rent, Tenant also agrees to pay Tenant's Share of increases in Operating Expenses and Tenant's Tax Share of increases in Taxes (each as hereinafter defined), and any and all other sums of money as shall become due and payable by Tenant as set forth in this Lease, all of which shall constitute additional rent under this Lease (the "Additional Rent"). Landlord expressly reserves the right to apply any payment received to Base Rent or any other items of Rent that are not paid by Tenant. The Base Rent, the Monthly Rent and the Additional Rent are sometimes hereinafter collectively called "Rent" and shall be paid when due in lawful money of the United States without demand, deduction, abatement, or offset to the addresses for the rental payment set forth in the Basic Lease Information, or as Landlord may designate from time to time.

4.2 In the event any Monthly or Additional Rent or other amount payable by Tenant hereunder is not paid within five (5) days after its due date, Tenant shall pay to Landlord a late charge (the "Late Charge"), as Additional Rent, in an amount of five percent (5%) of the amount of such late payment. Failure to pay any Late Charge shall be deemed a Monetary Default (as hereinafter defined). Provision for the Late Charge shall be in addition to all other rights and remedies available to Landlord hereunder, at law or in equity, and shall not be construed as liquidated damages or limiting Landlord's remedies in any manner. Failure to charge or collect such Late Charge in connection with any one (1) or more such late payments shall not constitute a waiver of Landlord's right to charge and collect such Late Charges in connection with any other similar or like late payments. Notwithstanding the foregoing provisions of this Section 4.2, the Late Charge shall not be imposed with respect to the first late payment in the twelve (12) months following the Commencement Date or with respect to the first late payment in any succeeding twelve (12) month period during the Term unless the applicable payment due from Tenant is not received by Landlord within five (5) days following written notice from Landlord that such payment was not received when due. Following the first such written notice from Landlord in the twelve (12) months following the Commencement Date and the first such written notice in any succeeding twelve (12) month period during the Term (but regardless of whether such payment has been received within such five (5) day period), the Late Charge will be imposed without notice for any subsequent payment due from Tenant during such applicable twelve (12) month period which is not received within five (5) days after its due date.

4.3 Simultaneously with the execution hereof, Tenant shall deliver to Landlord (i) the Rent Payable Upon Execution as payment of the first installment of Monthly Rent due hereunder and (ii) an amount equal to the Security Deposit Amount to be held by Landlord as security for Tenant's faithful performance of all of the terms, covenants, conditions, and obligations required to be performed by Tenant hereunder (the "Security Deposit"). The Security Deposit shall be held by Landlord as security for the performance by Tenant of all of the covenants of this Lease to be performed by Tenant and Tenant shall not be entitled to interest thereon. The Security Deposit is not an advance rent deposit, an advance payment of any other kind, or a measure of Landlord's damages in any case of Tenant's default. If Tenant fails to

perform any of the covenants of this Lease to be performed by Tenant, including without limitation the provisions relating to payment of Rent, the removal of property at the end of the Term, the repair of damage to the Premises caused by Tenant, and the cleaning of the Premises upon termination of the tenancy created hereby to leave them in broom-clean condition, then Landlord shall have the right, but no obligation, to apply the Security Deposit, or so much thereof as may be necessary, for the payment of any Rent or any other sum in default and/or to cure any other such failure by Tenant. If Landlord applies the Security Deposit or any part thereof for payment of such amounts or to cure any such other failure by Tenant, then Tenant shall immediately pay to Landlord the sum necessary to restore the Security Deposit to the full amount then required by this Section 4.3. Landlord's obligations with respect to the Security Deposit are those of a debtor and not a trustee. Landlord shall not be required to maintain the Security Deposit separate and apart from Landlord's general or other funds and Landlord may commingle the Security Deposit with any of Landlord's general or other funds. Upon termination of the original Landlord's or any successor owner's interest in the Premises or the Building, the original Landlord or such successor owner shall be released from further liability with respect to the Security Deposit upon the original Landlord's or such successor owner's complying with California Civil Code Section 1950.7. Subject to the foregoing, Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, and all other provisions of law, now or hereafter in force, which (a) establish a time frame within which a landlord must refund a security deposit under a lease, and/or (b) provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other loss or damage caused by the default of Tenant under this Lease, including without limitation all damages or Rent due upon termination of this Lease pursuant to Section 1951.2 of the California Civil Code. If Tenant performs every provision of this Lease to be performed by Tenant, then all or the unused portion of the Security Deposit shall be returned to Tenant or the last assignee of Tenant's interest under this Lease within thirty (30) days following expiration or termination of the Term of this Lease.

4.4 If the Term commences on a date other than the first day of a calendar month or expires or terminates on a date other than the last day of a calendar month, the Rent for any such partial month shall be prorated to the actual number of days in such partial month.

4.5 All Rents and any other amount payable by Tenant to Landlord hereunder, if not paid when due, shall bear interest from the date due until paid at a rate equal to the prime commercial rate established from time to time by Bank of America, plus four percent (4%) per annum; but not in excess of the maximum legal rate permitted by law. Failure to charge or collect such interest in connection with any one (1) or more delinquent payments shall not constitute a waiver of Landlord's right to charge and collect such interest in connection with any other or similar or like delinquent payments.

4.6 If Tenant fails to make when due two (2) consecutive payments of Monthly Rent or makes two (2) consecutive payments of Monthly Rent which are returned to Landlord by Tenant's financial institution for insufficient funds, Landlord may require, by giving written notice to Tenant, that all future payments of Rent shall be made in cashier's check or by money order. The foregoing is in addition to any other remedy of Landlord hereunder, at law or in equity.

4.7 No Rent or other payment in respect of the Premises shall be based in any way upon net income or profits from the Premises. Tenant may not enter into or permit any sublease or license or other agreement in connection with the Premises which provides for a rental or other payment based on net income or profit.

ARTICLE 5
RENT ADJUSTMENT

5.1 Definitions.

(a) "Operating Expenses", as said term is used herein, shall mean all expenses, costs, and disbursements of every kind and nature which Landlord shall pay or become obligated to pay because of or in connection with the ownership, operation, management, security, repair, restoration, replacement, or maintenance of the Project, or any portion thereof. Operating Expenses shall be computed in accordance with generally accepted real estate practices, consistently applied, and shall include, but not be limited to, the items as listed below:

(i) Wages, salaries, other compensation and any and all taxes, insurance and benefits of, the Building manager and of all other persons engaged in the operation, maintenance and security of the Project;

(ii) Payments under any equipment rental agreements or management agreements, including without limitation the cost of any actual or charged management fee and all expenses for the Project management office including rent, office supplies, and materials therefor;

(iii) Costs of all supplies, equipment, materials, and tools and amortization (including interest on the unamortized cost) of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof;

(iv) All costs incurred in connection with the operation, maintenance, and repair of the Project including without limitation, the following:

(A) the cost of operation, repair, maintenance and replacement of all systems and equipment and components thereof of the Project; (B) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in common areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (C) the cost of licenses, certificates, permits and inspections and the cost of contesting any governmental enactments which are reasonably anticipated by Landlord to increase Operating Expenses, and the cost incurred in connection with a transportation system management program or similar program; (D) the cost of landscaping, decorative lighting in Common Areas, and relamping, the cost of maintaining fountains, sculptures, bridges; and (E) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute "Taxes" as that term is defined below.

(v) The cost of supplying all utilities, the cost of operating, maintaining, repairing, replacing, renovating and managing the utility systems, mechanical systems, sanitary, storm drainage systems, communication systems and

elevator systems, and the cost of supplies, tools, and equipment and maintenance and service contracts in connection therewith.

(vi) Costs and expenses of complying with, or participating in, conservation, recycling, sustainability, energy efficiency, waste reduction or other programs or practices implemented or enacted from time to time at the Building, including, without limitation, in connection with any LEED (Leadership in Energy and Environmental Design) rating or compliance system or program, including that currently coordinated through the U.S. Green Building council or Energy Star rating and/or compliance system or program (collectively, "Conservation Costs");

(vii) The cost of all insurance carried by Landlord in connection with the Project as reasonably determined by Landlord, including without limitation commercial general liability insurance, physical damage insurance covering damage or other loss caused by fire, earthquake, flood or other water damage, explosion, vandalism and malicious mischief, theft or other casualty, rental interruption insurance and such insurance as may be required by any lessor under any present or future ground or underlying lease of the Building or Project or any holder of a mortgage, deed of trust or other encumbrance now or hereafter in force against the Building or Project or any portion thereof, and any deductibles payable thereunder; including, without limitation, Landlord's cost of any self insurance deductible or retention;

(viii) Capital improvements made to or capital assets acquired for the Project, or any portion thereof, after the Commencement Date that (1) are intended in good faith to reduce Operating Expenses or (2) are necessary for the health, safety and/or security of the Project, its occupants and visitors and are deemed advisable in the reasonable judgment of Landlord or (3) are Conservation Costs or (4) are required under any and all applicable laws, statutes, codes, ordinances, orders, rules, regulations, conditions of approval and requirements of all federal, state, county, municipal and governmental authorities and all administrative or judicial orders or decrees and all permits, licenses, approvals and other entitlements issued by governmental entities, and rules of common law, relating to or affecting the Project, the Premises or the Building or the use or operation thereof, whether now existing or hereafter enacted, including, without limitation, the Americans with Disabilities Act of 1990, 42 USC 12111 et seq. (the "ADA") as the same may be amended from time to time, all Environmental Requirements (as hereinafter defined), and any CC&R's, or any corporation, committee or association formed in connection therewith, or any supplement thereto recorded in any official or public records with respect to the Project or any portion thereof (collectively, "Applicable Laws") (except for capital repairs, replacements or other improvements to remedy a condition existing prior to the Commencement Date which an applicable governmental authority, if it had knowledge of such condition prior to the Commencement Date, would have then required to be remedied pursuant to then-current governmental laws or regulations in their form existing as of the Commencement Date and pursuant to the then- current interpretation of such governmental laws or regulations by the applicable governmental authority as of the Commencement Date), which capital costs, or an allocable portion thereof, shall be

amortized over the useful life of the improvement as reasonably determined by Landlord, together with interest on the unamortized balance at a rate determined by Landlord;

(ix) fees, charges and other costs, including management fees (or amounts in lieu thereof), consulting fees, legal fees and accounting fees, of all contractors, engineers, consultants and other persons engaged by Landlord or otherwise incurred by or charged by Landlord in connection with the management, operation, maintenance and repair of the Buildings and the Project; and

(x) payments, fees or charges under the CC&R's and any easement, license, operating agreement, declaration, restricted covenant, or instrument pertaining to the sharing of costs by the Project, or any portion thereof.

Expressly excluded from Operating Expenses are the following items:

(xi) Repairs and restoration paid for by the proceeds of any insurance policies or amounts otherwise reimbursed to Landlord or paid by any other source (other than by tenants paying their share of Operating Expenses);

(xii) Principal, interest, and other costs directly related to financing the Project or ground lease rental or depreciation;

(xiii) The cost of special services to tenants (including Tenant) for which a special charge is made;

(xiv) The costs of repair of casualty damage or for restoration following condemnation to the extent covered by insurance proceeds or condemnation awards;

(xv) The costs of any capital expenditures except as expressly permitted to be included in Operating Expenses as provided under clauses (vii), and (viii) above;

(xvi) Advertising and leasing commissions; costs, including permit, license and inspection costs and supervision fees, legal fees, lease concessions, rental abatement, construction allowances, moving expenses, and assumption of rent under existing leases, incurred with respect to the leasing of space or installation of tenant improvements within the Project or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space within the Project or promotional or other costs in order to market space to potential tenants;

(xvii) The legal fees and related expenses and legal costs incurred by Landlord (together with any damages awarded against Landlord) due to the bad faith violation by Landlord or any tenant of the terms and conditions of any lease of space in the Project;

(xviii) Costs incurred: (x) to comply with Applicable Laws with respect to any Hazardous Materials (as defined below) which were in existence in,

on, under or about the Project (or any portion thereof) prior to the Commencement Date, and were of such a nature that a federal, state or municipal governmental or quasi-governmental authority, if it had then had knowledge of the presence of such Hazardous Materials, in the state, and under the conditions that they then existed in, on, under or about the Project, would have then required the removal, remediation or other action with respect thereto; and/or (y) with respect to Hazardous Materials which are disposed of or otherwise introduced into, on, under or about the Project after the date hereof by Landlord or Landlord's agents or employees and are of such a nature, at time of disposition or introduction, that a federal, state or municipal governmental or quasi-governmental authority, if it had then had knowledge of the presence of such Hazardous Materials, in the state, and under the conditions, that they then existed in, on, under or about the Project, would have then required the removal, remediation or other action with respect thereto; provided, however, Operating Expenses shall include costs incurred in connection with the clean-up, remediation, monitoring, management and administration of (and defense of claims related to) the presence of (1) Hazardous Materials used by Landlord (provided such use is not negligent and is in compliance with Applicable Laws) in connection with the operation, repair and maintenance of the Project to perform Landlord's obligations under this Lease (such as, without limitation, fuel oil for generators, cleaning solvents, and lubricants) and which are customarily found or used in Comparable Buildings and (2) Hazardous Materials created, released or placed in the Premises, Building or the Project by Tenant (or Tenant's affiliates or their tenants, contractors, employees or agents) prior to or after the Commencement Date;

(xix) The attorneys' fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and/or assignments, space planning costs, and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions with present or prospective tenants or other occupants of the Project;

(xx) The expenses in connection with services or other benefits which are not available to Tenant;

(xxi) The overhead and profit paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Project to the extent the same exceeds the costs of such goods and/or services rendered by qualified, unaffiliated third parties on a competitive basis;

(xxii) The costs arising from Landlord's charitable or political contributions;

(xxiii) The costs (other than ordinary maintenance and insurance) for sculpture, paintings and other objects of art;

(xxiv) The fines, interest and penalties resulting from Landlord's failure to pay any items of Operating Expense when due;

- (xxv) The Landlord's general corporate overhead and general and administrative expenses, costs of entertainment, dining, automobiles or travel for Landlord's employees, and costs associated with the operation of the business of the partnership or entity which constitutes Landlord as the same are distinguished from the costs of the operation of the Project, including partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee, costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Project, costs of any disputes between Landlord and its employees (if any) not engaged in the operation of the Project, disputes of Landlord with management, or outside fees paid in connection with disputes with other Project tenants or occupants (except to the extent such dispute is based on Landlord's good faith efforts to benefit Tenant or meet Landlord's obligations under this Lease);
- (xxvi) The costs arising from the gross negligence or willful misconduct of Landlord;
- (xxvii) The management office rental to the extent such rental exceeds the fair market rental for such space;
- (xxviii) The costs of correction of latent defects in the Project to the extent covered by warranties;
- (xxix) Organizational expenses of creating or operating the entity that constitutes Landlord;
- (xxx) Damages paid to Tenant hereunder or to other tenants of the Building under their respective leases;
- (xxxi) Fixed or percentage rent under any ground or underlying lease or leases;
- (xxxii) The wages and benefits of any employee above the level of General Manager or any employee who does not devote substantially all of his or her employed time to the Property, unless such wages and benefits of employees who do not provide management or supervision services are prorated to reflect time spent on operating and managing the Property vis-à-vis time spent on matters unrelated to operating and managing the Property;
- (xxxiii) Any cost or expense to the extent that Landlord is reimbursed other than as a payment for Operating Expenses, including, but not limited to,
- i. work or services performed for any tenant (including Tenant) at such tenants cost,
 - ii. the cost of any item for which Landlord is paid or reimbursed by warranties, service contracts, or otherwise,
 - iii. increased insurance premiums or taxes assessed specifically to any tenant of the Building,

- iv. charges (including applicable taxes) for electricity, water and other utilities for which Landlord is reimbursed by any tenant, and
- v. costs incurred in connection with the making of repairs which are reimbursed by another tenant of the Building; and

(xxxiv) Costs to remedy a condition existing prior to the Commencement Date which an applicable governmental authority, if it had knowledge of such condition prior to the Commencement Date and if such condition was not subject to a variance or a grandfathered code waiver exception, would have then required to be remedied pursuant to the then current Applicable Laws in their form existing as of the Commencement Date.

(b) "Taxes" shall mean all real property taxes, ad valorem taxes, personal property taxes, and all other taxes, assessments, embellishments, use and occupancy taxes, transit taxes, water, sewer and pure water charges not included in Section 5.1.(a)(v) above, excises, levies, license fees or taxes, and all other similar charges, levies, penalties, or taxes, if any, which are levied, assessed, or imposed, by any Federal, State, county, or municipal authority, whether by taxing districts or authorities presently in existence or by others subsequently created, upon, or due and payable in connection with, or a lien upon, all or any portion of the Project, or facilities used in connection therewith, and rentals or receipts therefrom and all taxes of whatsoever nature that are imposed in substitution for or in lieu of any of the taxes, assessments, or other charges included in its definition of Taxes, and any costs and expenses of contesting the validity of same. Taxes shall include, without limitation: (i) Any tax on the rent, right to rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof; (ii) Any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, it being acknowledged by Tenant and Landlord that Proposition 13 was adopted by the voters of the State of California in the June 1978 election ("Proposition 13") and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants, and, in further recognition of the decrease in the level and quality of governmental services and amenities as a result of Proposition 13, Taxes shall also include any governmental or private assessments or the Project's contribution towards a governmental or private cost-sharing agreement for the purpose of augmenting or improving the quality of services and amenities normally provided by governmental agencies; (iii) Any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises, the tenant improvements in the Premises, or the Rent payable hereunder, including, without limitation, any business or gross income tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof; (iv) Any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises; (v) All of the real estate taxes and assessments imposed upon or with respect to the Buildings and all of the real

estate taxes and assessments imposed on the land and improvements comprising the Project, and (vi) assessments attributable to the Project by any governmental or quasi-governmental agency that Landlord is required to pay. For purposes of this Lease, Taxes shall be calculated as if the tenant improvements in the Buildings were fully constructed and the Project, the Buildings, and all tenant improvements in the Buildings were fully assessed for real estate tax purposes, and accordingly, Taxes shall be deemed to be increased appropriately. Notwithstanding anything to the contrary contained in this Section 5.1(b), there shall be excluded from Taxes (1) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state net income taxes, and other taxes to the extent applicable to Landlord's net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, and (iii) any items paid by Tenant under Section 17.1 of this Lease.

(c) "Lease Year" shall mean the twelve (12) month period commencing January 1st and ending December 31st.

(d) "Tenant's Building Percentage" shall mean Tenant's percentage of the entire Building as determined by dividing the rentable area of the Premises by the total rentable area of the Building. If there is a change in the total Building rentable area as a result of an addition to the Building, partial destruction, modification or similar cause, which event causes a reduction or increase on a permanent basis, Landlord shall cause adjustments in the computations as shall be necessary to provide for any such changes.

(e) "Market Area" shall mean Pasadena, California (the "City").

(f) "Comparable Buildings" shall mean comparable Class "A" office use buildings in the Market Area.

5.2 In the event that the Operating Expenses of Landlord's operation of the Project during any Lease Year of the Term following the Base Year shall exceed the actual Operating Expenses for the Project for the Base Year, Tenant shall pay to Landlord, as Additional Rent, Tenant's Share (as hereinafter defined) of the difference between the Operating Expenses for a particular Lease Year and the Base Year. "Tenant's Share" shall be determined by multiplying any such difference between Operating Expenses for any Lease Year and the Base Year or pro rata portion thereof, respectively, by Tenant's Building Percentage. Landlord shall, in advance of each Lease Year, estimate what Tenant's Share will be for such Lease Year based, in part, on Landlord's operating budget for such Lease Year, and Tenant shall pay Tenant's Share as so estimated each month (the "Monthly Escalation Payments"). The Monthly Escalation Payments shall be due and payable at the same time and in the same manner as the Monthly Rent. Base Year Operating Expenses shall not include market-wide labor-rate increases due to extraordinary circumstances, including, but not limited to, boycotts and strikes, and utility rate increases due to extraordinary circumstances including, but not limited to, conservation surcharges, boycotts, embargoes or other shortages or amortized costs relating to capital improvements or any one time Conservation Costs. Landlord may elect to segregate Operating Expenses into two or more subcategories. For example, Landlord may segregate insurance costs, electrical costs and/or other utility costs from other Operating Expenses. If Landlord elects to make that segregation,

(a) Tenant's Share of Operating Expenses shall be determined separately for each such subcategory by making separate calculations of the increase in the cost of each subcategory of Operating Expense from the Base Year to the applicable calendar year, and

(b) Tenant shall pay as Tenant's Share of Operating Expenses Tenant's Share of the increase in each such subcategory.

5.3 Landlord shall, within one hundred eighty (180) days after the end of each Lease Year other than the Base Year, or as soon thereafter as reasonably possible, provide Tenant with a written statement of the actual Operating Expenses incurred during such Lease Year for the Building and the Project and such statement shall set forth Tenant's Share of such Operating Expenses. Tenant shall pay Landlord, as Additional Rent, the difference between Tenant's Share of Operating Expenses and the amount of Monthly Escalation Payments made by Tenant attributable to said Lease Year, such payment to be made within thirty (30) days of the date of Tenant's receipt of said statement (except as provided in Section 5.4 below); similarly, Tenant shall receive a credit if Tenant's Share is less than the amount of Monthly Escalation Payments collected by Landlord during said Lease Year, such credit to be applied to future Monthly Escalation Payments to become due hereunder. If utilities, janitorial services or any other components of Operating Expenses increase during any Lease Year, Landlord may revise Monthly Escalation Payments due during such Lease Year by giving Tenant written notice to that effect; and thereafter, Tenant shall pay, in each of the remaining months of such Lease Year, a sum equal to the amount of the revised difference in Operating Expenses multiplied by Tenant's Building Percentage divided by the number of months remaining in such Lease Year.

5.4 Within ninety (90) days following Tenant's receipt of the Operating Expense statement or Taxes statement, Tenant may give Landlord notice (the "Review Notice") stating that Tenant elects to review Landlord's calculation of the amount of Operating Expenses or Taxes payable by Tenant for the Lease Year to which such statement applies and identifying with

reasonable specificity the records of Landlord reasonably relating to such matters that Tenant desires to review. Tenant may not deliver more than one (1) Review Notice with respect to any Lease Year. If Tenant fails to give Landlord such a Review Notice within that ninety (90) day period, Tenant shall be deemed to have approved the applicable statement. If Tenant timely gives the Review Notice, Tenant shall be entitled to conduct or require an audit to be conducted, provided that (a) not more than one (1) such audit may be conducted during any Lease Year of the Term, (b) the records for each Lease Year may be audited only once, (c) such audit is commenced within one hundred twenty (120) days following Tenant's receipt of the applicable statement, and (d) such audit is completed and a copy thereof is delivered to Landlord within one hundred eighty (180) days following Tenant's receipt of the applicable statement. Tenant's auditor must be a member of a nationally or regionally recognized accounting firm and must not be compensated on a contingency fee. As a condition precedent to any inspection by Tenant's accountant, Tenant shall deliver to Landlord a copy of Tenant's written agreement with such accountant, which agreement shall include provisions which state that (i) Landlord is an intended third party beneficiary of such agreement, (ii) such accountant will not in any manner solicit any other tenant of the Project with respect to an audit or other review of Landlord's accounting records at the Project, and (iii) such accountant shall maintain in strict confidence any and all information obtained in connection with the review and shall not disclose such information to any person or entity other than to the management personnel of Tenant. An overcharge of Operating Expenses or Taxes by Landlord shall not entitle Tenant to terminate this Lease. No subtenant shall have the right to audit. Any assignee's audit right will be limited to the period after the effective date of the assignment. No audit shall be permitted if an Event of Default by Tenant has occurred and is continuing under this Lease, including without limitation any failure by Tenant to pay any amount due under this Article 5. If Landlord responds to any such audit with an explanation of any issues raised in the audit, such issues shall be deemed resolved unless Tenant responds to Landlord with further written objections within thirty (30) days after receipt of Landlord's response to the audit. In no event shall payment of Rent ever be contingent upon the performance of such audit. For purposes of any audit, Tenant or Tenant's duly authorized representative, at Tenant's sole cost and expense, shall have the right, upon fifteen (15) days' written notice to Landlord, to inspect Landlord's books and records pertaining to Operating Expenses and Taxes at the offices of Landlord or Landlord's managing agent during ordinary business hours, provided that such audit must be conducted so as not to interfere with Landlord's business operations and must be reasonable as to scope and time. If actual Operating Expenses or Taxes are finally determined (by agreement of the parties or arbitration) to have been overstated or understated by Landlord for any calendar year, then the parties shall within thirty (30) days thereafter make such adjustment payment or refund as is applicable, and if actual Operating Expenses and Taxes are finally determined (by agreement of the parties or arbitration) to have been overstated by Landlord for any calendar year by in excess of five percent (5%), then Landlord shall pay the reasonable cost of Tenant's audit, not to exceed \$6,000.00.

5.5 If the Expiration Date or Termination Date under this Lease does not fall on December 31 of any given year, then: (i) the period commencing on the January 1 immediately preceding said Expiration Date or Termination Date and continuing through, to and, including said Expiration Date or Termination Date shall be referred to in this Lease as the "Last Partial Year" and (ii) Tenant's Share of Operating Expenses for the Last Partial Year shall be, calculated by proportionately reducing the Base Year Operating Expenses to reflect the number of calendar months in said Last Partial Year (the "Adjusted Base Operating Expenses"). The Adjusted Base Operating Expenses shall then be compared with the actual Operating Expenses for said Last

Partial Year to determine the amount of any increases or decreases in the actual Operating Expenses for said Last Partial Year over the Adjusted Base Operating Expenses. Tenant shall pay its Tenant's Share of any such increases within thirty (30) days following the receipt of a final statement or, as applicable, Landlord shall refund any overpayment concurrently with delivery of such final statement.

5.6 If the occupancy of the Building during any part of any Lease Year is less than ninety-five percent (95%), Landlord shall make an appropriate adjustment of the variable components of Operating Expenses for that Lease Year, as reasonably determined by Landlord using sound accounting and management principles, to determine the amount of Operating Expenses that would have been incurred had the Building been ninety-five percent (95%) occupied. This amount shall be considered to have been the amount of Operating Expenses for that Lease Year. For purposes of this Section 5.6, "variable components" include only those component expenses that are affected by variations in occupancy levels.

5.7 In the event that the Taxes during any Lease Year of the Term shall exceed the Taxes for the Project for the Base Year, Tenant shall pay to Landlord, as Additional Rent, "Tenant's Tax Share" (as hereinafter defined) of the difference between the Taxes for a particular Lease Year and the Base Year. "Tenant's Tax Share" shall be determined by multiplying any such difference between Taxes for any Lease Year and the Base Year or pro rata portion thereof, respectively, by Tenant's Building Percentage. Landlord shall, in advance of each Lease Year, estimate what Tenant's Tax Share will be for such Lease Year and Tenant shall pay Tenant's Tax Share as so estimated each month (the "Monthly Tax Payments"). The Monthly Tax Payments shall be due and payable at the same time and in the same manner as the Monthly Rent.

5.8 Landlord shall, within one hundred eighty (180) days after the end of each Lease Year other than the Base Year, or as soon thereafter as reasonably possible, provide Tenant with a written statement of the actual Taxes incurred during such Lease Year for the Building and the Project and such statement shall set forth Tenant's Tax Share of such Taxes. Tenant shall pay Landlord, as Additional Rent, the difference between Tenant's Tax Share of any increases in Taxes and the amount of Monthly Tax Payments made by Tenant attributable to said Lease Year, such payment to be made within thirty (30) days of the date of Tenant's receipt of said statement; similarly, Tenant shall receive a credit if Tenant's Tax Share is less than the amount of Monthly Tax Payments collected by Landlord during said Lease Year, such credit to be applied to future Monthly Tax Payments to become due hereunder. If Taxes increase during any Lease Year, Landlord may revise Monthly Tax Payments due during such Lease Year by giving Tenant written notice to that effect; and, thereafter, Tenant shall pay, in each of the remaining months of such Lease Year, a sum equal to the amount of revised difference in Taxes multiplied by Tenant's Tax Percentage divided by the number of months remaining in such Lease Year. Despite any other provision of this Article 5, Landlord may adjust Operating Expenses and/or Taxes and submit a corrected statement to account for Taxes or other government public- sector charges (including utility charges) that are for that given year but that were first billed to Landlord after the date that is ten (10) business days before the date on which the statement was furnished.

5.9 Tenant's Tax Share of Taxes for the Last Partial Year, if any, shall be calculated by proportionately reducing the Base Year Taxes to reflect the number of calendar months in said Last Partial Year (the "Adjusted Base Taxes"). The Adjusted Base Taxes shall then be compared with the actual Taxes for said Last Partial Year to determine the amount of any

increases or decreases in the actual Taxes for such Last Partial Year over the Adjusted Base Taxes. Tenant shall pay its Tenant's Tax Share of any such increases within thirty (30) days following the receipt of a final statement or, as applicable, Landlord shall refund any overpayment concurrently with delivery of such final statement.

5.10 If the Taxes for the Base Year or the Taxes for any Lease Year are changed as a result of protest, appeal or other action taken by a taxing authority, the Taxes also changed shall be deemed the Taxes for such Lease Year or Base Year (as applicable). Any expenses incurred by Landlord in attempting to protest, reduce or minimize Taxes shall be included in Taxes in the Lease Year in which those expenses are paid. Landlord shall have the exclusive right to conduct such contests, protests and appeals of the Taxes as Landlord shall determine is appropriate in Landlord's sole discretion.

5.11 Tenant's obligation with respect to Additional Rent and the payment of Tenant's Share of Operating Expenses and Tenant's Tax Share of Taxes shall survive the Expiration Date or Termination Date of this Lease and Landlord shall have the right to retain the Security Deposit, or so much thereof as it deems necessary, to secure payment of Tenant's Share of Operating Expenses and Tenant's Tax Share of Taxes for the final year of the Lease, or part thereof, during which Tenant was obligated to pay such expenses.

5.12 Landlord shall have the right, from time to time, to equitably allocate some or all of the Operating Expenses and Taxes for the Project among different portions or occupants of the Project (the "Cost Pools"), in Landlord's reasonable discretion. Such Cost Pools may include, but shall not be limited to, the office space tenants of a building of the Project or of the Project, and the retail space tenants of a building of the Project or of the Project. The Operating Expenses and Taxes within each such Cost Pool shall be allocated and charged to the tenants within such Cost Pool in a reasonable and equitable manner.

ARTICLE 6 SERVICES TO BE PROVIDED BY LANDLORD

6.1 Subject to Articles 5 and 10 herein, and provided Tenant is not in default under this Lease beyond any applicable cure period, Landlord agrees to furnish or cause to be furnished to the Premises the following utilities and services, subject to the conditions and in accordance with the standards set forth herein:

6.1.1 Subject to limitations imposed by all governmental rules, regulations and guidelines applicable thereto, Landlord shall provide heating, ventilation and air conditioning ("HVAC") when necessary for normal comfort for normal office use in the Premises from 8:00 A.M. to 6:00 P.M. Monday through Friday and on Saturdays from 9:00 A.M. to 1:00 P.M. (collectively, the "Building Hours"), except for the date of observation of New Year's Day, President's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day and, at Landlord's discretion, other locally and nationally recognized holidays observed by landlords of Comparable Buildings (collectively, the "Holidays"), without charge other than including the cost thereof in Operating Expenses for the Building.

6.1.2 Landlord shall provide, as part of Operating Expenses, electrical power and adequate electrical wiring and facilities for connection to Tenant's lighting fixtures and incidental

use equipment for normal office use, provided that (i) the connected electrical load of the incidental use equipment does not exceed an average of five (5.0) watts per usable square foot of the Premises during the Building Hours, calculated on a monthly basis, and (ii) the connected electrical load of Tenant's lighting fixtures does not exceed an average of two (2.0) watts per usable square foot of the Premises during the Building Hours, calculated on a monthly basis. If Tenant modifies the electrical systems existing in the Premises on the date of this Lease, Tenant will design, at Tenant's cost, Tenant's electrical system serving any equipment producing nonlinear electrical loads to accommodate such nonlinear electrical loads, including, but not limited to, oversizing neutral conductors, derating transformers and/or providing power-line filters. Engineering plans shall include a calculation of Tenant's fully connected electrical design load with and without demand factors and shall indicate the number of watts of unmetered and submetered loads. Tenant shall bear the cost of replacement of lamps, starters and ballasts for non-Building standard lighting fixtures within the Premises.

6.1.3 Landlord shall, as part of Operating Expenses, provide city water from the regular Building outlets for drinking, kitchen, lavatory and toilet purposes in the Building Common Areas and the Premises.

6.1.4 Landlord shall, as part of Operating Expenses, provide nonexclusive, non-attended automatic passenger elevator service during the Building Hours, shall have at least one passenger elevator available at all other times, including on the Holidays, except in the event of emergency.

6.1.5 Landlord shall provide customary weekday janitorial services to the Premises five (5) days per week, except the date of observation of the Holidays, in and about the Premises and customary occasional window washing services as reasonably determined by Landlord.

6.1.6 Subject to Landlord's rules, regulations, and restrictions and the terms of this Lease, Landlord shall permit Tenant to utilize the existing Building risers, raceways, shafts and conduit to the extent consistent with Tenant's use as of the date of this Lease. Tenant shall pay as Additional Rent Landlord's standard fee for any other use of the Building risers, raceways, shafts and/or conduit. Tenant may only use vendors selected by Landlord to provide services to Tenant through the use of the Building risers, raceways, shafts and conduit.

6.2 Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, or equipment or lighting other than Building standard lights in the Premises, which may adversely affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of Section 6.1 of this Lease. If Tenant (a) uses water, electricity, heat or air conditioning in excess of that supplied by Landlord pursuant to Section 6.1 of this Lease, (b) installs and/or uses any supplemental HVAC systems, and/or (c) expands the area of the server room beyond the area occupied by the server room as of the date of this Lease, Tenant shall pay to Landlord, within thirty (30) days after billing, the cost of such excess consumption, the cost of the installation, operation, and maintenance of equipment which is installed in order to supply such excess consumption, supply electricity to the supplemental HVAC system and/or supply electricity to the expanded server room area and the cost of the increased wear and tear on existing equipment caused by such excess consumption,

supplemental HVAC system and/or expanded server room area; and Landlord may install devices (including without limitation Quadlogic revenue grade meters (or comparable devices) and related data transmission and collection systems and software) to separately meter (or sub-meter) any increased use, supplemental HVAC system and/or expanded server room area, and in such event Tenant shall pay the increased cost directly to Landlord, on demand, at the rates charged by the public utility company furnishing the same, including the cost of such additional metering (or sub-metering) devices. Without limiting the generality of the foregoing, the existing supplemental HVAC system for the server room in the Premises shall continue to be separately metered and Tenant shall pay to Landlord, within thirty (30) days after billing, the cost of all electricity with respect to that supplemental HVAC system and any replacement and/or expanded supplemental HVAC system in the Premises. Tenant's use of electricity shall never exceed the capacity of the feeders to the Project or the risers or wiring installation, and subject to the terms of Article 52, below, Tenant shall not install or use or permit the installation or use of any computer or electronic data processing equipment in the Premises in excess of the scope of such equipment that is customary for general office use in space of comparable size in Comparable Buildings, without the prior written consent of Landlord. If Tenant desires to use heat, ventilation or air conditioning during hours other than those for which Landlord is obligated to supply such utilities pursuant to the terms of Section 6.1 of this Lease, Tenant shall give Landlord prior notice (not later than noon for use on business days and not later than noon on Friday for use on weekends) of Tenant's desired use in order to supply such utilities, and Landlord shall supply such utilities to Tenant at such hourly cost to Tenant (which shall be treated as Additional Rent) as Landlord shall from time to time establish. As of the date of this Lease, the rate for after hour HVAC is \$75 per hour with a one hour minimum if such use is an extension of Building Hours, otherwise the minimum shall be four hours. Landlord shall have the exclusive right, but not the obligation, to provide any additional services which may be required by Tenant, including, without limitation, locksmithing, lamp replacement, additional janitorial service, and additional repairs and maintenance. If Tenant requests any such additional services, then Tenant shall pay to Landlord, within thirty (30) days after billing, the actual cost of such additional services, including Landlord's standard fee not to exceed five percent (5%) of the cost of the additional service.

6.3 Landlord shall not be liable for any loss or damage arising or alleged to arise in connection with the failure, stoppage, or interruption of any such services; nor shall the same be construed as an eviction of Tenant, work an abatement of Rent, entitle Tenant to any reduction in Rent, or relieve Tenant from the operation of any covenant or condition herein contained; it being further agreed that Landlord reserves the right to discontinue temporarily such services or any of them at such times as may be necessary by reason of repair or capital improvements performed within the Project, accident, unavailability of employees, repairs, alterations or improvements, or whenever by reason of strikes, lockouts, riots, acts of God, or any other happening or occurrence beyond the reasonable control of Landlord. In the event of any such failure, stoppage or interruption of services, Landlord shall use reasonable diligence to have the same restored. Neither diminution nor shutting off of light or air or both, nor any other effect on the Project by any structure erected or condition now or hereafter existing on lands adjacent to the Project, shall affect this Lease, abate Rent, or otherwise impose any liability on Landlord. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this Article 6.

6.4 Landlord shall have the right to reduce heating, cooling, or lighting within the Premises and in the public area in the Building as required by any mandated governmental fuel or energy-saving program.

6.5 Unless otherwise provided by Landlord, Tenant shall separately arrange with the applicable local public authorities or utilities, as the case may be, for the furnishing of and payment of all telephone and facsimile services as may be required by Tenant in the use of the Premises. Tenant shall directly pay for such telephone and facsimile services as may be required by Tenant in the use of the Premises, including the establishment and connection thereof, at the rates charged for such services by said authority or utility; and the failure of Tenant to obtain or to continue to receive such services for any reason whatsoever shall not relieve Tenant of any of its obligations under this Lease.

6.6 At all times during the Term Landlord shall have the right to select the utility company or companies that shall provide electric, telecommunication and/or other utility services to the Premises and, subject to all Applicable Laws, Landlord shall have the right at any time and from time to time during the Term to either (a) contract for services from electric, telecommunication and/or other utility service provider(s) other than the provider with which Landlord has a contract as of the date of this Lease (the "Current Provider"), or (b) continue to contract for services from the Current Provider. The cost of such utility services and any energy management and procurements services in connection therewith shall be Operating Expenses.

6.7 If the temperature otherwise maintained in any portion of the Premises by the heating, air conditioning or ventilation system is affected as a result of (i) the type or quantity of any lights, machines or equipment (including without limitation typical office equipment) used by Tenant in the Premises, (ii) an electrical load for lighting or power in excess of the limits specified in Section 6.1.2 above, (iii) any rearrangement of partitioning or other improvements, or (iv) occupancy levels in excess of the Applicable Density (as defined below), then at Tenant's sole cost, Landlord may install any equipment, or modify any existing equipment (including the standard air conditioning equipment) Landlord deems necessary to restore the temperature balance (such new equipment or modifications to existing equipment termed herein "Temperature Balance Equipment"). Tenant agrees to cooperate with Landlord and to abide by the regulations and requirements which Landlord may reasonably prescribe for the proper functioning and protection of the heating, ventilating and air conditioning system. Landlord makes no representation to Tenant regarding the adequacy or fitness of the heating, air conditioning or ventilation equipment in the Building to maintain temperatures that may be required for, or because of, any computer or communications rooms, machine rooms, conference rooms or other areas of high concentration of personnel or electrical usage, or any other uses other than or in excess of the fractional horsepower normally required for office equipment, and Landlord shall have no liability for loss or damage suffered by Tenant or others in connection therewith. Tenant shall pay to Landlord within thirty (30) days after written demand the reasonable cost of installing, operating, maintaining and repairing any Temperature Balance Equipment.

6.8 Notwithstanding anything to the contrary in Section 6.2 or elsewhere in this Lease, if (a) Landlord fails to provide Tenant with the services and utilities, including but not limited to HVAC, electrical service and elevator service described in Section 6.1, or Landlord enters the Premises and such entry interferes with Tenant's reasonable use of the Premises

(b) such failure or Landlord's entry is not due to any one or more Force Majeure Events or to an event covered by Article 19, (c) Tenant has given Landlord reasonably prompt written notice of such failure or that such entry by Landlord is unreasonably interfering with Tenant's use of the Premises and (d) as a result of such failure or entry all or any part of the Premises are rendered untenantable (and, as a result, all or such part of the Premises are not used by Tenant during the applicable period) for more than five (5) consecutive business days, then Tenant shall be entitled to an abatement of Rent proportional to the extent to which the Premises are thereby rendered unusable by Tenant, commencing with the later of (i) the sixth business day during which such untenantability continues or (ii) the sixth business day after Landlord receives such notice from Tenant, until the Premises (or part thereof affected) are again usable or until Tenant again uses the Premises (or part thereof rendered unusable) in its business, whichever first occurs. The foregoing rental abatement shall be Tenant's exclusive remedy therefor. Notwithstanding the foregoing, the provisions of Article 19 below and not the provisions of this subsection shall govern in the event of casualty damage to the Premises or Project and the provisions of Article 20 below and not the provisions of this subsection shall govern in the event of condemnation of all or a part of the Premises or Project.

6.9 As used in this Lease, the term "Applicable Density" means (a) with respect to the portion of the Premises on the ninth floor, an occupancy level of one person per one hundred fifty (150) square feet of rentable area, or (b) with respect to the portion of the Premises (if any) not located on the ninth floor, an occupancy level of one person per two hundred (200) square feet of rentable area. Landlord shall not be obligated to provide HVAC service under Section 6.1 to address the additional heat load arising from occupancy of the Premises at a density greater than the Applicable Density. If and to the extent that Tenant desires additional HVAC services to service to a floor of the Premises as a result of Tenant's occupancy of the portion of the Premises on that floor at a density greater than the Applicable Density, then at Tenant's sole cost, Landlord may install new supplemental equipment, or modify any existing equipment Landlord deems necessary. Tenant shall pay to Landlord within thirty (30) days after written demand the reasonable cost associated with the maintenance and operation of such supplemental units or modifications.

ARTICLE 7 REPAIRS AND MAINTENANCE BY LANDLORD

7.1 Landlord shall provide for the cleaning and maintenance of the public portions of the Project in keeping with the ordinary standard for Comparable Buildings as part of Operating Expenses. Unless otherwise expressly stipulated herein, Landlord shall not be required to make any improvements or repairs of any kind or character to the Premises during the Term, except such repairs as may be required to the Base Building (as defined below) and other structural elements and equipment of the Project, and subject to Section 13.4, below, such additional maintenance as may be necessary because of the damage caused by persons other than Tenant, its agents, employees, licensees, or invitees. As used in this Lease, the "Base Building" shall include the structural portions of the Building, and the public restrooms, elevators, exit stairwells and the systems and equipment located in the internal core of the Building on the floor or floors on which the Premises are located. The term "Base Building," as used in this Lease, shall not be deemed to have the same meaning as the term "Base, Shell and Core," as the same is defined in Section 1 of the Tenant Work Letter.

7.2 Landlord or Landlord's officers, agents, and representatives (subject to any security regulations imposed by any governmental authority) shall have the right to enter all parts of the Premises at all reasonable hours upon reasonable prior notice to Tenant (other than in an emergency) to inspect, clean, make repairs, alterations, and additions to the Project or the Premises which it may deem necessary or desirable, to make repairs to adjoining spaces, to cure any defaults of Tenant hereunder that Landlord elects to cure pursuant to Section 22.5, below, to post notices of nonresponsibility, to show the Premises to prospective tenants (during the final nine (9) months of the Term or at any time after the occurrence of an Event of Default that remains uncured), mortgagees or purchasers of the Building, or to provide any service which it is obligated or elects to furnish to Tenant; and Tenant shall not be entitled to any abatement or reduction of Rent by reason thereof. Landlord shall have the right to enter the Premises at any time and by any means in the case of an emergency.

7.3 Except as otherwise expressly provided in this Lease, Landlord shall not be liable for any failure to make any repairs or to perform any maintenance and there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Project, Building or the Premises or in or to fixtures, and equipment therein. Tenant hereby waives all rights it would otherwise have under California Civil Code Sections 1932(1) and 1942(a), or any similar law, statute or ordinance now or hereafter in effect, to make repairs at Landlord's expense, to deduct repair costs from Rent and/or terminate this Lease as the result of any failure by Landlord to maintain or repair.

ARTICLE 8
REPAIRS AND CARE OF PREMISES BY TENANT

8.1 If the Building, the Project, or any portion thereof, including but not limited to, the elevators, boilers, engines, pipes, and other apparatus, or members of elements of the Building (or any of them) used for the purpose of climate control of the Building or operating of the elevators, or of the water pipes, drainage pipes, electric lighting, or other equipment of the Building or the roof or outside walls of the Building and also the Premises improvements, including but not limited to, the carpet, wall coverings, doors, and woodwork, become damaged or are destroyed through the negligence, carelessness, or misuse of Tenant, its servants, agents, employees, or anyone permitted by Tenant to be in the Building, or through it or them, then the reasonable cost of the necessary repairs, replacements, or alterations shall be borne by Tenant who shall pay the same to Landlord as Additional Rent within ten (10) days after demand, subject to Section 13.4 below. Landlord shall have the exclusive right, but not the obligation, to make any repairs necessitated by such damage.

8.2 Subject to Section 13.4 below, Tenant agrees, at its sole cost and expense, to repair or replace any damage or injury done to the Project, or any part thereof, caused by Tenant, Tenant's agents, employees, licensees, or invitees which Landlord elects not to repair. Tenant shall not injure the Project or the Premises and, at Tenant's sole cost and expense, shall maintain the Premises, including without limitation all improvements, fixtures and furnishings therein, and the floor or floors on which the Premises are located, in good order, repair and condition at all times during the Term. If Tenant fails to keep such elements of the Premises in such good order, condition, and repair as required hereunder to the reasonable satisfaction of Landlord, Landlord may restore the Premises to such good order and condition and make such repairs without liability to Tenant for any loss or damage that may accrue to Tenant's property or business by reason thereof, and within ten (10) days after completion thereof, Tenant shall pay to Landlord, as Additional Rent, upon demand, the actual cost of restoring the Premises to such good order and condition and of the making of such repairs, plus an additional charge of five percent (5%) thereof. Tenant shall leave the Premises at the end of each business day in a reasonably tidy condition for the purpose of allowing the performance of Landlord's cleaning services. Upon the Expiration Date or the Termination Date, Tenant shall surrender and deliver up the Premises to Landlord in the same condition in which it existed at the Commencement Date, excepting only ordinary wear and tear and damage arising from any cause not required to be repaired by Tenant. Upon the Expiration Date or the Termination Date, Landlord shall have the right to re-enter and take possession of the Premises.

ARTICLE 9
TENANT'S EQUIPMENT AND INSTALLATIONS

9.1 Except for desk or table-mounted office equipment consistent with first- class general office use in Comparable Buildings, Tenant shall not install within the Premises any fixtures, equipment, facilities, or other improvements without the specific written consent of Landlord, subject to Article 15, below. Tenant shall not, without the specific written consent of Landlord (which consent shall not be unreasonably withheld, conditioned, or delayed), install or maintain any apparatus or device within the Premises which shall increase the usage of electrical power or water for the Premises to an amount greater than would be normally required for general office use for space of comparable size in the Market Area; and if any such apparatus or device is so installed, Tenant agrees to furnish Landlord a written agreement to pay for any additional costs of utilities as the result of said installation.

ARTICLE 10
FORCE MAJEURE

10.1 It is understood and agreed that with respect to any service or other obligation to be furnished or obligations to be performed by either party, in no event shall either party be liable for failure to furnish or perform the same when prevented from doing so by strike, lockout, breakdown, accident, supply, or inability by the exercise of reasonable diligence to obtain supplies, parts, or employees necessary to furnish such service or meet such obligation; or because of war or other emergency; or for any cause beyond the reasonable control with the party obligated for such performance; or for any cause due to any act or omission of the other party or its agents, employees, licensees, invitees, or any persons claiming by, through, or under the other party; or because of the failure of any public utility to furnish services; or because of order or regulation of any federal, state, county or municipal authority (collectively, "Force Majeure Events"). Nothing in this Section 10.1 shall limit or otherwise modify or waive Tenant's obligation to pay Base Rent and Additional Rent as and when due pursuant to the terms of this Lease.

ARTICLE 11
CONSTRUCTION, MECHANICS' AND MATERIALMAN'S LIENS

11.1 Tenant shall not suffer or permit any construction, mechanics' or materialman's lien to be filed against the Premises or any portion of the Project by reason of work, labor services, or materials supplied or claimed to have been supplied to Tenant. Nothing herein contained shall be deemed or construed in any way as constituting the consent or request of Landlord, expressed or implied, by inference or otherwise, for any contractor, subcontractor, laborer, or materialman to perform any labor or to furnish any materials or to make any specific improvement, alteration, or repair of or to the Premises or any portion of the Project; nor of giving Tenant any right, power, or authority to contract for, or permit the rendering of, any services or the furnishing of any materials that could give rise to the filing of any construction, mechanics' or materialman's lien against the Premises or any portion of the Project.

11.2 If any such construction, mechanics' or materialman's lien shall at any time be filed against the Premises or any portion of the Project as the result of any act or omission of Tenant, Tenant covenants that it shall, within twenty (20) days after Tenant has notice of the claim for lien, procure the discharge thereof by payment or by giving security or in such other manner as

is or may be required or permitted by law or which shall otherwise satisfy Landlord. If Tenant fails to take such action, Landlord, in addition to any other right or remedy it may have, may take such action as may be reasonably necessary to protect its interests. Any amounts paid by Landlord in connection with such action, all other expenses of Landlord incurred in connection therewith, including reasonable attorneys' fees, court costs, and other necessary disbursements shall be repaid by Tenant to Landlord within ten (10) days after demand.

ARTICLE 12 ARBITRATION

12.1 In the event that a dispute arises under Section 5.3 above, the same shall be submitted to arbitration in accordance with the provisions of applicable state law, if any, as from time to time amended. Arbitration proceedings, including the selection of an arbitrator, shall be conducted pursuant to the rules, regulations, and procedures from time to time in effect as promulgated by the American Arbitration Association (the "Association"). Prior written notice of application by either party for arbitration shall be given to the other at least ten (10) days before submission of the application to the said Association's office in the city wherein the Building is situated (or the nearest other city having an Association office). The arbitrator shall hear the parties and their evidence. The decision of the arbitrator may be entered in the appropriate court of law; and the parties consent to the jurisdiction of such court and further agree that any process or notice of motion or other application to the court or a judge thereof may be served outside the state wherein the Building is situated by registered mail or by personal service, provided a reasonable time for appearance is allowed. The costs and expenses of each arbitration hereunder and their apportionment between the parties shall be determined by the arbitrator in his or her award or decision, subject to the penultimate sentence of this section. No arbitrable dispute shall be deemed to have arisen under this Lease (a) prior to the expiration of the period of twenty (20) days after the date of the giving of written notice by the party asserting the existence of the dispute, together with a description thereof sufficient for an understanding thereof, and (b) where Tenant disputes the amount of a Tenant payment required hereunder (e.g., Operating Expense excess under Section 5.3 hereof), prior to Tenant paying in full the amount billed by Landlord, including the disputed amount. The prevailing party in such arbitration shall be reimbursed for its expenses, including reasonable attorneys' fees. Notwithstanding the foregoing, in no event shall this Article 12 affect or delay Landlord's unlawful detainer rights under California law.

ARTICLE 13 INSURANCE

13.1 Landlord shall maintain, as a part of Operating Expenses, special causes of loss form property insurance on the Project (excluding, at Landlord's option, the property required to be insured by Tenant pursuant to Section 13.2(e), below) in an amount equal to the full replacement cost of the Project, subject to such deductibles as Landlord may determine. Landlord shall not be obligated to insure, and shall not assume any liability of risk of loss for, any of Tenant's furniture, equipment, machinery, goods, supplies, improvements or alterations upon the Premises. Such insurance shall be maintained with an insurance company selected, and in amounts desired, by Landlord or Landlord's mortgagee, and payment for losses thereunder shall be made solely to Landlord subject to the rights of the holder of any mortgage or deed of trust which may now or hereafter encumber the Project. Additionally Landlord may maintain such additional insurance, including, without limitation, earthquake insurance, flood insurance, liability insurance and/or rent

insurance, as Landlord may in its sole discretion elect. The cost of all such additional insurance shall also be part of the Operating Expenses. Any or all of Landlord's insurance may be provided by blanket coverage maintained by Landlord or any affiliate of Landlord under its insurance program for its portfolio of properties or by Landlord or any affiliate of Landlord's program of self-insurance, and in such event Operating Expenses shall include the portion of the reasonable cost of blanket insurance or self-insurance that is allocated to the Project.

13.2 Tenant, at its own expense, shall maintain with insurers authorized to do business in the State of California and which are rated A- or better and have a financial size category of at least VIII in the most recent Best's Key Rating Guide, or any successor thereto (or if there is none, an organization having a national reputation), (a) commercial general liability insurance, including Broad Form Property Damage and Contractual Liability with the following minimum limits: General Aggregate \$3,000,000.00; Products/Completed Operations Aggregate \$2,000,000.00; Each Occurrence \$2,000,000.00; Personal and Advertising Injury \$1,000,000.00; Medical Payments \$5,000.00 per person, (b) Umbrella/Excess Liability on a following form basis with the following minimum limits: General Aggregate \$10,000,000.00; Each Occurrence \$10,000,000.00; (c) Workers' Compensation with statutory limits; (d) Employer's Liability insurance with the following limits: Bodily injury by disease per person \$1,000,000.00; Bodily injury by accident policy limit \$1,000,000.00; Bodily injury by disease policy limit \$1,000,000.00; (e) property insurance on special causes of loss insurance form covering (i) all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Premises installed by, for, or at the expense of Tenant, (ii) the "Tenant Improvements," as that term is defined in Section 2.1 of the Tenant Work Letter, and any other improvements which exist in the Premises as of the Commencement Date (excluding the Base Building) (the "Original Improvements"), and (iii) all other improvements, alterations and additions to the Premises (such insurance shall be for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion); and (f) business auto liability insurance having a combined single limit of not less than One Million Dollars (\$1,000,000.00) per occurrence and insuring Tenant against liability for claims arising out of ownership, maintenance or use of any owned, hired or non-owned automobiles. At all times during the Term, such insurance shall be maintained, and Tenant shall cause a current and valid certificate of such policies to be deposited with Landlord. If Tenant fails to have a current and valid certificate of such policies on deposit with Landlord at all times during the Term and such failure is not cured within three (3) business days following Tenant's receipt of notice thereof from Landlord, Landlord shall have the right, but not the obligation, to obtain such an insurance policy, and Tenant shall be obligated to pay Landlord the amount of the premiums applicable to such insurance within ten (10) days after Tenant's receipt of Landlord's request for payment thereof. Said policy of liability insurance shall name Landlord, Landlord's affiliates and subsidiaries designated by Landlord, and Landlord's managing agent as additional insureds and Tenant as the insured and shall be noncancellable with respect to Landlord except after thirty (30) days' written notice from the insurer to Landlord.

13.3 Tenant shall adjust annually the amount of coverage established in Section 13.2 hereof to such amount as in Landlord's reasonable opinion, adequately protects Landlord's

interest; provided the same is consistent with the amount of coverage customarily required of comparable tenants in Comparable Buildings.

13.4 Notwithstanding anything in this Lease to the contrary, Landlord and Tenant each hereby waives any and all rights of recovery, claim, action, or cause of action against the other, its agents, employees, licensees, or invitees for any loss or damage to or at the Premises or the Project or any personal property of such party therein or thereon by reason of fire, the elements, or any other cause which would be insured against under the terms of (i) special causes of loss form property insurance or (ii) the liability insurance referred to in Section 13.2, to the extent of such insurance, regardless of cause or origin, including omission of the other party hereto, its agents, employees, licensees, or invitees. Landlord and Tenant covenant that no insurer shall hold any right of subrogation against either of such parties with respect thereto. This waiver shall be ineffective against any insurer of Landlord or Tenant to the extent that such waiver is prohibited by the laws and insurance regulations of the State of California. The parties hereto agree that any and all such insurance policies required to be carried by either shall be endorsed with a subrogation clause, substantially as follows: "This insurance shall not be invalidated should the insured waive, in writing prior to a loss, any and all right of recovery against any party for loss occurring to the property described therein, " and shall provide that such party's insurer waives any right of recovery against the other party in connection with any such loss or damage.

13.5 In the event Tenant's occupancy or conduct of business in or on the Premises, whether or not Landlord has consented to the same, results in any increase in premiums for the insurance carried from time to time by Landlord with respect to the Building, Tenant shall pay any such increase in premiums as Rent within ten (10) days after bills for such additional premiums shall be rendered by Landlord. In determining whether increased premiums are a result of Tenant's use or occupancy of the Premises, a schedule issued by the organization computing the insurance rate on the Building showing the various components of such rate, shall be conclusive evidence of the several items and charges which make up such rate. Tenant shall promptly comply with all reasonable requirements of the insurance authority or of any insurer now or hereafter in effect relating to the Premises.

ARTICLE 14 QUIET ENJOYMENT

14.1 Provided Tenant is not in default under this Lease after the expiration of any period for cure in the performance of all its obligations under this Lease, including, but not limited to, the payment of Rent and all other sums due hereunder, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term, without hindrance by Landlord, subject to the provisions and conditions set forth in this Lease.

ARTICLE 15 ALTERATIONS

15.1 Tenant agrees that it shall not make or allow to be made any alterations, physical additions, or improvements in or to the Premises without first obtaining the written consent of Landlord in each instance, which consent shall not be unreasonably withheld, conditioned or delayed. As used herein, the term "Minor Alteration" refers to an alteration that (a) does not affect the outside appearance of the Building and is not visible from the Common Areas,

(b) is non-structural and does not impair the strength or structural integrity of the Building, and (c) does not affect the mechanical, electrical, HVAC or other systems of the Building. Landlord agrees not to unreasonably withhold its consent to any Minor Alteration. Landlord's consent to any other alteration may be conditioned, given, or withheld in Landlord's reasonable discretion. Notwithstanding the foregoing, Landlord consents to any repainting, recarpeting, or other purely cosmetic changes or upgrades to the Premises, so long as (i) the aggregate cost of such work is less than \$100,000.00 in any twelve-month period, (ii) such work constitutes a Minor Alteration (iii) no building permit is required in connection therewith, and (iv) such work is comparable to the then existing Building standards. At the time of said request, Tenant shall submit to Landlord plans and specifications of the proposed alterations, additions, or improvements; and Landlord shall have a period of not more than thirty (30) days therefrom in which to review and reasonably approve or reasonably disapprove said plans; provided that if Landlord determines in good faith that Landlord requires a third party to assist in reviewing such plans and specifications, Landlord shall instead have a period of no more than sixty (60) days in which to review and approve or disapprove said plans. Tenant shall pay to Landlord upon demand the cost and expense of Landlord in (A) reviewing said plans and specifications, and

(B) inspecting the alterations, additions, or improvements to determine whether the same are being performed in accordance with the approved plans and specifications and all laws and requirements of public authorities, including, without limitation, the fees of any architect or engineer employed by Landlord for such purpose. In any instance where Landlord grants such consent, and permits Tenant to use its own contractors, laborers, materialmen, and others furnishing labor or materials for Tenant's construction (collectively, "Tenant's Contractors"), Landlord's consent shall be deemed conditioned upon each of Tenant's Contractors (1) working in harmony and not interfering with any laborer utilized by Landlord, Landlord's contractors, laborers, or materialmen; and (2) furnishing Landlord with evidence of acceptable liability insurance, worker's compensation coverage and if required by Landlord, completion bonding, and if at any time such entry by one or more persons furnishing labor or materials for Tenant's work shall cause such disharmony or interference, the consent granted by Landlord to Tenant may be withdrawn immediately upon written notice from Landlord to Tenant. If Tenant is using Tenant's Contractors for Tenant's construction, the contract with such Tenant's Contractor(s) shall provide for a guaranteed maximum price or a stipulated sum as the contract amount and shall be fully executed and delivered by Tenant and Tenant's Contractor(s) prior to the commencement of construction. Tenant, at its expense, shall obtain all necessary governmental permits and certificates for the commencement and prosecution of alterations, additions, or improvements and for final approval thereof upon completion, and shall cause any alterations, additions, or improvements to be performed in compliance therewith and with all Applicable Laws (including without limitation, California Energy Code, Title 24) and all requirements of public authorities and with all applicable requirements of insurance bodies. All alterations, additions, or improvements shall be diligently performed in a good and workmanlike manner, using new materials and equipment at least equal in quality and class to be better than (a) the original installations of the Building, or (b) the then standards for the Comparable Building. Upon the completion of work and upon request by Landlord, Tenant shall provide Landlord copies of all waivers or releases of lien from each of Tenant's Contractors. No alterations, modifications, or additions to the Project or the Premises shall be removed by Tenant either during the Term or upon the Expiration Date or the Termination Date without the express written approval of Landlord. Tenant shall not be entitled to any reimbursement or compensation resulting from its payment of the cost of constructing all or any portion of said

improvements or modifications thereto unless otherwise expressly agreed by Landlord in writing. Notwithstanding anything to the contrary in this Lease, Landlord shall be deemed to have acted reasonably in disapproving plans or designs if Landlord determines in good faith that the matter disapproved constitutes or would create a Design Problem (as defined below). As used herein, a "Design Problem" shall mean (i) adverse effect on the structural integrity of the Building; (ii) possible damage to the Building's systems; (iii) non-compliance with applicable codes; (iv) adverse effect on the exterior appearance of the Building; (v) creation of the potential for unusual expenses to be incurred upon the removal of the alteration or improvement and the restoration of the Premises upon termination of this Lease, unless Tenant agrees to pay for the incremental removal costs caused by the non-typical alterations; (vi) creation of the potential for unusual expenses to be incurred in connection with the maintenance by Landlord of the alteration or improvement, unless Tenant agrees to pay for the incremental maintenance costs caused by the non-typical alterations, (vii) a material effect any other tenant or occupant of the Building, (viii) creation of an obligation to make other alterations, additions or improvements to the Premises or Common Areas in order to comply with applicable laws (including, without limitation, the Americans with Disabilities Act), (ix) adverse effect on the LEED rating of the Building, or (x) creation of the potential for an increase in the premiums for property or liability insurance carried by Landlord, unless Tenant agrees to pay for the incremental increase in cost.

15.2 Landlord's approval of Tenant's plans for work shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules, and regulations of governmental agencies or authorities, including, but not limited to, the Americans with Disabilities Act. Landlord may, at its option, at Tenant's expense, require that Landlord's contractors be engaged for any work upon the integrated Building mechanical or electrical systems or other Building or leasehold improvements.

15.3 At least five (5) days prior to the commencement of any work permitted to be done by persons requested by Tenant on the Premises, Tenant shall notify Landlord of the proposed work and the names and addresses of Tenant's Contractors. During any such work on the Premises, Landlord, or its representatives, shall have the right to go upon and inspect the Premises at all reasonable times, and shall have the right to post and keep posted thereon building permits and notices of non-responsibility or to take any further action which Landlord reasonably deems to be proper for the protection of Landlord's interest in the Premises.

15.4 During such times as Tenant is performing work or having work or services performed in or to the Premises, Tenant shall require its contractors, and their subcontractors of all tiers, to obtain and maintain commercial general liability, automobile, workers compensation, employer's liability, builder's risk, and equipment/property insurance in such amounts and on such terms as are customarily required of such contractors and subcontractors on similar projects. The amounts and terms of all such insurance are subject to Landlord's written approval, which approval shall not be unreasonably withheld. The commercial general liability and auto insurance carried by Tenant's contractors and their subcontractors of all tiers pursuant to this section shall name Landlord, Landlord's managing agent, and such other persons as Landlord may reasonably request from time to time as additional insureds with respect to liability arising out of or related to their work or services (collectively, "Additional Insureds"). Such insurance shall provide primary coverage without contribution from any other insurance carried by or for the benefit of Landlord, Landlord's managing agent, or other Additional Insureds. Such insurance shall also waive any right of subrogation against each Additional Insured. Tenant shall obtain and submit to Landlord, prior

to the earlier of (i) the entry onto the Premises by such contractors or subcontractors or (ii) commencement of the work or services, certificates of insurance evidencing compliance with the requirements of this section. All of such alterations shall be insured by Tenant pursuant to Article 13 of this Lease immediately upon completion thereof.

15.5 Tenant's initial improvement of the Premises shall be governed by Exhibit C and not the provisions of this Article 15 (other than Section 15.4).

ARTICLE 16
FURNITURE, FIXTURES, AND PERSONAL PROPERTY

16.1 Tenant, at its sole cost and expense, may remove its trade fixtures, office supplies and moveable office furniture and equipment not attached to the Project or Premises provided:

- (a) Such removal is made prior to the Expiration Date or the Termination Date;
- (b) No Event of Default exists under this Lease at the time of such removal; and
- (c) Tenant promptly repairs all damage caused by such removal.

16.2 If Tenant does not remove its office supplies and moveable furniture and equipment as herein above provided prior to the Expiration Date or the Termination Date (unless prior arrangements have been made with Landlord and Landlord has agreed in writing to permit Tenant to leave such items in the Premises for an agreed period), then, in addition to its other remedies, at law or in equity, Landlord shall have the right to have such items removed and stored at Tenant's sole cost and expense and all damage to the Project or the Premises resulting from said removal shall be repaired at the cost of Tenant; Landlord may elect that such items automatically become the property of Landlord upon the Expiration Date or the Termination Date, and Tenant shall not have any further rights with respect thereto or reimbursement therefor subject to the provisions of Applicable Law. All other property in the Premises, any alterations, or additions to the Premises (including wall-to-wall carpeting, paneling, wall covering, specially constructed or built-in cabinetry or bookcases), and any other article attached or affixed to the floor, wall, or ceiling of the Premises shall become the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof at the Expiration or Termination Date regardless of who paid therefor; and Tenant hereby waives all rights to any payment or compensation therefor. If, however, Landlord so requests, in writing, Tenant shall remove, prior to the Expiration Date or the Termination Date, any and all alterations, additions, fixtures, equipment, and property placed or installed in the Premises by or on behalf of Tenant and shall repair any damage caused by such removal. Landlord shall notify Tenant at the time Landlord consents to any alteration whether or not such alteration will be required by Landlord to be removed or restored to Building standard condition at the end of the Term.

16.3 All the furnishings, fixtures, equipment, effects, and property of every kind, nature, and description of Tenant and of all persons claiming by, through, or under Tenant which, during the continuance of this Lease or any occupancy of the Premises by Tenant or anyone claiming under Tenant, may be on the Premises or elsewhere in the Project shall be at the sole risk and hazard of Tenant, and if the whole or any part thereof shall be destroyed or damaged by fire, water, or otherwise, or by the leakage or bursting of water pipes, steam pipes, or other pipes, by theft, or from any other cause, no part of said loss or damage is to be charged to or borne by Landlord unless due to the gross negligence or willful misconduct of Landlord or its employees, agents or contractors.

ARTICLE 17
PERSONAL PROPERTY AND OTHER TAXES

17.1 During the Term hereof, Tenant shall pay, prior to delinquency, all business and other taxes, charges, notes, duties, and assessments levied, and rates or fees imposed, charged, or assessed against or in respect of Tenant's occupancy of the Premises or in respect of the personal property, trade fixtures, furnishings, equipment, and all other personal and other property of Tenant contained in the Project (including without limitation taxes and assessments attributable to the cost or value of any leasehold improvements made in or to the Premises by or for Tenant (to the extent that the assessed value of those leasehold improvements exceeds the assessed value of standard office improvements in other space in the Project regardless of whether title to those improvements is vested in Tenant or Landlord)), and shall hold Landlord harmless from and against all payment of such taxes, charges, notes, duties, assessments, rates, and fees, and against all loss, costs, charges, notes, duties, assessments, rates, and fees, and any and all such taxes. Tenant shall cause said fixtures, furnishings, equipment, and other personal property to be assessed and billed separately from the real and personal property of Landlord. In the event any or all of Tenant's fixtures, furnishings, equipment, and other personal property shall be assessed and taxed with Landlord's real property, Tenant shall pay to Landlord Tenant's share of such taxes within ten (10) days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's property. In addition, Tenant shall be liable for and shall pay ten (10) days before delinquency any (i) rent tax, gross receipts tax, or sales tax, service tax, transfer tax or value added tax, or any other applicable tax on the rent or services herein or otherwise respecting this Lease; or (ii) taxes assessed upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion of the Project. If any of such taxes are billed to Landlord or included in bills to Landlord for taxes, then Tenant shall pay to Landlord all such amounts within fifteen (15) days after receipt of Landlord's invoice therefor.

ARTICLE 18
ASSIGNMENT AND SUBLETTING

18.1 Tenant shall not, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed beyond the express time periods provided for in this Article 18 (except that Landlord shall in no event be obligated to consent to an encumbrance of this Lease or any transfer by operation of law): (a) assign, convey, mortgage or otherwise transfer this Lease or any interest hereunder, or sublease the Premises, or any part thereof, whether voluntarily or by operation of law; or (b) permit the use of the Premises or any part thereof by any person other than Tenant and its employees. Any such transfer, sublease or use described in the preceding sentence (a "Transfer") occurring without the prior written consent of Landlord shall, at Landlord's option, be void and of no effect. Landlord's consent to any Transfer shall not constitute a waiver of Landlord's right to withhold its consent to any future Transfer. Landlord may require as a condition to its consent to any assignment of this Lease that the assignee execute an instrument in which such assignee assumes the remaining obligations of Tenant hereunder; provided that the acceptance of any assignment of this Lease by the applicable assignee shall automatically constitute the assumption by such assignee of all of the remaining obligations of Tenant that accrue following such assignment. The voluntary or other surrender of this Lease by Tenant or a mutual cancellation hereof shall not work a merger and shall, at the option of Landlord,

terminate all or any existing sublease or may, at the option of Landlord, operate as an assignment to Landlord of Tenant's interest in any or all such subleases.

18.2 For purposes of this Lease, the term "Transfer" shall also include (i) if a Tenant is a partnership or limited liability company, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, members or managers thereof, or transfer of twenty-five percent (25%) or more of partnership or membership interests therein within a twelve (12) month period, or the dissolution of the partnership or the limited liability company without immediate reconstitution thereof, and (ii) if Tenant is a corporation whose stock is not publicly held and not traded through an exchange or over the counter or any other form of entity, (A) the dissolution, merger, consolidation or other reorganization of Tenant, the sale or other transfer of more than an aggregate of fifty percent (50%) of the voting shares or other interests of or in Tenant (other than to immediate family members by reason of gift or death), within a twelve (12) month period, or (B) the sale, mortgage, hypothecation or pledge of more than an aggregate of fifty percent (50%) of the value of the unencumbered assets of Tenant within a twelve (12) month period.

18.3 If Tenant desires the consent of Landlord to a Transfer, Tenant shall submit to Landlord, at least thirty (30) days prior to the proposed effective date of the Transfer, a written notice (the "Transfer Notice") which includes (a) the name of the proposed sublessee or assignee, (b) the nature of the proposed sublessee's or assignee's business, (c) the terms and provisions of the proposed sublease or assignment, and (d) current financial statements and information on the proposed sublessee or assignee. Upon receipt of the Transfer Notice, Landlord may reasonably request additional information concerning the Transfer or the proposed sublessee or assignee (the "Additional Information"). Subject to Landlord's rights under Section 18.6, Landlord shall not unreasonably withhold its consent or delay beyond the express time periods provided for in this Article 18 to any assignment or sublease (excluding an encumbrance or transfer by operation of law), which consent or lack thereof shall be provided within thirty (30) days of receipt of Tenant's Transfer Notice; provided, however, Tenant hereby agrees that it shall be a reasonable basis for Landlord to withhold its consent if Landlord has not received the Additional Information requested by Landlord. Without limiting any other reasonable basis for Landlord to withhold its consent to the proposed Transfer, Landlord and Tenant agree that for purposes of this Lease and any Applicable Law, Landlord shall not be deemed to have unreasonably withheld its consent if, in the judgment of Landlord: (i) the transferee is of a character or engaged in a business which is not in keeping with the standards or criteria used by Landlord in leasing the Project, or the general character or quality of the Project; (ii) Landlord determines in good faith that the financial condition of the transferee is such that it may not be able to perform its obligations in connection with this Lease; (iii) the transferee, or any person or entity which directly or indirectly controls, is controlled by, or is under common control with, the transferee, is a tenant of or negotiating for space in the Project occupies space in the Project or has negotiated with Landlord within the preceding ninety (90) days (or is currently negotiating with Landlord) to lease space in the Project, (iv) the transferee has the power of eminent domain, is a governmental agency or an agency or subdivision of a foreign government; (v) an Event of Default by Tenant has occurred and is uncured at the time Tenant delivers the Transfer Notice to Landlord; (vi) in the judgment of Landlord, such a Transfer would violate any term, condition, covenant, or agreement of Landlord involving the Project or any other tenant's lease within it or would give an occupant of the Project a right to cancel or modify its lease; (vii) the rent advertised by Tenant in connection with such transferee, calculated using a present value analysis, was less than seventy percent (70%) of the rent being quoted by Landlord at

the time of such advertisement by Tenant for comparable space in the Project for a comparable term, calculated using a present value analysis; (viii) in Landlord's good faith judgment, the use of the Premises by the proposed transferee would not be comparable to the types of office use by other tenants in the Project, would result in more than a reasonable density of occupants per square foot of the Premises, would increase the burden on elevators or other Building systems or equipment over the burden thereon prior to the proposed Transfer, would require increased services by Landlord or would require any alterations to the Project to comply with applicable laws; (ix) the transferee intends to use the space for purposes which are not permitted under this Lease; (x) the terms of the proposed Transfer would allow the transferee to exercise a right of renewal, right of expansion, right of first offer, or other similar right held by Tenant (or will allow the transferee to occupy space leased by Tenant pursuant to any such right); (xi) the proposed Transfer would result in more than five subleases per each full floor of the Premises being in effect at any one time during the Term; or (xii) any ground lessor or mortgagee whose consent to such Transfer is required fails to consent thereto. Tenant hereby waives any right to terminate the Lease and/or recover damages as remedies for Landlord wrongfully withholding its consent to any Transfer and agrees that Tenant's sole and exclusive remedy therefor shall be to seek specific performance of Landlord's obligation to consent to such Transfer.

18.4 Landlord and Tenant agree that, in the event of any approved assignment or subletting, the rights of any such assignee or sublessee of Tenant herein shall be subject to all of the terms, conditions, and provisions of this Lease, including, without limitation, restriction on use, assignment, and subletting and the covenant to pay Rent. Landlord may collect the rent owing by the assignee or sublessee directly from such assignee or sublessee and apply the amount so collected to the Rent herein reserved. No such consent to or recognition of any such assignment or subletting shall constitute a release of Tenant or any guarantor of Tenant's performance hereunder from further performance by Tenant or such guarantor of covenants undertaken to be performed by Tenant herein. Tenant and any such guarantor shall remain liable and responsible for all Rent and other obligations herein imposed upon Tenant, and Landlord may condition its consent to any Transfer upon the receipt of a written reaffirmation from each such guarantor in a form acceptable to Landlord (which shall not be construed to imply that the occurrence of a Transfer without such a reaffirmation would operate to release any guarantor). Consent by Landlord to a particular assignment, sublease, or other transaction shall not be deemed a consent to any other or subsequent transaction. In any case where Tenant desires to assign, sublease or enter into any related or similar transaction, whether or not Landlord consents to such assignment, sublease, or other transaction, Tenant shall pay any reasonable attorneys' fees incurred by Landlord in connection with such assignment, sublease or other transaction, including, without limitation, fees incurred in reviewing documents relating to, or evidencing, said assignment, sublease, or other transaction. All documents utilized by Tenant to evidence any subletting or assignment for which Landlord's consent has been requested and is required hereunder, shall be subject to approval (not to be unreasonably withheld, conditioned or delayed) by Landlord or its attorney.

18.5 Tenant shall be bound and obligated to pay Landlord a portion of any sums or economic consideration payable to Tenant by any sublessee, assignee, licensee, or other transferee, within ten (10) days following receipt thereof by Tenant from such sublessee, assignee, licensee, or other transferee, as the case might be, as follows:

(a) In the case of an assignment, fifty percent (50%) of any sums or other economic consideration received by Tenant as a result of such assignment shall be paid to

Landlord, after first deducting reasonable costs incurred by Tenant in connection with the Transfer for the following: (i) broker fees, (ii) legal fees incurred in connection with the negotiation and documentation of the Transfer, (iii) accounting fees incurred in connection with the negotiation and documentation of the Transfer, (iv) costs of tenant improvements constructed by Tenant (with Landlord's prior consent) in connection with the Transfer (without reimbursement out of any allowance provided by Landlord), (v) reasonable tenant improvement allowances granted by Tenant (without reimbursement out of any allowance provided by Landlord), and (vi) reasonable rent abatements or concessions granted by Tenant (collective, the "Transaction Costs").

(b) In the case of a subletting, fifty percent (50%) of any sums or economic consideration received by Tenant as a result of such subletting shall be paid to Landlord after first deducting (i) the Rent due hereunder prorated to reflect only Rent allocable to the sublet portion of the Premises, and (ii) the Transaction Costs, which shall be amortized over the term of the sublease.

(c) Tenant shall provide Landlord with a detailed statement setting forth any sums or economic consideration Tenant either has or will derive from such Transfer, the deductions permitted under (a) and (b) of this Section 18.5, and the calculation of the amounts due Landlord under this Section 18.5. In addition, Landlord or its representative shall have the right at all reasonable times to audit the books and records of Tenant with respect to the calculation of the Transfer profits. If such inspection reveals that the amount paid to Landlord was incorrect, then within ten (10) days of Tenant's receipt of the results of such audit, Tenant shall pay Landlord the deficiency and the cost of Landlord's audit. If such inspection reveals that the amount paid to Landlord was incorrect and more than the amount Landlord was entitled to receive; then within ten (10) days of Landlord's receipt of said inspection results, Landlord shall pay to Tenant the overage.

18.6 If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, 11 U.S.C. Section 101 et seq. or any successor or substitute therefor (the "Bankruptcy Code"), any and all monies or other consideration payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord, and shall not constitute property of Tenant or of the estate of Tenant within the meaning of the Bankruptcy Code. Any such monies or other consideration not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and shall be promptly paid or delivered to Landlord. Any person or entity to whom this Lease is so assigned shall be deemed, without further act or deed, to have assumed all of the remaining obligations arising under this Lease as of the date of such assignment. Any such assignee shall, upon demand therefor, execute and deliver to Landlord an instrument confirming such assumption.

18.7 Landlord shall have the following option with respect to any assignment or subletting proposed by Tenant:

(a) Notwithstanding any other provision of this Article, Landlord has the option, by written notice to Tenant (the "Recapture Notice") within thirty (30) days after receiving any Transfer Notice to recapture the space covered by the proposed sublease or the entire Premises in the case of an assignment (the "Subject Space") by terminating this Lease for the Subject Space or taking an assignment or a sublease of the Subject Space

from Tenant; provided, however, such termination date shall either be (i) not less than ninety (90) calendar days following Landlord's notice to the Tenant, or (ii) the proposed effective date of the sublease or assignment, whichever is later. A timely Recapture Notice terminates this Lease or creates an assignment or a sublease for the Subject Space for the same term as the proposed Transfer, effective as of the date specified in the Transfer Notice. After such termination, Landlord may (but shall not be obligated to) enter into a lease with the party to the sublease or assignment proposed by Tenant.

(b) To determine the new Base Rent under this Lease in the event Landlord recaptures the Subject Space without terminating this Lease, the original Base Rent under the Lease shall be multiplied by a fraction, the numerator of which is the rentable square feet of the Premises retained by Tenant after Landlord's recapture and the denominator of which is the total rentable square feet in the Premises before Landlord's recapture. The Additional Rent, to the extent that it is calculated on the basis of the rentable square feet within the Premises, shall be reduced to reflect Tenant's proportionate share based on the rentable square feet of the Premises retained by Tenant after Landlord's recapture. This Lease as so amended shall continue thereafter in full force and effect. Either party may require a written confirmation of the amendments to this Lease necessitated by Landlord's recapture of the Subject Space. If Landlord recaptures the Subject Space, Landlord shall, at Landlord's sole expense, construct any partitions required to segregate the Subject Space from the remaining Premises retained by Tenant. Tenant shall, however, pay for painting, covering or otherwise decorating the surfaces of the partitions facing the remaining Premises retained by Tenant.

18.8 Notwithstanding the foregoing, Tenant may Transfer all or part of its interest in this Lease or all or part of the Premises (a "Permitted Transfer") to the following types of entities (a "Permitted Transferee") without the written consent of Landlord: (a) any parent, subsidiary or affiliate corporation which Controls (as defined below), is Controlled by or is under common Control with Tenant (collectively, an "Affiliate"); (b) any corporation, limited partnership, limited liability partnership, limited liability company or other business entity in which or with which Tenant, an Affiliate of Tenant, or their respective corporate successors or assigns, is merged or consolidated, in accordance with applicable statutory provisions governing merger and consolidation of business entities, so long as in both cases (a) and (b), (i) Tenant's obligations hereunder are assumed by the Permitted Transferee; and (ii) the Permitted Transferee satisfies the Net Worth Threshold as of the effective date of the Permitted Transfer; or (c) any corporation, limited partnership, limited liability partnership, limited liability company or other business entity which acquires all or substantially all of Tenant's assets and/or ownership interests, if the Transferee satisfies the Net Worth Threshold as of the effective date of the Transfer. Tenant shall notify Landlord in writing of any such Permitted Transfer. Tenant shall remain liable for the performance of all of the obligations of Tenant hereunder, or if Tenant no longer exists because of a merger, consolidation, or acquisition, the surviving or acquiring entity shall expressly assume in writing, the obligations of Tenant hereunder. Additionally, the Permitted Transferee shall comply with all of the terms and conditions of this Lease, whether accruing prior to and/or from and after the consummation of the Transfer. No later than ten (10) days prior to the effective date of any Permitted Transfer, Tenant agrees to furnish Landlord with (1) copies of the instrument effecting any of the foregoing Transfers, (2) documentation establishing Tenant's satisfaction of the requirements set forth above applicable to any such Transfer, and (3) evidence of insurance as required under this Lease with respect to the Permitted Transferee. The occurrence of a Permitted

Transfer shall not waive Landlord's rights as to any subsequent Transfers. As used herein, the term "Net Worth Threshold" shall mean the proposed Permitted Transferee has a tangible net worth equal to or greater than (x) that of Tenant immediately prior to such transaction, and (y) that of the originally named Tenant as of December 31 of the year prior to the Commencement Date (determined in accordance with generally accepted accounting principles consistently applied and excluding from the determination of total assets all assets which would be classified as intangible assets under generally accepted accounting principles, including, without limitation, goodwill, licenses, trademarks, trade names, copyrights and franchises), and as evidenced by financial statements audited by a certified public accounting firm reasonably acceptable to Landlord. The term "Control" shall mean the possession of the power to direct or cause the direction of the management and policy of such corporation, partnership, limited liability company or other entity, whether through the ownership of voting securities, by statute or by contract, and whether directly or indirectly through Affiliates. Notwithstanding the foregoing, if Tenant is prohibited by law or the terms of a binding confidentiality agreement from disclosing the existence of a potential Permitted Transfer, the ten (10) business day period as set forth above shall, instead, be five (5) business days after the earlier to occur of the closing of such Permitted Transfer and the date on which Tenant can legally disclose the Permitted Transfer to Landlord.

18.9 The provisions of Section 18.5 shall not apply to any assignment or subletting permitted without Landlord's consent pursuant to Section 18.8.

ARTICLE 19 DAMAGE OR DESTRUCTION

19.1 If the Premises or Building should be damaged or destroyed by fire or other casualty, Tenant shall give immediate written notice to Landlord. If the Premises or any common areas of the Building or Project serving or providing access to the Premises shall be damaged by fire or other casualty, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this Article 19, restore the base, shell, and core of the Premises and such common areas. Such restoration shall be to substantially the same condition of the base, shell, and core of the Premises and common areas prior to the casualty, except for modifications required by zoning and building codes and other laws or by the holder of a mortgage on the Project, or the lessor of a ground or underlying lease with respect to the Project and/or the Building, or any other modifications to the common areas deemed desirable by Landlord, provided access to the Premises and any common restrooms serving the Premises shall not be materially impaired. Landlord shall make commercially reasonable efforts to minimize, but shall not otherwise be liable for, any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof; provided however, that if such fire or other casualty shall have damaged the Premises or common areas necessary to Tenant's occupancy, and if such damage is not the result of the negligence or willful misconduct of Tenant or Tenant's employees, contractors, licensees, or invitees, Landlord shall allow Tenant a proportionate abatement of Base Rent and Tenant's Share of Operating Expenses and Tenant's Tax Share of Taxes to the extent Landlord is reimbursed from the proceeds of rental interruption insurance purchased by Landlord as part of Operating Expenses, during the time and to the extent the Premises are unfit for occupancy for the purposes permitted under this Lease, and not occupied by Tenant as a result thereof.

19.2 Notwithstanding the terms of Section 19.1 of this Lease, Landlord may elect not to rebuild and/or restore the Premises, the Building and/or any other portion of the Project and instead terminate this Lease by notifying Tenant in writing of such termination within sixty (60) days after the date of Landlord's discovery of such damage (the "Damage Discovery Date"), such notice to include a termination date giving Tenant one hundred twenty (120) days to vacate the Premises, but Landlord may so elect only if the Building shall be damaged by fire or other casualty or cause, whether or not the Premises are affected, and one or more of the following conditions is present: (i) repairs cannot reasonably be completed within one hundred eighty (180) days of the Damage Discovery Date (when such repairs are made without the payment of overtime or other premiums); (ii) the holder of any mortgage on the Project or ground or underlying lessor with respect to the Project and/or the Building shall require that the insurance proceeds or any portion thereof be used to retire the mortgage debt, or shall terminate the ground or underlying lease, as the case may be; or (iii) the damage is not fully covered (except for deductible amounts in the case of a casualty other than earthquake or flood) by Landlord's insurance policies. In addition, if the Premises or the Building is destroyed or damaged to any substantial extent during the last twelve (12) months of the Term, then notwithstanding anything contained in this Article 19, Landlord shall have the option to terminate this Lease by giving written notice to Tenant of the exercise of such option within thirty (30) days after the Damage Discovery Date, in which event this Lease shall cease and terminate as of the date of such notice. Upon any such termination of this Lease pursuant to this Section 19.2, Tenant shall pay the Base Rent and Additional Rent, properly apportioned up to such date of termination (subject to any abatement under Section 19.1), and both parties hereto shall thereafter be freed and discharged of all further obligations hereunder, except as provided for in provisions of this Lease which by their terms survive the expiration or earlier termination of the Term.

19.3 If there is an occurrence of any damage to the Premises that does not result in the termination of this Lease pursuant to this Article 19, then upon notice (the "Landlord Repair Notice") to Tenant from Landlord, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under Sections 13.2(e)(ii) and (iii) above with respect to any improvements in the Premises required to be insured by Tenant hereunder (excluding proceeds for Tenant's Property), and Landlord shall repair any injury or damage to the Tenant Improvements, alterations, finishes and the Original Improvements installed in the Premises and shall return such Tenant Improvements, alterations, finishes and Original Improvements to their original condition; provided that if the cost of such repair by Landlord exceeds the sum of (A) amount of insurance proceeds received by Landlord from Tenant's insurance carrier, as assigned by Tenant, plus

(B) any insurance proceeds received by Landlord with respect to such Tenant Improvements, alterations, finishes and Original Improvements (it being acknowledged and agreed that Tenant's insurance as to the Tenant Improvements, alterations, finishes and Original Improvements is primary in nature and Landlord's insurance, if any, with respect to same is secondary in nature), the cost of such repairs shall be paid by Tenant to Landlord prior to Landlord's commencement of repair of the damage. In the event that Landlord does not deliver the Landlord Repair Notice within forty-five (45) days following the Damage Discovery Date, Tenant shall, at its sole cost and expense, repair any injury or damage to the Tenant Improvements, alterations, finishes and the Original Improvements installed in the Premises and shall return such Tenant Improvements, alterations, finishes and Original Improvements to their original condition.

Whether or not Landlord delivers a Landlord Repair Notice, prior to the commencement of construction, Tenant shall submit to Landlord, for Landlord's reasonable review and reasonable approval, all plans, specifications and working drawings relating thereto, and Tenant shall select the contractors to perform such improvement work, subject to Landlord's prior approval. Notwithstanding anything to the contrary in this Lease, Landlord shall be deemed to have acted reasonably in disapproving plans, specifications or working drawings if Landlord determines in good faith that the matter disapproved constitutes or would create a Design Problem.

19.4 In the event this Lease is terminated in accordance with the terms of this Article 19, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under Sections 13.2(e)(ii) and (iii), after Tenant recaptures any out of pocket expenses actually incurred by Tenant as a result of said damage to, or destruction of, all or any portion of the Premises or the Building.

19.5 The provisions of this Lease, including this Article 19, constitute an express agreement between Landlord and Tenant with respect to damage to, or destruction of, all or any portion of the Premises or the Project, and any statute or regulation of the State of California, including without limitation Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties (and any other statute or regulation now or hereafter in effect with respect to such rights or obligations), shall have no application to this Lease or to any damage or destruction to all or any portion of the Premises or the Project.

ARTICLE 20 CONDEMNATION

20.1 If all of the Premises is condemned by eminent domain, inversely condemned or sold under threat of condemnation for any public or quasi-public use or purpose ("Condemned"), this Lease shall terminate as of the earlier of the date the condemning authority takes title to or possession of the Premises, and Rent shall be adjusted to the date of termination.

20.2 If any portion of the Premises or Building is condemned and such partial condemnation materially impairs Tenant's ability to use the Premises for Tenant's business as reasonably determined by Landlord, Landlord shall have the option in Landlord's sole and absolute discretion of either (i) relocating Tenant to comparable space within the Project or

(ii) terminate this Lease as of the earlier of the date title vests in the condemning authority or as of the date an order of immediate possession is issued and Rent shall be adjusted to the date of termination. If such partial condemnation does not materially impair Tenant's ability to use the Premises for the business of Tenant, Landlord shall promptly restore the Premises to the extent of any condemnation proceeds recovered by Landlord, excluding the portion thereof lost in such condemnation, and this Lease shall continue in full force and effect except that after the date of such title vesting or order of immediate possession Rent shall be adjusted as reasonably determined by Landlord.

20.3 If the Premises are wholly or partially condemned, Landlord shall be entitled to the entire award paid for such condemnation, and Tenant waives any claim to any part of the

award from Landlord or the condemning authority; provided, however, Tenant shall have the right to recover from the condemning authority such compensation as may be separately awarded to Tenant in connection with costs in removing Tenant's merchandise, furniture, fixtures, the unamortized cost of any leasehold improvements and equipment to a new location. No condemnation of any kind shall be construed to constitute an actual or constructive eviction of Tenant or a breach of any express or implied covenant of quiet enjoyment. Tenant hereby waives the effect of Sections 1265.120 and 1265.130 of the California Code of Civil Procedure.

20.4 In the event of a temporary condemnation not extending beyond the Term, this Lease shall remain in effect, Tenant shall continue to pay Rent and Tenant shall receive any award made for such condemnation except damages to any of Landlord's property. If a temporary condemnation is for a period which extends beyond the Term, this Lease shall terminate as of the date of initial occupancy by the condemning authority and any such award shall be distributed in accordance with the preceding section. If a temporary condemnation remains in effect at the expiration or earlier termination of this Lease, Tenant shall pay Landlord the reasonable cost of performing any obligations required of Tenant with respect to the surrender of the Premises.

ARTICLE 21
HOLD HARMLESS

21.1 Tenant agrees to defend, with counsel reasonably approved by Landlord, all actions against Landlord, any member, partner, trustee, stockholder, officer, director, employee, or beneficiary of Landlord (collectively, "Landlord Parties"), holders of mortgages secured by the Premises or the Project and any other party having an interest therein (collectively with Landlord Parties, the "Indemnified Parties") with respect to, and to pay, protect, indemnify, and save harmless, to the extent permitted by law, all Indemnified Parties from and against, any and all liabilities, losses, damages, costs, expenses (including reasonable attorneys' fees and expenses), causes of action, suits, claims, demands, or judgments of any nature to which any Indemnified Party is subject because of its estate or interest in the Premises or the Project arising from (a) injury to or death of any person, or damage to or loss of property on the Premises, except to the extent, if any, caused by the gross negligence or willful misconduct of Landlord or its employees, contractors or agents or Landlord's failure to perform its obligations under this Lease, (b) any violation of this Lease by or attributable to Tenant, or (c) subject to Section 13.4, any act, fault, omission, or other misconduct of Tenant or its agents, contractors, licensees, sublessees, or invitees. Tenant agrees to use and occupy the Premises and other facilities of the Project at its own risk, and hereby releases the Indemnified Parties from any and all claims for any damage or injury to the fullest extent permitted by law.

21.2 Tenant agrees that Landlord shall not be responsible or liable to Tenant, its agents, employees, or invitees for fatal or non-fatal bodily injury or property damage occasioned by the acts or omissions of any other tenant, or such other tenant's agents, employees, licensees, or invitees, of the Project. Landlord shall not be liable to Tenant for losses to property due to theft or burglary, or damages from criminal acts, done by any persons on the Project other than Landlord or its employees or agents.

21.3 Subject to Section 13.4, Landlord shall indemnify and hold harmless Tenant and its agents, directors, officers, shareholders, partners, members, employees and invitees, from all liability for any loss of or damage or injury to any person (including death resulting therefrom) or property occurring in, on or about the Project excluding the Premises, to the extent arising from the negligence or willful misconduct of Landlord or Landlord's employees, agents, or contractors and not insured (or required to be insured) by Tenant under this Lease (provided, however, that Landlord's indemnity shall, in no event, extend to loss of profits, loss of business or other consequential damages incurred by Tenant).

ARTICLE 22
DEFAULT BY TENANT

22.1 The term "Event of Default" refers to the occurrence of any one (1) or more of the following:

(a) Failure of Tenant to pay when due any sum required to be paid hereunder (the "Monetary Default") within five (5) days of receipt of written notice from Landlord; provided, however, that after the first failure to pay any sum required to be paid hereunder in any twelve (12) month period, in the event that Tenant fails a second time to pay when due any sum required to be paid hereunder during such twelve (12) month

period, such failure shall be deemed to automatically constitute a Monetary Default without any obligation on Landlord to provide any additional written notice, and provided further that Tenant acknowledges that any such written notice provided hereunder shall be in lieu of, and not in addition to, any notice to pay rent or quit pursuant to any applicable statutes;

(b) Failure of Tenant, after fifteen (15) days written notice thereof, to perform any of Tenant's obligations, covenants, or agreements except a Monetary Default, provided that if the cure of any such failure is not reasonably susceptible of performance within such fifteen (15) day period, then an Event of Default of Tenant shall not be deemed to have occurred so long as Tenant has promptly commenced and thereafter diligently prosecutes such cure to completion and completes that cure within thirty (30) days;

(c) Tenant, or any guarantor of Tenant's obligations under this Lease (the "Guarantor"), admits in writing that it cannot meet its obligations as they become due; or is declared insolvent according to any law; or assignment of Tenant's or Guarantor's property is made for the benefit of creditors; or a receiver or trustee is appointed for Tenant or Guarantor or its property; or the interest of Tenant or Guarantor under this Lease is levied on under execution or other legal process; or any petition is filed by or against Tenant or Guarantor to declare Tenant bankrupt or to delay, reduce, or modify Tenant's debts or obligations; or any petition filed or other action taken to reorganize or modify Tenant's or Guarantor's capital structure if Tenant is a corporation or other entity. Any such levy, execution, legal process, or petition filed against Tenant or Guarantor shall not constitute a breach of this Lease provided Tenant or Guarantor shall vigorously contest the same by appropriate proceedings and shall remove or vacate the same within ninety (90) days from the date of its creation, service, or filing;

(d) The abandonment (as defined in California Civil Code section 1951.3) of the Premises by Tenant;

(e) The discovery by Landlord that any financial statement given by Tenant or any of its assignees, subtenants, successors-in-interest, or Guarantors was materially false; or

(f) If Tenant or any Guarantor shall die, cease to exist as a corporation or partnership, or be otherwise dissolved or liquidated (except to the extent the same is a Permitted Transfer) or become insolvent, or shall make a transfer in fraud of creditors.

22.2 In the event of any Event of Default by Tenant, Landlord, at its option, may pursue one or more of the following remedies without notice or demand in addition to all other rights and remedies provided for at law or in equity:

(a) Landlord may continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate Tenant's right to possession, and Landlord shall have the right to collect Rent when due. Landlord may enter the Premises and relet it, or any part of it, to third parties for Tenant's account, provided that any Rent in excess of the Rent due hereunder shall be payable to Landlord. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in

reletting the Premises, including, without limitation, brokers' commissions, expenses of cleaning and redecorating the Premises required by the reletting and like costs. Reletting may be for a period shorter or longer than the remaining Term of this Lease. Tenant shall pay to Landlord the Rent and other sums due under this Lease on the dates the Rent is due, less the Rent and other sums Landlord receives from any reletting. No act by Landlord allowed by this Section 22.2(a) shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease.

"The lessor has the remedy described in Civil Code Section 1951.4 (lessor may continue the lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign subject only to reasonable limitations)."

(b) Landlord may terminate Tenant's right to possession of the Premises at any time by giving written notice to that effect. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. On termination, Landlord shall have the right to remove all personal property of Tenant and store it at Tenant's cost and to recover from Tenant as damages:

(i) the worth at the time of award of unpaid Rent and other sums due and payable which had been earned at the time of termination; plus (ii) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable which would have been payable after termination until the time of award exceeds the amount of the Rent loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable for the balance of the Term after the time of award exceeds the amount of the Rent loss that Tenant proves could be reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which, in the ordinary course of things, would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord: (A) in retaking possession of the Premises, including reasonable attorneys' fees and costs therefor; (B) maintaining or preserving the Premises for reletting to a new tenant, including repairs or alterations to the Premises for the reletting;

(C) leasing commissions; (D) any other costs necessary or appropriate to relet the Premises; and (E) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of California.

The "worth at the time of award" of the amounts referred to in Sections 22.2(b)(i) and 22.2(b)(ii) shall be calculated by allowing interest at the lesser of twelve percent (12%) per annum or the maximum rate permitted by law, on the unpaid Rent and other sums due and payable from the termination date through the date of award. The "worth at the time of award" of the amount referred to in Section 22.2(b)(iii) shall be calculated by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and

1179, or under any other present or future law, if Tenant is evicted or Landlord takes possession of the Premises by reason of any Event of Default by Tenant.

22.3 If Landlord shall exercise any one or more remedies hereunder granted or otherwise available, it shall not be deemed to be an acceptance or surrender of the Premises by Tenant whether by agreement or by operation of law; it is understood that such surrender can be effected only by the written agreement of Landlord and Tenant. No alteration of security devices and no removal or other exercise of dominion by Landlord over the property of Tenant or others in the Premises shall be deemed unauthorized or constitute a conversion, Tenant hereby consenting to the aforesaid exercise of dominion over Tenant's property within the Premises after any Event of Default.

22.4 Each right and remedy provided for in this Lease shall be cumulative and shall be in addition to every other right or remedy provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise, including, but not limited to, suits for injunctive relief and specific performance. The exercise or beginning of the exercise by Landlord of any one or more of the rights or remedies provided for in this Lease or now or hereafter existing at law or in equity, or by statute or otherwise shall not preclude the simultaneous or later exercise by Landlord for any or all other rights or remedies provided for in this Lease or now or hereafter existing at or in equity or by statute or otherwise. All such rights and remedies shall be considered cumulative and non-exclusive. All costs incurred by Landlord in connection with collecting any Rent or other amounts and damages owing by Tenant pursuant to the provisions of this Lease, or to enforce any provision of this Lease, including reasonable attorneys' fees from the date such matter is turned over to an attorney, whether or not one or more actions are commenced by Landlord, shall also be recoverable by Landlord from Tenant. If any notice and grace period required under subparagraphs 22.1(a) or (b) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Tenant under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by subparagraphs 22.1(a) or (b). In such case, the applicable grace period under subparagraphs 22.1(a) or (b) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Tenant to cure the default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and an Event of Default entitling Landlord to the remedies provided for in this Lease and/or by said statute.

22.5 If Tenant should fail to make any payment or cure any default hereunder within the time herein permitted and such failure constitutes an Event of Default (except in the case where if Landlord reasonably and in good faith believes that action prior to the expiration of any cure period under Section 22.1 is necessary to prevent damage to persons or property, in which case Landlord may act without waiting for such cure period to expire), Landlord, without being under any obligation to do so and without thereby waiving such default, may make such payment and/or remedy such default for the account of Tenant (and enter the Premises for such purpose), and thereupon, Tenant shall be obligated and hereby agrees to pay Landlord, upon demand, all reasonable costs, expenses, and disbursements, plus ten percent (10%) overhead cost incurred by Landlord in connection therewith.

22.6 In addition to Landlord's rights set forth above, if Tenant fails to pay its Rent or any other amounts owing hereunder on the due date thereof, after expiration of any applicable grace period, more than two (2) times during any calendar year during the Term, then upon the

occurrence of the third or any subsequent default in the payment of monies during said calendar year, Landlord, at its sole option, shall have the right to require that Tenant, as a condition precedent to curing such default, pay to Landlord, in check or money order, in advance, the Rent and Landlord's estimate of all other amounts which will become due and owing hereunder by Tenant for a period of two (2) months following said cure. All such amounts shall be paid by Tenant within thirty (30) days after notice from Landlord demanding the same. All monies so paid shall be retained by Landlord, without interest, for the balance of the Term and any extension thereof, and shall be applied by Landlord to the last due amounts owing hereunder by Tenant. If, however, Landlord's estimate of the Rent and other amounts for which Tenant is responsible hereunder are inaccurate, when such error is discovered, Landlord shall pay to Tenant, or Tenant shall pay to Landlord, within thirty (30) days after written notice thereof, the excess or deficiency, as the case may be, which is required to reconcile the amount on deposit with Landlord with the actual amounts for which Tenant is responsible.

22.7 Nothing contained in this Article 22 shall limit or prejudice the right of Landlord to prove and obtain as damages in any bankruptcy, insolvency, receivership, reorganization, or dissolution proceeding, an amount equal to the maximum allowed by any statute or rule of law governing such a proceeding and in effect at the time when such damages are to be proved, whether or not such amount be greater, equal, or less than the amounts recoverable, either as damages or Rent, referred to in any of the preceding provisions of this Article 22. Notwithstanding anything contained in this Article to the contrary, any such proceeding or action involving bankruptcy, insolvency, reorganization, arrangement, assignment for the benefit of creditors, or appointment of a receiver or trustee, as set forth above, shall be considered to be an Event of Default only when such proceeding, action, or remedy shall be taken or brought by or against the then holder of the leasehold estate under this Lease.

22.8 Landlord is entitled to accept, receive, in check or money order, and deposit any payment made by Tenant for any reason or purpose or in any amount whatsoever, and apply them at Landlord's option to any obligation of Tenant, and such amounts shall not constitute payment of any amount owed, except that to which Landlord has applied them. No endorsement or statement on any check or letter of Tenant shall be deemed an accord and satisfaction or recognized for any purpose whatsoever. The acceptance of any such check or payment shall be without prejudice to Landlord's rights to recover any and all amounts owed by Tenant hereunder and shall not be deemed to cure any other default nor prejudice Landlord's rights to pursue any other available remedy. Landlord's acceptance of partial payment of Rent does not constitute a waiver of any rights, including without limitation any right Landlord may have to recover possession of the Premises.

22.9 In the event that Tenant's right of possession of the Premises is terminated prior to the end of the initial Term by reason of an Event of Default by Tenant, then immediately upon such termination, an amount shall be due and payable by Tenant to Landlord equal to the unamortized portion as of that date (which amortization shall be based on an interest rate of eleven percent (11%) per annum) of the sum of (a) the cost of Landlord's Work (if any), (b) the Allowance (if any), (c) the value of any free Base Rent (i.e., the Base Rent stated in this Lease to be abated as an inducement to Tenant's entering into this Lease) enjoyed as of that date by Tenant, and (d) the amount of all commissions paid by Landlord in order to procure this Lease.

22.10 Tenant waives the right to terminate this Lease on Landlord's default under this Lease. Tenant's sole remedy on Landlord's default is an action for damages or injunctive or declaratory relief. Landlord's failure to perform any of its obligations under this Lease shall constitute a default by Landlord under this Lease if the failure continues for thirty (30) days after written notice of the failure from Tenant to Landlord. If the required performance cannot be completed within thirty (30) days, Landlord's failure to perform shall constitute a default under the Lease unless Landlord undertakes to cure the failure within thirty (30) days and diligently and continuously attempts to complete this cure as soon as reasonably possible. All obligations of each party hereunder shall be construed as covenants, not conditions.

ARTICLE 23
INTENTIONALLY OMITTED

ARTICLE 24
RIGHT TO RELOCATE

24.1 Notwithstanding anything herein to the contrary, during the first twenty- four (24) months after the Commencement Date and provided Tenant shall not have exercised Tenant's rights under Article 54 to lease all of Suite 1000 in the Building prior to Landlord's exercise of its rights under this Section 24.1, Landlord shall, in all cases, retain the one-time right and power to relocate Tenant upon ninety (90) days' written notice to other space in the Project in such space which is: (i) the same or larger in size, (ii) has comparable improvements, layout and design (including without limitation the network center existing in the original Premises, and any existing Tenant supplemental HVAC and Meco shades), (iii) is located on the third floor or higher, and (iv) is suited to Tenant's use, such right and power to be exercised reasonably. Landlord may only exercise its right to relocate Tenant in order to accommodate another tenant in the Building leasing at least 50,000 square feet of rentable area. Landlord shall not be liable or responsible for any claims, damages, or liabilities in connection with, or occasioned by such relocation, except to the extent expressly provided in this Section 24.1. If Landlord shall exercise said option, the substituted premises shall thereafter be deemed for the purposes hereof the "Premises" hereunder, and a new amended Exhibits A and B showing the new Premises and Project will be substituted for the original Exhibits A and B attached hereto and there shall be no increase in Rent resulting from such relocation. Landlord agrees to pay all Tenant's reasonable expenses incurred as a result of the relocation, including without limitation all costs incurred in changing addresses on stationery, business cards, and other such items and all costs to move Tenant's furniture, fixtures and equipment to such substituted Premises. In addition, Landlord shall provide Tenant with a Base Rent abatement with respect to three (3) months of Base Rent first coming due after the relocation of Tenant to the new Premises. For clarity, the three (3) months of Base Rent abatement provided for in this Section 24.1 is in addition to any rent credit to which Tenant is entitled under Section 2.1 of the Tenant Work Letter.

ARTICLE 25
ATTORNEYS' FEES

25.1 All costs and expenses, including reasonable attorneys' fees (whether or not legal proceedings are instituted), involved in collecting rents, enforcing the obligations of Tenant, or protecting the rights or interests of Landlord under this Lease, whether or not an action is filed, including without limitation the cost and expense of instituting and prosecuting legal proceedings or recovering possession of the Premises after default by Tenant or upon expiration or sooner termination of this Lease, shall be due and payable by Tenant on demand, as Additional Rent. In addition, and notwithstanding the foregoing, if either party hereto shall file any action or bring any proceeding against the other party arising out of this Lease or for the declaration of any rights hereunder, the prevailing party in such action shall be entitled to recover from the other party all costs and expenses, including reasonable attorneys' fees incurred by the prevailing party, as determined by the trier of fact in such legal proceeding. For purposes of this provision, the terms "attorneys' fees" or "attorneys' fees and costs," or "costs and expenses" shall mean the fees and expenses of legal counsel (including external counsel and in-house counsel) of the parties hereto, which include printing, photocopying, duplicating, mail, overnight mail, messenger, court filing

fees, costs of discovery, and fees billed for law clerks, paralegals, investigators, expert witnesses, and other persons not admitted to the bar for performing services under the supervision and direction of an attorney. For purposes of determining in-house counsel fees, the same shall be considered as those fees normally applicable to a partner in a law firm with like experience in such field. In addition, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs incurred in enforcing any judgment arising from a suit or proceeding under this Lease, including without limitation post-judgment motions, contempt proceedings, garnishment, levy and debtor and third party examinations, discovery and bankruptcy litigation, without regard to schedule or rule of court purporting to restrict such award. This post-judgment award of attorneys' fees and costs provision shall be severable from any other provision of this Lease and shall survive any judgment/award on such suit or arbitration and is not to be deemed merged into the judgment/award or terminated with the Lease.

ARTICLE 26 NON-WAIVER

26.1 Neither acceptance of any payment by Landlord from Tenant nor, failure by Landlord to complain of any action, non-action, or an Event of Default of Tenant shall constitute a waiver of any of Landlord's rights hereunder. Time is of the essence with respect to the performance of every obligation of each party under this Lease in which time of performance is a factor. Waiver by either party of any right or remedy arising in connection with any default of the other party shall not constitute a waiver of such right or remedy or any other right or remedy arising in connection with either a subsequent Event of Default of the same obligation or any other Event of Default. No right or remedy of either party hereunder or covenant, duty, or obligation of any party hereunder shall be deemed waived by the other party unless such waiver is in writing, signed by the other party or the other party's duly authorized agent.

ARTICLE 27 RULES AND REGULATIONS

27.1 Such reasonable rules and regulations applying to all lessees in the Project for the safety, care, and cleanliness of the Project and the preservation of good order thereon are hereby made a part hereof as Exhibit D, and Tenant agrees to comply with all such rules and regulations. Landlord shall have the right at all times to change such rules and regulations or to amend them in any reasonable and non-discriminatory manner as may be deemed advisable by Landlord, all of which changes and amendments shall be sent by Landlord to Tenant in writing and shall be thereafter carried out and observed by Tenant. Landlord shall not have any liability to Tenant for any failure of any other lessees of the Project to comply with such rules and regulations.

ARTICLE 28 ASSIGNMENT BY LANDLORD; RIGHT TO LEASE

28.1 Landlord shall have the right to transfer or assign, in whole or in part, all its rights and obligations hereunder and in the Premises and the Project. In such event, no liability or obligation shall accrue or be charged to Landlord with respect to the period from and after such transfer or assignment and assumption of Landlord's obligations by the transferee or assignee.

28.2 Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Buildings or Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Buildings or Project.

ARTICLE 29 LIABILITY OF LANDLORD

29.1 It is expressly understood and agreed that the obligations of Landlord under this Lease shall be binding upon Landlord and its successors and assigns and any future owner of the Project only with respect to events occurring during its and their respective ownership of the Project. In addition, Tenant agrees to look solely to Landlord's interest in the Project (and any cash and other personal property assets of Landlord, including rents and insurance proceeds then held by Landlord) for recovery of any judgment against Landlord arising in connection with this Lease, it being agreed that neither Landlord nor any successor or assign of Landlord nor any future owner of the Project, nor any partner, shareholder, member, or officer of any of the foregoing shall ever be personally liable for any such judgment. The limitations of liability contained in this Section 29.1 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), or trustee or beneficiary (if Landlord or any partner of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for any indirect or consequential damages or any injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring.

29.2 Solely with respect to the original Tenant and any Permitted Transferee, no party other than the original Tenant entity and any Permitted Transferee entity itself shall be personally liable for any obligation of Tenant under this Lease, including but not limited to, any employee, principal, agent, signatory or the like. Notwithstanding any contrary provision herein, Tenant shall not be liable under any circumstances for any indirect or consequential damages or any injury or damage to, or interference with, Landlord's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring, except as specifically provided in Article 31; provided that Tenant hereby acknowledges and agrees that the foregoing shall not prevent Landlord from recovering any and all damages to which Landlord is entitled pursuant to California Civil Code Sections 1951.2 and 1951.4 following an Event of Default by Tenant hereunder.

ARTICLE 30
SUBORDINATION AND ATTORNMENT

30.1 This Lease, at Landlord's option, shall be subordinate to any present or future mortgage, ground lease or declaration of covenants regarding maintenance and use of any areas contained in any portion of the Building, and to any and all advances made under any present or future mortgage and to all renewals, modifications, consolidations, replacements, and extensions of any or all of same. Tenant agrees, with respect to any of the foregoing documents, that no documentation other than this Lease shall be required to evidence such subordination. If any holder of a mortgage shall elect for this Lease to be superior to the lien of its mortgage and shall give written notice thereof to Tenant, then this Lease shall automatically be deemed prior to such mortgage whether this Lease is dated earlier or later than the date of said mortgage or the date of recording thereof. Tenant agrees to execute such documents as may be further required to evidence such subordination or to make this Lease prior to the lien of any mortgage or deed of trust, as the case may be, and by failing to do so within five (5) days after written demand, Tenant does hereby make, constitute, and irrevocably appoint Landlord as Tenant's attorney-in- fact and in Tenant's name, place, and stead, to do so. This power of attorney is coupled with an interest. Tenant hereby attorns to all successor owners of the Building, whether or not such ownership is acquired as a result of a sale through foreclosure or otherwise. As of the date of this Lease, there is no (a) deed of trust or mortgage encumbering the Project or (b) ground lease affecting the Building.

30.2 Tenant shall, at such time or times as Landlord may request, upon not less than ten (10) days' prior written request by Landlord, sign and deliver to Landlord a true and correct estoppel certificate, which shall be substantially in the form of Exhibit E, attached hereto (or such other commercially reasonable form as may be required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time, and shall also contain such other information and agreements as may be reasonably requested, it being intended that any such statement delivered pursuant to this Article may be relied upon by Landlord and by any prospective purchaser of all or any portion of the Project, or a holder or prospective holder of any mortgage encumbering the Project, or any portion thereof. Tenant's failure to deliver such statement within five (5) days after Landlord's second written request therefor shall constitute an Event of Default (as that term is defined elsewhere in this Lease) and shall conclusively be deemed to be an admission by Tenant of the matters set forth in the request for an estoppel certificate.

30.3 Tenant shall deliver to Landlord prior to the execution of this Lease and thereafter at any time upon Landlord's request, Tenant's current audited financial statements, including a balance sheet and profit and loss statement for the most recent prior year (collectively, the "Statements"), which Statements shall accurately and completely reflect the financial condition of Tenant. Landlord shall have the right to deliver the same to any proposed purchaser of the Building or the Project, and to any encumbrancer of all or any portion of the Building or the Project. Notwithstanding the foregoing, if (i) Tenant is required to file reports under the Securities Exchange Act of 1934, as amended, (ii) Tenant is current in its reporting obligations thereunder, and (iii) the reports required by such act are available to the public, including Landlord, then Tenant shall not be obligated to provide Landlord with financial statements pursuant to this Section 30.3.

30.4 Tenant acknowledges that Landlord is relying on the Statements in its determination to enter into this Lease, and Tenant represents to Landlord, which representation shall be deemed made on the date of this Lease and again on the Commencement Date, that no material change in the financial condition of Tenant, as reflected in the Statements, has occurred since the date Tenant delivered the Statements to Landlord. The Statements are represented and warranted by Tenant to be correct and to accurately and fully reflect Tenant's true financial condition as of the date of submission of any Statements to Landlord.

30.5 Landlord agrees to use commercially reasonable efforts to deliver to Tenant from any future mortgagee or beneficiary a written subordination and non-disturbance agreement in recordable form acceptable to such mortgagee or beneficiary in its reasonable discretion providing that so long as Tenant performs all of the terms of this Lease, Tenant's possession under this Lease shall not be disturbed and Tenant shall not be joined by the holder of any mortgage or deed of trust in any action or proceeding to foreclose thereunder, except where such is necessary for jurisdictional or procedural reasons. "Commercially reasonable efforts" of Landlord shall not require Landlord to incur any fees or review costs charged by such mortgagee or beneficiary to obtain such agreement, it being agreed that Tenant shall be responsible for any fee or review costs charged by such mortgagee or beneficiary. Landlord's failure to obtain a non-disturbance, subordination and attornment agreement for Tenant shall have no effect on the rights, obligations and liabilities of Landlord and Tenant or be considered to be a default by Landlord hereunder.

ARTICLE 31 HOLDING OVER

31.1 In the event Tenant, or any party claiming under Tenant, retains possession of the Premises after the Expiration Date or Termination Date, such possession shall be that of a tenant at sufferance and an unlawful detainer. No tenancy or interest shall result from such possession, and such parties shall be subject to immediate eviction and removal. Tenant or any such party shall pay Landlord, as Base Rent for the period of such holdover, a monthly amount equal to one hundred fifty percent (150%) of (a) the Base Rent for the last period prior to the date of such termination plus (b) Additional Rent attributable to Operating Expenses and Taxes as provided in Article 5 of this Lease during the time of holdover, together with all other Additional Rent and other amounts payable pursuant to the terms of this Lease. Such tenancy at sufferance shall be subject to every other applicable term, covenant and agreement contained herein. Tenant shall also be liable for any and all damages sustained by Landlord as a result of such holdover. Tenant shall vacate the Premises and deliver same to Landlord immediately upon Tenant's receipt of notice from Landlord to so vacate. The Rent during such holdover period shall be payable to Landlord on demand. Landlord's acceptance of Rent if and after Tenant holds over shall not convert Tenant's tenancy at sufferance to any other form of tenancy or result in a renewal or extension of the Term of this Lease, unless otherwise specified by notice from Landlord to Tenant.

ARTICLE 32
SIGNS

32.1 No sign, symbol, or identifying marks shall be put upon the Project, Building, in the halls, elevators, staircases, entrances, parking areas, or upon the doors or walls, without the prior written approval of Landlord in its sole discretion. Should such approval ever be granted, all signs or lettering shall conform in all respects to the sign and/or lettering criteria established by Landlord and comply with all Applicable Laws. Landlord, at Landlord's sole cost and expense, reserves the right to change the door plaques as Landlord deems reasonably desirable.

32.2 Landlord, at Landlord's sole cost and expense, shall provide Tenant with Building standard lobby and suite signage.

32.3 Landlord shall, at Tenant's sole cost and expense, install one line of signage (the "Monument Signage") on the Building monument sign fronting Lake Avenue, identifying Tenant's name. The graphics, materials, color, design, lettering, size and specifications of Tenant's Monument Signage shall be subject to the approval of Landlord and all applicable governmental authorities and shall conform to Landlord's approved sign plan for the Building. The costs of the actual sign comprising Tenant's Monument Signage and the installation, design, construction, and any and all other costs associated with Tenant's Monument Signage, including, without limitation, utility charges and hook-up fees, permits, and maintenance and repairs, shall be the sole responsibility of Tenant, but may be paid out of the Tenant Improvement Allowance. Should Tenant's Monument Signage require repairs and/or maintenance, as determined in Landlord's reasonable judgment, Landlord shall have the right to cause such work to be performed after notification to Tenant that said work is required and if Tenant agrees to have said work performed, then Landlord has the right to charge Tenant as Additional Rent for the cost of such work. If Tenant does not agree to said work being performed, then Tenant's Monument Signage shall be removed at Tenant's sole cost and expense. At the expiration or earlier termination of this Lease or termination of Tenant's sign rights as provided below, Landlord shall, at Tenant's sole cost and expense, cause Tenant's Monument Signage to be removed and the one line of signage on the monument sign affected by the Monument Signage to be restored to the condition existing prior to the installation of Tenant's Monument Signage. The right to Monument Signage is personal to the Tenant named originally in this Lease (the "Original Tenant") and may only be exercised and maintained by such party (and not any assignee, sublessee or other transferee of the Original Tenant's interest in this Lease). All of Tenant's rights to install and maintain Monument Signage on the monument sign in accordance with this Section 32.3 shall permanently terminate upon notice from Landlord following (a) a Monetary Default under this Lease, (b) the date upon which Tenant ceases to occupy the entire Premises, and/or (c) Tenant's failure to install the Monument Signage within six (6) months after the Commencement Date.

ARTICLE 33
HAZARDOUS SUBSTANCES

33.1 Except for Hazardous Material (as defined below) contained in products used by Tenant for ordinary cleaning and office purposes in quantities not violative of applicable Environmental Requirements, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises and/or the Project or transport, store, use, generate, manufacture, dispose, or release any Hazardous Material on or from the Premises and/or the Project without

Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements (as defined below) and all requirements of this Lease. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture, or release of Hazardous Materials on the Premises, and Tenant shall promptly deliver to Landlord a copy of any notice of violation relating to the Premises or the Project of any Environmental Requirement. Without limiting the generality of the foregoing, Tenant shall, at such intervals as Landlord may require, provide to Landlord or its designated consultant a list of all Hazardous Materials used by Tenant in the Premises. Tenant shall reimburse Landlord within thirty (30) days after demand for the actual costs and fees charged by Landlord's consultant to review the list of chemicals provided by the Tenant.

33.2 The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, permits, authorizations, orders, policies or other similar requirements of any governmental authority, agency or court regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; the Clean Air Act; the Clean Water Act; the Toxic Substances Control Act and all state and local counterparts thereto; all applicable California requirements, including, but not limited to, Sections 25115, 25117, 25122.7, 25140, 25249.8, 25281, 25316 and 25501 of the California Health and Safety Code and Title 22 of the California Code of Regulations, Division 4.5, Chapter 11, and any policies or rules promulgated thereunder as well as any County or City ordinances that may operate independent of, or in conjunction with, the State programs, and any common or civil law obligations including, without limitation, nuisance or trespass, and any other requirements of Article 3 of this Lease. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant that is or could be regulated under any Environmental Requirement or that may adversely affect human health or the environment, including, without limitation, any solid or hazardous waste, hazardous substance, asbestos, petroleum (including crude oil or any fraction thereof, natural gas, synthetic gas, polychlorinated biphenyls (PCBs), and radioactive material). For purposes of Environmental Requirements, to the extent authorized by law, Tenant is and shall be deemed to be the responsible party, including without limitation, the "owner" and "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

33.3 Tenant, at its sole cost and expense, shall remove all Hazardous Materials stored, disposed of or otherwise released by Tenant, its assignees, subtenants, agents, employees, contractors or invitees onto or from the Premises, in a manner and to a level satisfactory to Landlord in its reasonable discretion, but in no event to a level and in a manner less than that which complies with all Environmental Requirements and does not limit any future uses of the Premises or require the recording of any deed restriction or notice regarding the Premises. Tenant shall perform such work at any time during the Term of the Lease upon written request by Landlord or, in the absence of a specific request by Landlord, before Tenant's right to possession of the Premises terminates or expires. If Tenant fails to perform such work within the time period specified by Landlord or before Tenant's right to possession terminates or expires (whichever is earlier), Landlord may at its discretion, and without waiving any other remedy available under this Lease or at law or equity (including without limitation an action to compel Tenant to perform such work),

perform such work at Tenant's cost. Tenant shall pay all costs incurred by Landlord in performing such work within ten (10) days after Landlord's request therefor. Such work performed by Landlord is on behalf of Tenant and Tenant remains the owner, generator, operator, transporter, and/or arranger of the Hazardous Materials for purposes of Environmental Requirements. Tenant agrees not to enter into any agreement with any person, including without limitation any governmental authority, regarding the removal of Hazardous Materials that have been disposed of or otherwise released onto or from the Premises without the written approval of Landlord.

33.4 Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the Premises or disturbed in breach of the requirements of this Article 33, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials or any breach of the requirements under this Article 33 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Article 33 shall survive any termination of this Lease.

33.5 Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Article 33, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant. Tenant shall promptly notify Landlord of any communication or report that Tenant makes to any governmental authority regarding any possible violation of Environmental Requirements or release or threat of release of any Hazardous Materials onto or from the Premises. Tenant shall, within five (5) days of receipt thereof, provide Landlord with a copy of any documents or correspondence received from any governmental agency or other party relating to a possible violation of Environmental Requirements or claim or liability associated with the release or threat of release of any Hazardous Materials onto or from the Premises.

33.6 In addition to all other rights and remedies available to Landlord under this Lease or otherwise, Landlord may, in the event of a breach of the requirements of this Article 33 that is not cured within thirty (30) days following notice of such breach by Landlord, require Tenant to provide financial assurance (such as insurance, escrow of funds or third party guarantee) in an amount and form satisfactory to Landlord. The requirements of this Article 33 are in addition to and not in lieu of any other provision in the Lease.

33.7 Tenant shall not be liable to Landlord under this Lease with respect to any Hazardous Materials existing on the Premises or the Project prior to the date Tenant takes possession of the Premises (the "Pre-Existing Hazardous Materials") or any Hazardous Materials placed or released on the Premises or the Project by Landlord or any other person other than Tenant, Tenant's employees, agents, contractors, invitees, assignees, or sublessees (the "Other Hazardous Materials"), except to the extent that any hazard posed by such Pre-Existing Hazardous Materials and/or Other Hazardous Materials is exacerbated by, or the cost to clean up, remove or remediate such Pre-Existing Hazardous Materials and/or Other Hazardous Materials is increased as a result of, the acts, omissions negligence or willful misconduct of Tenant or any of Tenant's employees, agents, contractors, invitees, assignees, or sublessees. Landlord will comply with Environmental Requirements with respect to any Pre-Existing Hazardous Materials and any Other Hazardous Materials brought on to the Project by Landlord or Landlord's employees, agents or contractors that violate Environmental Requirements, subject to the limitations on including the cost of such compliance in Operating Expenses as provided in Section 5.1(a).

ARTICLE 34 COMPLIANCE WITH LAWS AND OTHER REGULATIONS

34.1 Tenant, at its sole cost and expense, shall promptly comply with all laws, statutes, ordinances, and governmental rules, regulations, or requirements now in force or which may hereafter become in force, of federal, state, county, and municipal authorities, including without limitation the Americans with Disabilities Act and the California Energy Code, Title 24, with the requirements of any board of fire underwriters or other similar body now or hereafter constituted, and with any occupancy certificate issued pursuant to any law by any public officer or officers, which impose, any duty upon Landlord or Tenant, insofar as any thereof relate to or affect the condition, use, alteration, or occupancy of the Premises. Landlord's approval of Tenant's plans for any improvements shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules, and regulations of governmental agencies or authorities, including, but not limited to, the Americans with Disabilities Act. Landlord shall comply with all Applicable Laws relating to the Base Building, provided that compliance with such Applicable Laws is not the responsibility of Tenant under this Lease, and provided further that Landlord's failure to comply therewith would prohibit Tenant from obtaining or maintaining a certificate of occupancy (or its legal equivalent) for the Premises, or would unreasonably and materially affect the safety of Tenant's employees or create a health hazard for Tenant's employees or otherwise adversely affect Tenant's use or occupancy of the Premises. Landlord shall be permitted to include in Operating Expenses any costs or expenses incurred by Landlord under this Section 34.1 to the extent consistent with the terms of Article 5, above.

34.2 Tenant is not, and shall not during the term of this Lease become, a person or entity with whom Landlord is restricted from doing business under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, H.R. 3162, Public Law 107-56 (commonly known as the "USA Patriot Act") and Executive Order Number 13224 on Terrorism Financing, effective September 24, 2001 and regulations promulgated pursuant thereto including without limitation persons and entities named on the Office of Foreign Asset Control Specially Designated Nationals and Blocked Persons List (collectively, "Prohibited Persons"). Tenant represents and warrants that to Tenant's actual knowledge, Tenant is not currently engaged in any transactions or dealings, or otherwise associated with, any Prohibited Persons in connection with the use or occupancy of the Premises or the Building. Tenant will not, during the Term of this Lease, engage in any transactions or dealings, or be otherwise associated with, any Prohibited Persons in connection with the use or occupancy of the Premises or the Building. Landlord represents and warrants that to Landlord's actual knowledge, Landlord is not currently engaged in any transactions or dealings, or otherwise associated with, any Prohibited Persons in connection with the use or occupancy of the Building. Landlord will not, during the Term of this Lease, engage in any transactions or dealings, or be otherwise associated with, any Prohibited Persons in connection with the use or occupancy of the Building.

34.3 Pursuant to California Civil Code Section 1938, Tenant is hereby notified that, as of the date hereof, the Project has not undergone an inspection by a "Certified Access Specialist" and except to the extent expressly set forth in this Lease, Landlord shall have no liability or responsibility to make any repairs or modifications to the Premises or the Project in order to comply with accessibility standards. The following disclosure is hereby made pursuant to applicable California law: "A Certified Access Specialist (CASP) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises." Tenant acknowledges that Landlord has made no representation regarding compliance of the Premises or the Project with accessibility standards. Any CASp inspection shall be conducted in compliance with reasonable rules in effect at the Building with regard to such inspections and shall be subject to Landlord's prior written consent.

ARTICLE 35 SEVERABILITY

35.1 This Lease shall be construed in accordance with the laws of the State of California. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws effective during the Term, then it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of both parties that in lieu of each clause or provision that is illegal, or unenforceable, there is added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and still be legal, valid, and enforceable.

ARTICLE 36
NOTICES

36.1 All notices, demands, designations, approvals or other communications (collectively, "Notices") given or required to be given by either party to the other hereunder or by law shall be in writing, shall be (i) sent by United States certified or registered mail, postage prepaid, return receipt requested ("Mail"), or (ii) transmitted by telecopy, if such telecopy is promptly followed by a Notice sent by Mail, or (iii) delivered by a nationally recognized overnight courier, or (iv) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in the Basic Lease Information, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth in the Basic Lease Information, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (A) three (3) days after the date it is posted if sent by Mail, (B) the date the telecopy is transmitted, (C) the date the overnight courier delivery is made, or (D) the date personal delivery is made. Any Notice given by an attorney on behalf of Landlord or by Landlord's managing agent shall be considered as given by Landlord and shall be fully effective.

ARTICLE 37
OBLIGATIONS OF, SUCCESSORS, PLURALITY, GENDER

37.1 Landlord and Tenant agree that all the provisions hereof are to be construed as covenants and agreements as though the words imparting such covenants were used in each paragraph hereof, and that, except as restricted by the provisions hereof, shall bind and inure to the benefit of the parties hereto, their respective heirs, legal representatives, successors, and assigns. If the rights of Tenant hereunder are owned by two or more parties, or two or more parties are designated herein as Tenant, then all such parties shall be jointly and severally liable for the obligations of Tenant hereunder. Whenever the singular or plural number, masculine or feminine or neuter gender is used herein, it shall equally include the other.

ARTICLE 38
ENTIRE AGREEMENT

38.1 This Lease and any attached addenda or exhibits constitute the entire agreement between Landlord and Tenant. No prior or contemporaneous written or oral leases or representations shall be binding. This Lease shall not be amended, changed, or extended except by written instrument signed by Landlord and Tenant.

38.2 THE SUBMISSION OF THIS LEASE BY LANDLORD, ITS AGENT OR REPRESENTATIVE FOR EXAMINATION OR EXECUTION BY TENANT DOES NOT CONSTITUTE AN OPTION OR OFFER TO LEASE THE PREMISES UPON THE TERMS AND CONDITIONS CONTAINED HEREIN OR A RESERVATION OF THE PREMISES IN FAVOR OF TENANT, IT BEING INTENDED HEREBY THAT THIS LEASE SHALL ONLY

BECOME EFFECTIVE UPON THE EXECUTION HEREOF BY LANDLORD AND DELIVERY OF A FULLY EXECUTED LEASE TO TENANT.

ARTICLE 39
CAPTIONS

39.1 Paragraph captions are for Landlord's and Tenant's convenience only, and neither limit nor amplify the provisions of this Lease.

ARTICLE 40
CHANGES

40.1 Should any mortgagee require a modification of this Lease, which modification will not bring about any increased cost or expense to Tenant or in any other way substantially and adversely change the rights and obligations of Tenant hereunder, then and in such event Tenant agrees that this Lease may be so modified.

ARTICLE 41
AUTHORITY

41.1 All rights and remedies of Landlord under this Lease, or those which may be provided by law, may be exercised by Landlord in its own name individually, or in its name by its agent, and all legal proceedings for the enforcement of any such rights or remedies, including distress for Rent, unlawful detainer, and any other legal or equitable proceedings may be commenced and prosecuted to final judgment and be executed by Landlord in its own name individually or in its name by its agent. Landlord and Tenant each represent to the other that each has full power and authority to execute this Lease and to make and perform the agreements herein contained, and Tenant expressly stipulates that any rights or remedies available to Landlord, either by the provisions of this Lease or otherwise, may be enforced by Landlord in its own name individually or in its name by its agent or principal.

ARTICLE 42
BROKERAGE

42.1 Tenant represents and warrants to Landlord that it has dealt only with Tenant's Broker and Landlord's Broker, in negotiation of this Lease. Landlord shall make payment of the brokerage fee due pursuant to and in accordance with separate agreements between Landlord and Landlord's Broker and Landlord and Tenant's Broker. Landlord shall pay the commission to Tenant's Broker pursuant to a separate agreement dated December 5, 2017. Except for amounts owing to Landlord's Broker and Tenant's Broker, each party hereby agrees to indemnify and hold the other party harmless of and from any and all damages, losses, costs, or expenses (including, without limitation, all attorneys' fees and disbursements) by reason of any claim of or liability to any other broker or other person claiming through the indemnifying party and arising out of or in connection with the negotiation, execution, and delivery of this Lease. Additionally, except as may be otherwise expressly agreed upon by Landlord in writing, Tenant acknowledges and agrees that Landlord and/or Landlord's agent shall have no obligation for payment of any brokerage fee or similar compensation to any person with whom Tenant has dealt or may in the future deal with

respect to leasing of any additional or expansion space in the Building or renewals or extensions of this Lease.

ARTICLE 43
EXHIBITS

43.1 Exhibits A through E are attached hereto and incorporated herein for all purposes and are hereby acknowledged by both parties to this Lease.

ARTICLE 44
APPURTENANCES

44.1 The Premises include the right of ingress and egress thereto and therefrom; however, Landlord reserves the right to make changes and alterations to the Building, fixtures and equipment thereof, in the street entrances, doors, halls, corridors, lobbies, passages, elevators, escalators, stairways, toilets and other parts thereof which Landlord may reasonably deem necessary or desirable; provided that Tenant at all times has a means of access to the Premises (subject to a temporary interruption due to Force Majeure Events or necessary maintenance that cannot reasonably be performed without such interruption of access). Neither this Lease nor any use by Tenant of the Building or any passage, door, tunnel, concourse, plaza or any other area connecting the garages or other buildings with the Building, shall give Tenant any right or easement of such use and the use thereof may, without notice to Tenant, be regulated or discontinued at any time and from time to time by Landlord without liability of any kind to Tenant and without affecting the obligations of Tenant under this Lease.

ARTICLE 45
PREJUDGMENT REMEDY, REDEMPTION, COUNTERCLAIM, AND JURY

45.1 Tenant, for itself and for all persons claiming through or under it, hereby expressly waives any and all rights which are, or in the future may be, conferred upon Tenant by any present or future law to redeem the Premises, or to any new trial in any action for ejection under any provisions of law, after reentry thereupon, or upon any part thereof, by Landlord, or after any warrant to dispossess or judgment in ejection. If Landlord shall acquire possession of the Premises by summary proceedings, or in any other lawful manner without judicial proceedings, it shall be deemed a reentry within the meaning of that word as used in this Lease. In the event that Landlord commences any summary proceedings or action for nonpayment of Rent or other charges provided for in this Lease, Tenant shall not interpose any counterclaim of any nature or description in any such proceeding or action. Tenant and Landlord both waive a trial by jury of any or all issues arising in any action or proceeding between the parties hereto or their successors, under or connected with this Lease, or any of its provisions.

ARTICLE 46
RECORDING

46.1 Tenant shall not record this Lease but will, at the request of Landlord, execute a memorandum or notice thereof in recordable form satisfactory to both Landlord and Tenant specifying the date of commencement and expiration of the Term of this Lease and other information required by statute. Either Landlord or Tenant may then record said memorandum or notice of lease at the cost of the recording party.

ARTICLE 47
MORTGAGEE PROTECTION

47.1 Tenant agrees to give any mortgagees and/or trust deed holders having a lien on Landlord's interest in the Project, by registered mail, a copy of any notice of Event of Default served upon Landlord, provided that prior to such notice Tenant has been notified, in writing of the address of such mortgagees and/or trust deed holders. Tenant further agrees that if Landlord shall have failed to cure such Event of Default within the time provided for in this Lease, then such mortgagees and/or trust deed holders shall have an additional thirty (30) days within which to cure such default or if such Event of Default cannot be cured within that time, then such additional time as may be necessary to cure such Event of Default (including but not limited to commencement of foreclosure proceedings, if necessary to effect such cure) in which event this Lease shall not be terminated while such remedies are being so diligently pursued.

ARTICLE 48
OTHER LANDLORD CONSTRUCTION

48.1 Tenant acknowledges that portions of the Project may be under construction following Tenant's occupancy of the Premises, and that such construction may result in levels of noise, dust, odor, obstruction of access, etc. which are in excess of that present in a fully constructed project. Tenant hereby waives any and all rent offsets or claims of constructive eviction which may arise in connection with such construction. If any excavation or construction is made adjacent to, upon or within the Building, or any part thereof, Tenant shall afford to any and all persons causing or authorized to cause such excavation or construction license to enter upon the Premises for the purpose of doing such work as such persons shall deem necessary to preserve the Building or any portion thereof from injury or damage and to support the same by proper foundations, braces and supports, without any claim for damages or indemnity or abatement of Rent (subject to the express provisions of this Lease), or of a constructive or actual eviction of Tenant.

48.2 It is specifically understood and agreed that Landlord has no obligation and has made no promises to alter, remodel, improve, renovate, repair or decorate the Premises, the Building, or any part thereof and that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant except as specifically set forth herein or in the Tenant Work Letter. However, Tenant hereby acknowledges that Landlord is currently renovating or may during the Term of this Lease renovate, improve, alter, or modify (collectively, the "Renovations") the Project, the Building and/or the Premises, including without limitation the Parking Facilities (as defined below), the Common Areas, and the systems and equipment, roof and structural portions of the same. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Without limiting Landlord's obligation under Article 48.3, Landlord shall have no responsibility and shall not be liable to Tenant for any interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for any inconvenience or annoyance occasioned by such Renovations for Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions in connection with such Renovations.

48.3 In exercising its rights under this Article 48, Landlord shall make commercially reasonable efforts to minimize the disruption to Tenant's business operations during standard business hours.

ARTICLE 49 PARKING

49.1 Commencing upon the date Tenant shall commence the conduct of business in the Premises or any portion thereof, Landlord shall provide Tenant, and Tenant shall have the right but not the obligation to parking set forth in the Basic Lease Information on an unassigned, non-exclusive and unlabeled basis, the Maximum Parking Allocation of parking passes in the parking structures and surface parking facilities of the Project (collectively, the "Parking Facilities"). Landlord does not guarantee the availability of spaces at all times against the actions of other tenants of the Project. Without limiting the foregoing, in no event shall this Lease be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage, nor shall there be any abatement of Rent hereunder (other than the charge paid hereunder for any parking space no longer made available), by reason of any reduction in Tenant's parking rights hereunder by reason of strikes, lock-outs, labor disputes, shortages of material or labor, fire, flood or other casualty, acts of God or any other cause beyond the reasonable control of Landlord. Tenant shall pay Landlord or the operator of the Parking Facilities, as directed by Landlord, the rate or charge in effect from time to time for parking passes in the Parking Facilities. If the charge for parking is not paid when due, and such failure continues for ten (10) days after written notice to Tenant of such failure, then in addition to any other remedies afforded Landlord under this Lease by reason of nonpayment of Rent, Landlord may suspend Tenant's rights under this Article 49 with respect to the applicable parking spaces until such time as Tenant has cured such failure. Tenant acknowledges that the monthly and hourly rates or charges in effect for parking in the Parking Facilities may vary from time to time based on, among other things, the time of day, type of parking (e.g., valet, self-park, or tandem) and general rate increases. As of the date of this Lease, the rates for parking are \$90 per unreserved parking pass per month and \$142 per reserved parking pass per month, subject to change from time to time.

49.2 An unreserved parking pass does not entitle the holder thereof to park in any particular parking space in the parking facilities. Landlord may issue parking permits, install a gate system, utilize valet parking and impose any other system as Landlord deems necessary for the use of the parking area. Tenant agrees that it and its employees and invitees shall not park their automobiles in any parking spaces designated as handicapped parking, loading area, visitor parking or as may be otherwise reserved or allocated, as the same may be reallocated or redesignated from time to time (the "Excluded Parking Areas"). Landlord shall not be responsible for any damage to or theft of any vehicle in the parking area, and shall not be required to keep parking spaces clear of unauthorized vehicles or to otherwise supervise the use of the parking area. Landlord reserves the right to change any existing or future parking area, roads, or driveways, or increase or decrease the size thereof and make any repairs or alterations it deems necessary to the parking area, roads and driveways and Landlord agrees to use commercially reasonable efforts to minimize any interference with Tenant's parking in the course of such repairs or alterations. Tenant shall supply Landlord with an identification roster listing, for each parking pass, the name of the employee and the make, color and registration number of the vehicle to which such parking pass has been assigned, and shall provide a revised roster to Landlord monthly indicating changes thereto. Tenant

shall cause each such individual to execute the standard waiver form, if any, for garage users used in the applicable portion of the Parking Facilities. Tenant's continued right to use the parking passes is conditioned upon Tenant abiding by all rules and regulations which are prescribed from time to time for the orderly operation and use of the Parking Facilities where the parking passes are located, including any sticker or other identification system established by Landlord, Tenant's cooperation in seeing that Tenant's employees and visitors also comply with such rules and regulations and Tenant not being in default under this Lease. Tenant shall be responsible for causing any employee of Tenant or other person using parking spaces allocated to Tenant to comply with all such parking rules and regulations. Landlord may delegate its responsibilities hereunder to a parking operator in which case such parking operator shall have all the rights of control attributed hereby to the Landlord.

The parking passes provided to Tenant pursuant to this Article 49 are provided to Tenant solely for use by Tenant's own personnel and such passes may not be transferred, assigned, subleased or otherwise alienated by Tenant without Landlord's prior approval, which approval will not be withheld for any approved Transfer. In no event shall Tenant seek or collect any payment from any assignee or subtenant for the transfer of any such parking rights. No deductions from the monthly parking charge shall be made for days on which the Tenant does not use any of the parking passes entitled to be used by Tenant. Tenant shall be responsible for the full amount of any taxes imposed by any governmental authority in connection with the renting of such parking passes by Tenant or the use of such parking facilities by Tenant.

49.3 To the extent Landlord determines that there are unreserved parking spaces in the Parking Facilities that are then available, Tenant may lease such unreserved parking spaces in the Parking Facilities on a month-to-month basis at the monthly rates for such spaces then charged by Landlord.

49.4 Notwithstanding anything to the contrary in this Lease, during the initial Term, Tenant may convert up to ten percent (10%) of its unreserved parking passes to reserved parking passes.

ARTICLE 50 ELECTRICAL CAPACITY

Tenant covenants and agrees that at all times, its use of electric energy shall never exceed the capacity of the existing feeders to the Building or the risers of wiring installation. Any riser or risers to supply Tenant's electrical requirements upon written request of Tenant shall be installed by Landlord at the sole cost and expense of Tenant, if, in Landlord's sole judgment, the same are necessary and will not cause or create a dangerous or hazardous condition or entail excess or unreasonable alterations, repairs or expense or interfere with or disrupt other tenants or occupants. In addition to the installation of such riser or risers, Landlord will also, at the sole cost and expense of Tenant, install all other equipment proper and necessary in connection therewith subject to the aforesaid terms and conditions.

ARTICLE 51
OPTION TO EXTEND LEASE

51.1 Extension Option. Tenant shall have the option to extend this Lease (the "Extension Option") for one additional term of five (5) years (the "Extension Period"), upon the terms and conditions hereinafter set forth:

(a) If the Extension Option is exercised, then the Base Rent per annum for such Extension Period (the "Option Rent") shall be an amount equal to the Fair Market Rental Value (as defined hereinafter) for the Premises as of the commencement of the Extension Option for such Extension Period.

(b) The Extension Option must be exercised by Tenant, if at all, only at the time and in the manner provided in this Section 51.1(b).

(i) If Tenant wishes to exercise the Extension Option, Tenant must, on or before March 31, 2023 of the initial Lease Term (but not before January 1, 2023 of the initial Lease Term), exercise the Extension Option by delivering written notice (the "Exercise Notice") to Landlord. If Tenant timely and properly exercises its Extension Option, the Lease Term shall be extended for the Extension Period upon all of the terms and conditions set forth in the Lease, as amended, except that the Base Rent for the Extension Period shall be as provided in Section 51.1(a) and Tenant shall have no further options to extend the Lease Term.

(ii) If Tenant fails to deliver a timely Exercise Notice, Tenant shall be considered to have elected not to exercise the Extension Option.

(c) It is understood and agreed that the Extension Option hereby granted is personal to Tenant and is not transferable except to a Permitted Transferee in connection with an assignment of Tenant's entire interest in this Lease. In the event of any assignment or subletting of the Premises or any part thereof (other than to a Permitted Transferee), the Extension Option shall automatically terminate and shall thereafter be null and void.

(d) Tenant's exercise of the Extension Option shall, if Landlord so elects in its absolute discretion, be ineffective in the event that (i) an Event of Default by Tenant remains uncured at the time of delivery of the Exercise Notice or at the commencement of the Extension Period, or (ii) Tenant shall have reduced the size of the Premises below the size of the initial Premises by agreement with Landlord or pursuant to an express right in this Lease.

51.2 Fair Market Rental Value. The provisions of this Section shall apply in any instance in which this Lease provides that the Fair Market Rental Value is to apply.

(a) "Fair Market Rental Value" means the annual amount per square foot that a willing tenant would pay and a willing landlord would accept in arm's length negotiations, without any additional inducements, for a lease of the applicable non- sublease, non-equity, unencumbered space on the applicable terms and conditions for the applicable period of time (other than Base Year, which shall be the calendar year in which

the first day of the applicable Extension Period falls). Fair Market Rental Value shall be determined by Landlord considering the most recent new direct leases (and market renewals, extensions and expansions, if applicable) in the Building and in Comparable Buildings in the Market Area.

(b) In determining the rental rate of comparable space, the parties shall include all escalations and take into consideration the following concessions:

(i) Rental abatement concessions, if any, being granted to tenants in connection with the comparable space;

(ii) Tenant improvements or allowances provided or to be provided for the comparable space, taking into account the value of the existing improvements in the Premises, based on the age, quality, and layout of the improvements.

(c) If in determining the Fair Market Rental Value the parties determine that the economic terms of leases of comparable space include a tenant improvement allowance, Landlord may, at Landlord's sole option, elect to do the following:

(i) Grant some or all of the value of the tenant improvement allowance as an allowance for the refurbishment of the Premises; and

(ii) Reduce the Base Rent component of the Fair Market Rental Value to be an effective rental rate that takes into consideration the total dollar value of that portion of the tenant improvement allowance that Landlord has elected not to grant to Tenant (in which case that portion of the tenant improvement allowance evidenced in the effective rental rate shall not be granted to Tenant).

51.3 Determination of Fair Market Rental Value. The determination of Fair Market Rental Value shall be as provided in this Section 51.3.

(a) Negotiated Agreement. Landlord and Tenant shall diligently attempt in good faith to agree on the Fair Market Rental Value on or before the date (the "Outside Agreement Date") that is five (5) months prior to the date upon which the Extension Period is to commence.

(b) Parties' Separate Determinations. If Landlord and Tenant fail to reach agreement on or before the Outside Agreement Date, Landlord and Tenant shall each make a separate determination of the Fair Market Rental Value and notify the other party of this determination within five (5) days after the Outside Agreement Date.

(i) Two Determinations. If each party makes a timely determination of the Fair Market Rental Value, those determinations shall be submitted to arbitration in accordance with subsection (c).

(ii) One Determination. If Landlord or Tenant fails to make a determination of the Fair Market Rental Value within the five-day period, that

failure shall be conclusively considered to be that party's approval of the Fair Market Rental Value submitted within the five-day period by the other party.

(c) Arbitration. If both parties make timely individual determinations of the Fair Market Rental Value under subsection (b), the Fair Market Rental Value shall be determined by arbitration under this subsection (c).

(i) Scope of Arbitration. The determination of the arbitrators shall be limited to the sole issue of whether Landlord's or Tenant's submitted Fair Market Rental Value is the closest to the actual Fair Market Rental Value as determined by the arbitrators, taking into account the requirements of Section 51.2.

(ii) Qualifications of Arbitrator(s). The arbitrators must be licensed real estate brokers who have been actively involved in the leasing of Class A commercial space in the Market Area over the five-year period ending on the date of their appointment as arbitrator(s).

(iii) Parties' Appointment of Arbitrators. Within fifteen (15) days after the Outside Agreement Date, Landlord and Tenant shall each appoint one arbitrator and notify the other party of the arbitrator's name and business address.

(iv) Appointment of Third Arbitrator. If each party timely appoints an arbitrator, the two (2) arbitrators shall, within ten (10) days after the appointment of the second arbitrator, agree on and appoint a third arbitrator (who shall be qualified under the same criteria set forth above for qualification of the initial two (2) arbitrators) and provide notice to Landlord and Tenant of the arbitrator's name and business address.

(v) Arbitrators' Decision. Within thirty (30) days after the appointment of the third arbitrator, the three (3) arbitrators shall decide whether the parties will use Landlord's or Tenant's submitted Fair Market Rental Value and shall notify Landlord and Tenant of their decision. The decision of the majority the three (3) arbitrators shall be binding on Landlord and Tenant.

(vi) If Only One Arbitrator is Appointed. If either Landlord or Tenant fails to appoint an arbitrator within fifteen (15) days after the Outside Agreement Date, the arbitrator timely appointed by one of them shall reach a decision and notify Landlord and Tenant of that decision within thirty (30) days after the arbitrator's appointment. The arbitrator's decision shall be binding on Landlord and Tenant.

(vii) If Only Two Arbitrators Are Appointed. If each party appoints an arbitrator in a timely manner, but the two (2) arbitrators fail to agree on and appoint a third arbitrator within the required period, the arbitrators shall be dismissed without delay and the issue of Fair Market Rental Value shall be submitted to binding arbitration under the real estate arbitration rules of JAMS, subject to the provisions of this section.

(viii) If No Arbitrator Is Appointed. If Landlord and Tenant each fail to appoint an arbitrator in a timely manner, the matter to be decided shall be submitted without delay to binding arbitration under the real estate arbitration rules of JAMS subject the provisions of this Section 51.3(c).

(ix) Cost of Arbitration. The cost of the arbitration shall be paid by the party whose submitted Fair Market Rental Value is not selected by the arbitrators.

ARTICLE 52 TELECOMMUNICATIONS LINES AND EQUIPMENT

52.1 Tenant may install, maintain, replace, remove or use any electrical, communications or computer wires and cables (collectively, the "Lines") at the Project in or serving solely the Premises, provided that (i) Tenant shall obtain Landlord's prior written consent, use an experienced and qualified contractor approved in writing by Landlord, and comply with all of the other provisions of Articles 8 and 15 of this Lease, (ii) an acceptable number of spare Lines and space for additional Lines shall be maintained for existing and future occupants of the Project, as determined in Landlord's reasonable opinion, (iii) the Lines therefor (including riser cables) shall be appropriately insulated to prevent excessive electromagnetic fields or radiation, and shall be surrounded by a protective conduit reasonably acceptable to Landlord, (iv) any new or existing Lines servicing the Premises shall comply with all applicable governmental laws and regulations, (v) as a condition to permitting the installation of new Lines, Landlord may require that Tenant remove existing Lines located in or serving the Premises and repair any damage in connection with such removal, and (vi) Tenant shall pay all costs in connection therewith. Landlord reserves the right to require that Tenant remove any Lines located in or serving the Premises which are installed in violation of these provisions, or which are at any time in violation of any laws or represent a dangerous or potentially dangerous condition. Landlord further reserves the right to require that Tenant remove any and all Lines located in or serving the Premises upon the expiration of the Term or upon any earlier termination of this Lease.

ARTICLE 53 ERISA

53.1 Tenant represents, warrants and covenants to Landlord that, as of the date hereof and throughout the term of this Lease, Tenant is not, and is not entering into this Lease on behalf of, (i) an employee benefit plan, (ii) a trust holding assets of such a plan or (iii) an entity holding assets of such a plan. Notwithstanding any terms to the contrary in this Lease, in no event may Tenant assign or transfer its interest under this Lease to a third party who is, or is entering into this Lease on behalf of, (i) an employee benefit plan, (ii) a trust holding assets of such a plan or (iii) an entity holding assets of such a plan if such transfer would could cause Landlord to incur any prohibited transaction excise tax penalties or other materially adverse consequences under the Employee Retirement Income Security Act of 1974, as amended, Section 4975 of the Internal Revenue Code of 1986, as amended or similar law.

ARTICLE 54
TENANT'S RIGHT OF FIRST OFFER

54.1 As used herein, "Offer Space" means Suite 1000 in the Building (containing a stipulated 19,634 square feet of rentable area) and space on the fifth, sixth and seventh floors of the Building. Landlord may from time to time give Tenant a written notice (the "Availability Notice") identifying the particular Offer Space (the "Specific Offer Space") that is Available (as defined below). As used herein, "Available" means that the space (i) is not part of the Premises, (ii) is not then subject to a lease, (iii) is not then subject to any rights of tenant to renew their lease or expand their premises as set forth in their lease, and (iv) is not then subject to any negotiations between Landlord and a prospective tenant or an existing tenant of that space. Tenant's rights under this Article 54 with respect to Suite 1000 shall expire and be of no further force or effect on the first anniversary of the Commencement Date. Tenant's rights under this Article 54 with respect to space on the fifth, sixth and seventh floors of the Building shall expire and be of no further force or effect on the fourth anniversary of the Commencement Date.

54.2 Tenant may inform Landlord (the "Request Notice") not more than once in any twelve (12) month period and not within six (6) months after receipt of an Availability Notice that Tenant desires to lease additional space. Landlord shall, within ten (10) business days of receiving the properly given Request Notice, deliver to Tenant an Availability Notice identifying Specific Offer Space that is Available.

54.3 The location and configuration of the Specific Offer Space shall be determined by Landlord in its reasonable discretion; provided that Landlord shall have no obligations to designate Specific Offer Space that would result in any space not included in the Specific Offer Space being not Configured For Leasing (as defined below). For purposes of this Lease, "Configured For Leasing" means the applicable space must have convenient access to the central corridor on the applicable floor and must have a size and configuration that complies with all applicable building codes and other laws and is such that Landlord judges, in its reasonable discretion, that Landlord will be able to lease such space to a third party. The Availability Notice shall:

- (a) Describe the particular Specific Offer Space (including rentable area, usable area and location);
- (b) Include an attached floor plan identifying such space;
- (c) State the date (the "Specific Offer Space Delivery Date") the space will be available for delivery to Tenant;
- (d) Specify the Base Rent and Base Year for the Specific Offer Space;
- (e) Specify the increase in the security deposit that will apply to reflect the addition of the Specific Offer Space to the Premises; and
- (f) The Specific Offer Space will be co-terminus with this Lease (the "Specific Offer Space Term").

54.4 If Tenant wishes to exercise Tenant's rights set forth in this Article 54 with respect to the Specific Offer Space, then within ten (10) business days of delivery of the Availability Notice to Tenant, Tenant shall deliver irrevocable notice to Landlord (the "First Offer Exercise Notice") offering to lease the Specific Offer Space on the terms and conditions as may be specified by Landlord in the Availability Notice.

54.5 In the event Tenant fails to give a First Offer Exercise Notice in response to any Availability Notice, Tenant shall have no further rights to receive an Availability Notice and Tenant's rights under this Article 54 shall terminate and Landlord shall be free to lease the Offer Space to anyone on any terms at any time during the Term, without any obligation to provide Tenant with any further right to lease that space; provided, however, solely with respect to Offer Space on the fifth, sixth and seventh floors of the Building, if Landlord does not enter into a lease or leases pertaining to the entire Specific Offer Space identified by Landlord in such Availability Notice within twelve (12) months after the date Landlord first delivered such Availability Notice to Tenant, then Landlord shall submit to Tenant a new Availability Notice with respect to the unleased portion of such Specific Offer Space that is Available prior to the first time after such 12-month period that Landlord intends to submit to a third party (other than to a holder of a right to lease that space or its affiliate, including an existing tenant or its affiliate currently leasing any such Specific Offer Space) a proposal letter to lease all or any portion of such unleased Specific Offer Space, provided that no holder of a right to lease that space (including any existing tenant or its affiliate currently leasing any such Specific Offer Space) wishes to lease such space, in which event the foregoing procedures shall again apply following Tenant's receipt of such new Availability Notice.

54.6 If Tenant timely and validly gives the First Offer Exercise Notice, then beginning on the Specific Offer Space Delivery Date and continuing for the balance of the Term (including any extensions):

- (a) The Specific Offer Space shall be part of the Premises under this Lease (so that the term "Premises" in this Lease shall refer to the space in the Premises immediately before the Specific Offer Space Delivery Date plus the Specific Offer Space);
- (b) Tenant's Building Percentage shall be adjusted to reflect the increased rentable area of the Premises;
- (c) Base Rent for the Specific Offer Space shall be as specified in the Availability Notice;
- (d) If the Base Year specified in the Availability Notice is other than the Base Year applicable to the balance of the Premises, then Tenant's Share with respect to the Specific Offer Space shall be appropriately adjusted to reflect that different Base Year;
- (e) The security deposit Tenant must provide shall be increased by the amounts specified in the Availability Notice;
- (f) Tenant's lease of the Specific Offer Space shall be on the same terms and conditions as affect the original Premises from time to time, except as otherwise provided in this section. Tenant's obligation to pay Rent with respect to the Specific Offer Space shall begin on the Specific Offer Space Delivery Date. The Specific Offer Space shall be leased to Tenant in its "as-is" condition and Landlord shall not be required to

construct improvements in, or contribute any tenant improvement allowance for, the Specific Offer Space. Tenant's construction of any improvements in the Specific Offer Space shall comply with the terms of this Lease concerning alterations; and

(g) Landlord and Tenant shall confirm in writing the addition of the Specific Offer Space to the Premises on the terms and conditions set forth in this section, but Tenant's failure to execute or deliver such written confirmation shall not affect the enforceability of the First Offer Exercise Notice.

54.7 Tenant's rights and Landlord's obligations under this Article 54 are expressly subject to and conditioned upon there not existing an Event of Default by Tenant under this Lease, either at the time of delivery of the First Offer Exercise Notice or at the time the Specific Offer Space is to be added to the Premises.

54.8 It is understood and agreed that Tenant's rights under this Article 54 are personal to Tenant and not transferable. In the event of any assignment or subletting of the Premises or any part thereof, this expansion right shall automatically terminate and shall thereafter be null and void.

IN WITNESS WHEREOF, Landlord and Tenant, acting herein through duly authorized individuals, have caused these presents to be executed as of the date first above written.

TENANT:

EVERBRIDGE, INC.,
a Delaware corporation

By: /s/ Jim Totton
Jim Totton, EVP of Product Management, Engineering &
Operations
[Printed Name and Title]

By: /s/ Kenneth S. Goldman
Kenneth S. Goldman, Senior Vice President and Chief
Financial Officer
[Printed Name and Title]

If Tenant is a corporation, this instrument must be executed by the chairman of the board, the president or any vice president and the secretary, any assistant secretary, the chief financial officer or any assistant financial officer or any assistant treasurer of such corporation, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which case the bylaws or a certified copy of the resolution, as the case may be, must be attached to this instrument.

LANDLORD:

PR 155 NORTH LAKE, LLC
a Delaware limited liability company

By: PRISA LHC, LLC,
a Delaware limited liability company,
its sole member and manager

By: /s/ Maria Trinh

Name: Maria Trinh

Title: Vice President

EXHIBIT A

THE PROJECT

All that certain real property situated in the County of Los Angeles, State of California, described as follows:

PARCEL 1:

LOTS 15, 16, 17, 18, 23, 24, 25 AND 26 OF WALLACE BROS. OLIVEWOOD SUBDIVISION, IN THE CITY OF PASADENA, AS PER MAP RECORDED IN BOOK 11 PAGE 64 OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THE EAST 15 FEET OF SAID LOTS 23, 24, 25 AND 26 INCLUDED WITHIN LAKE AVENUE.

(NOW ALSO KNOWN AS PARCEL 1 OF PARCEL MAP NO. 15666, IN THE CITY OF PASADENA, AS PER MAP FILED IN BOOK 164 PAGE 49 AND 50 OF PARCEL MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY).

PARCEL 2:

A NON-EXCLUSIVE EASEMENT FOR INGRESS AND EGRESS OVER THAT PORTION OF LOTS 11 AND 12, AND LOTS 13, 14, 27, 28, 29 AND 30 OF SAID TRACT, AS PROVIDED IN A RECIPROCAL EASEMENT AGREEMENT RECORDED APRIL 21, 1983 AS INSTRUMENT NO. 83-441746.

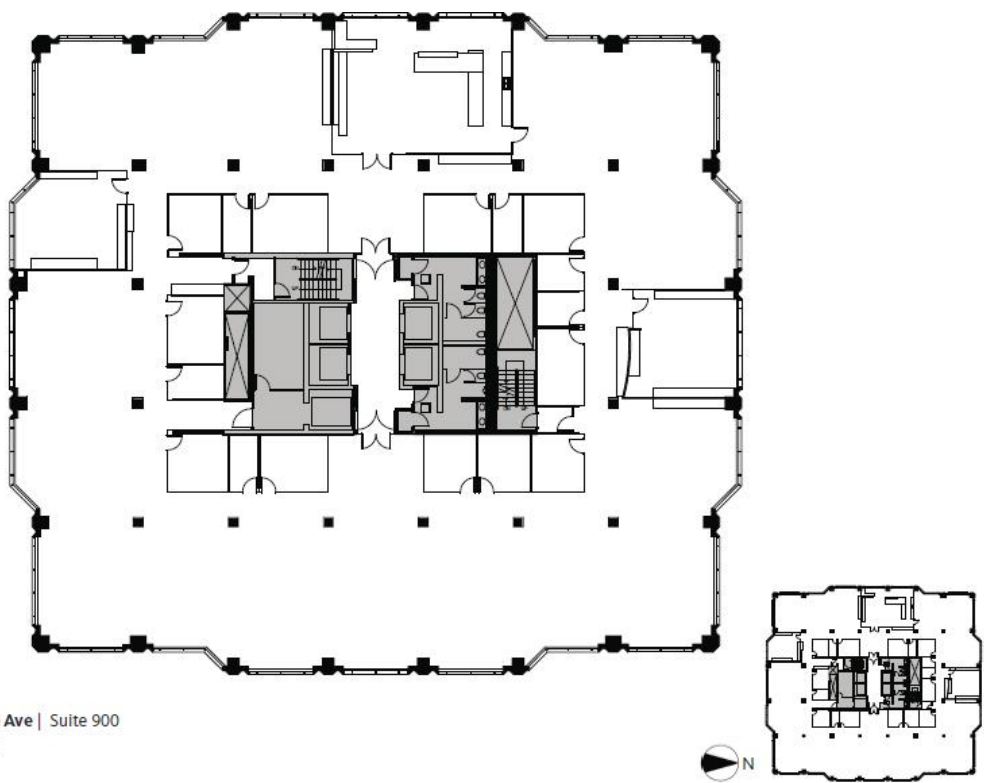
PARCEL 3:

AN EASEMENT FOR LIGHT AND AIR IN FAVOR OF LOTS 15, 16, 17 AND 18 OF SAID SUBDIVISION, OVER, ALONG AND ACROSS LOT 14 OF WALLACE BROS. OLIVEWOOD SUBDIVISION, AS PER MAP RECORDED IN BOOK 11 PAGE 64 OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, AS PROVIDED IN DEED RECORDED APRIL 21, 1983 AS INSTRUMENT NO. 83-441744.

Exhibit A

EXHIBIT B

PREMISES



155 N Lake Ave | Suite 900
19,634 RSF

CBRE

155 N Lake Ave, Pasadena

Gensler

EXHIBIT C

TENANT WORK LETTER

This Tenant Work Letter ("Tenant Work Letter") shall set forth the terms and conditions relating to the construction of the Premises. All references in this Tenant Work Letter to "the Lease" shall mean the relevant portions of the Lease to which this Tenant Work Letter is attached as Exhibit C.

SECTION 1

BASE, SHELL AND CORE

Landlord has previously constructed the base, shell, and core (i) of the Premises and (ii) of the floor(s) of the Building on which the Premises are located (collectively, the "Base, Shell, and Core"), and Tenant shall accept the Base, Shell and Core and the Premises in their current "As-Is" condition existing as of the date of the Lease and the Commencement Date. Tenant shall install in the Premises certain "Tenant Improvements" (as defined below) pursuant to the provisions of this Tenant Work Letter. Except for Landlord's obligation to disburse the Tenant Improvement Allowance as described below, Landlord shall not be obligated to make or pay for any alterations or improvements to the Premises, the Building or the Project.

SECTION 2

TENANT IMPROVEMENTS

2.1 Tenant Improvement Allowance. Tenant shall be entitled to a one-time tenant improvement allowance (the "Tenant Improvement Allowance") in the amount of up to, but not exceeding \$30.00 per rentable square foot of the Premises (i.e., up to \$589,020.00, based on 19,634 rentable square feet in the Premises), for all hard and soft costs relating to the design and construction of Tenant's improvements which are permanently affixed to the Premises (the "Tenant Improvements"); provided, however, that Landlord shall have no obligation to disburse all or any portion of the Tenant Improvement Allowance to Tenant unless Tenant makes a request for disbursement pursuant to the terms and conditions of Section 2.2 below prior to June 30, 2019. In no event shall Landlord be obligated to make disbursements pursuant to this Tenant Work Letter in a total amount which exceeds the Tenant Improvement Allowance. So long as no Event of Default exists under the Lease, Tenant may by written request to Landlord apply any unused portion of the Tenant Improvement Allowance as a credit against Base Rent due under the Lease prior to June 30, 2019. As used in this Tenant Work Letter, the term "unused portion of the Tenant Improvement Allowance" means that portion of the Tenant Improvement Allowance that has not then been disbursed and any other portion of the Tenant Improvement Allowance not necessary to pay the costs of any completed Tenant Improvements that remain unpaid and the costs of any other Tenant Improvements under construction at the time Tenant requests application of those funds as a credit against Base Rent. In no event shall the Tenant Improvement Allowance be used for purposes of constructing improvements in the Premises for purposes of offering space for sublease or for the benefit of a subtenant.

Exhibit C

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2.2 Disbursement of the Tenant Improvement Allowance.

2.2.1 Tenant Improvement Allowance Items. Except as otherwise set forth in this Tenant Work Letter, the Tenant Improvement Allowance shall be disbursed by Landlord only for the following items and costs (collectively, the "Tenant Improvement Allowance Items"):

2.2.1.1 Payment of the fees of the "Architect" and the "Engineers," as those terms are defined in Section 3.1 of this Tenant Work Letter, and payment of the fees incurred by, the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the preparation and review of the "Construction Drawings," as that term is defined in Section 3.1 of this Tenant Work Letter, and the cost of any project management or construction management fee incurred by Tenant as it relates to the Tenant Improvements;

2.2.1.2 The payment of plan check, permit and license fees relating to construction of the Tenant Improvements or any other fees imposed by local government authorities;

2.2.1.3 The cost of construction of the Tenant Improvements, including, without limitation, contractors' fees and general conditions, testing and inspection costs, costs of utilities, trash removal, parking and hoists, and the costs of after-hours freight elevator usage.

2.2.1.4 The cost of any changes in the Base, Shell and Core work when such changes are required by the Construction Drawings (including if such changes are due to the fact that such work is prepared on an unoccupied basis), such cost to include all direct architectural and/or engineering fees and expenses incurred in connection therewith;

2.2.1.5 The cost of any changes to the Construction Drawings or Tenant Improvements required by applicable laws and building codes (collectively, "Code");

2.2.1.6 Sales and use taxes and Title 24 fees;

2.2.1.7 The "Coordination Fee," as that term is defined in Section 4.2.2.2 of this Tenant Work Letter;

2.2.1.8 The costs and expenses associated with complying with all national, state and local codes, including California Energy Code, Title 24, including, without limitation, all costs associated with any lighting or HVAC retrofits required thereby; and

2.2.1.9 All other costs actually expended by Landlord in connection with the construction of the Tenant Improvements.

2.2.2 Disbursement of Tenant Improvement Allowance. Subject to Section 2.1 above, during the construction of the Tenant Improvements, Landlord shall make monthly disbursements of the Tenant Improvement Allowance for Tenant Improvement

Allowance Items for the benefit of Tenant and shall authorize the release of monies for the benefit of Tenant as follows:

2.2.2.1 Monthly Disbursements. On or before the twenty-fifth (25th) day of each calendar month during the construction of the Tenant Improvements (or such other date as Landlord may designate), Tenant shall deliver to Landlord: (i) a request for payment of the "Contractor," as that term is defined in Section 4.1 below, approved by Tenant, in a form to be provided by Landlord, showing the schedule, by trade, of percentage of completion of the Tenant Improvements in the Premises, detailing the portion of the work completed and the portion not completed, and demonstrating that the relationship between the cost of the work completed and the cost of the work to be completed complies with the terms of the "Final Costs Statement," as that term is defined in Section 4.2.1 below; (ii) invoices from all of "Tenant's Agents," as that term is defined in Section 4.1.2 below, for labor rendered and materials delivered to the Premises; (iii) executed mechanic's lien releases from all of Tenant's Agents which shall comply with the appropriate provisions, as reasonably determined by Landlord, of California Civil Code Sections 8132, 8134, 8136 or 8138; and (iv) all other information reasonably requested by Landlord. Tenant's request for payment shall be deemed Tenant's acceptance and approval of the work furnished and/or the materials supplied as set forth in Tenant's payment request. On or before the last day of the following calendar month, Landlord shall deliver a check to Tenant made jointly payable to Contractor and Tenant in payment of the lesser of (A) Landlord's Percentage Share (as defined below) of the amounts so requested by Tenant, as set forth in this Section 2.2.2.1, above, less Landlord's Percentage Share of a ten percent (10%) retention (the aggregate amount of such retentions to be known as the "Final Retention"), and (B) the balance of any remaining available portion of the Tenant Improvement Allowance (not including the Final Retention), provided that Landlord does not dispute any request for payment based on non-compliance of any work with the Approved Working Drawings, or due to any substandard work, or for any other reasonable reason. For purposes of this Tenant Work Letter, "Landlord's Percentage Share" shall be calculated by dividing the amount of the Tenant Improvement Allowance by the estimated budget for the Tenant Improvements (including any change orders) as prepared by Tenant and, reasonably approved by Landlord from time to time, and shall in no event exceed one hundred percent (100%). Within twenty (20) days after Tenant's delivery to Landlord of the items described in clauses (i) through (iv), Tenant shall pay the balance of the amounts requested by Tenant (less the remaining balance of the retention), and shall provide Landlord with written evidence of that payment. Landlord's payment of such amounts shall not be deemed Landlord's approval or acceptance of the work furnished or materials supplied as set forth in Tenant's payment request.

2.2.2.2 Final Retention. Subject to the provisions of this Tenant Work Letter, a check for the Final Retention payable jointly to Tenant and Contractor shall be delivered by Landlord to Tenant following the completion of construction of the Premises, provided that (i) Tenant delivers to Landlord properly executed mechanics lien releases in compliance with both California Civil Code Section 8134 and either Section 8136 or Section 8138, and (ii) Landlord has determined that no substandard work exists which adversely affects the mechanical, electrical, plumbing, heating, ventilating and air conditioning, life-safety or other systems of the Building, the curtain wall of the Building, the structure or exterior appearance of the Building, or any other tenant's use of such other tenant's leased premises in the Building.

Exhibit C

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2.2.2.3 Other Terms. Landlord shall only be obligated to make disbursements from the Tenant Improvement Allowance to the extent costs are incurred by Tenant for Tenant Improvement Allowance Items.

2.2.3 Specifications for Building Standard Components. Landlord has established specifications (the "Specifications") for the Building standard components to be used in the construction of the Tenant Improvements in the Premises which Specifications have been received by Tenant. Unless otherwise agreed to by Landlord, the Tenant Improvements shall comply with the Specifications. Landlord may make changes to the Specifications from time to time.

SECTION 3

CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Tenant shall retain the architect/space planner (the "Architect") approved by Landlord, which approval shall not be unreasonably withheld, to prepare the Construction Drawings. Tenant shall retain the engineering consultants reasonably designated by Landlord (the "Engineers") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, lifesafety, and sprinkler work in the Premises. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "Construction Drawings." All Construction Drawings shall comply with the drawing format and specifications reasonably determined by Landlord, and shall be subject to Landlord's approval. Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the base building plans, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord's review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors contained in the Construction Drawings.

3.2 Final Space Plan. Tenant shall supply Landlord with an approved electronic copy in portable document format ("PDF") of its final space plan for the Premises before any architectural working drawings or engineering drawings have been commenced. The final space plan (the "Final Space Plan") shall include a layout and designation of all offices, rooms and other partitioning, their intended use, and equipment to be contained therein. Landlord may request clarification or more specific drawings for special use items not included in the Final Space Plan. Landlord shall advise Tenant within five (5) business days after Landlord's receipt of the Final Space Plan for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall promptly (i) cause the Final Space Plan to be revised to correct any deficiencies or other matters Landlord may reasonably require, and (ii) deliver such revised Final Space Plan to Landlord.

Exhibit C

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3.3 Final Working Drawings. After the Final Space Plan has been approved by Landlord and Tenant, Tenant shall promptly cause the Architect and the Engineers to complete the architectural and engineering drawings for the Premises, and cause the Architect to compile a fully coordinated set of architectural, structural, mechanical, electrical and plumbing working drawings in a form which is complete to allow subcontractors to bid on the work and to obtain all applicable permits for the Tenant Improvements (collectively, the "Final Working Drawings"), and shall submit the same to Landlord for Landlord's approval. Tenant shall supply Landlord with an approved electronic copy in PDF of such Final Working Drawings. Landlord shall advise Tenant within five (5) business days after Landlord's receipt of the Final Working Drawings for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall promptly (i) revise the Final Working Drawings in accordance with such review and any disapproval of Landlord in connection therewith, and (ii) deliver such revised Final Working Drawings to Landlord.

3.4 Approved Working Drawings. The Final Working Drawings shall be approved by Landlord (the "Approved Working Drawings") prior to the commencement of construction of the Premises by Tenant. After approval by Landlord of the Final Working Drawings, Tenant shall promptly submit the same to the appropriate governmental authorities for all applicable building permits. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any building permit or certificate of occupancy for the Premises and that obtaining the same shall be Tenant's responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permit or certificate of occupancy. No changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

SECTION 4

CONSTRUCTION OF THE TENANT IMPROVEMENTS

4.1 Tenant's Selection of Contractor and Tenant's Agents.

4.1.1 The Contractor. A general contractor shall be retained by Tenant to construct the Tenant Improvements. Such general contractor ("Contractor") shall be selected by Tenant from a list of general contractors supplied by Landlord, and Tenant shall deliver to Landlord notice of its selection of the Contractor upon such selection.

4.1.2 Tenant's Agents. All subcontractors, laborers, materialmen, and suppliers used by Tenant (such subcontractors, laborers, materialmen, and suppliers, and the Contractor to be known collectively as "Tenant's Agents") must be approved in writing by Landlord, which approval shall not be unreasonably withheld or delayed; provided that, in any event, Tenant must contract with Landlord's base building subcontractors for any mechanical, electrical, plumbing, life safety, structural, heating, ventilation, and air-conditioning work in the Premises. If requested by Landlord, Tenant's Agents shall all be union labor in compliance with the master labor agreements existing between trade unions and the local chapter of the Associated General Contractors of America.

4.2 Construction of Tenant Improvements by Tenant's Agents.

4.2.1 Construction Contract; Cost Budget. Prior to Tenant's execution of the construction contract and general conditions with Contractor (the "Contract"), Tenant shall submit the Contract to Landlord for its approval, which approval shall not be unreasonably withheld or delayed. The Contract shall provide for a guaranteed maximum price or a stipulated sum as the contract amount and shall be fully executed and delivered by Tenant and Contractor prior to the commencement of construction. Prior to the commencement of the construction of the Tenant Improvements, and after Tenant has accepted all bids for the Tenant Improvements, Tenant shall provide Landlord with a written detailed cost breakdown (the "Final Costs Statement"), by trade, of the final costs to be incurred, or which have been incurred, as set forth more particularly in Section 2.2.1.1 through 2.2.1.8 above, in connection with the design and construction of the Tenant Improvements to be performed by or at the direction of Tenant or the Contractor which costs form a basis for the amount of the Contract, if any (the "Final Costs"). Prior to the commencement of construction of the Tenant Improvements, Tenant shall supply Landlord with evidence that Tenant has cash-on-hand in an amount (the "Over-Allowance Amount") by which the Final Costs exceed the Tenant Improvement Allowance (less any portion thereof already disbursed by Landlord, or in the process of being disbursed by Landlord, on or before the commencement of construction of the Tenant Improvements). Tenant agrees that Tenant shall be solely responsible for payment of the Over-Allowance Amount.

4.2.2 Tenant's Agents.

4.2.2.1 Landlord's General Conditions for Tenant's Agents and Tenant Improvement Work. Tenant's and Tenant's Agents' construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in strict accordance with the Approved Working Drawings; (ii) Tenant and Tenant's Agents shall not, in any way, interfere with, obstruct, or delay, the work of Landlord's base building contractor and subcontractors with respect to the Base, Shell and Core or any other work in the Building; (iii) Tenant's Agents shall submit schedules of all work relating to the Tenant's Improvements to Contractor and Contractor shall, within five (5) business days of receipt thereof, inform Tenant's Agents of any changes which are necessary thereto, and Tenant's Agents shall adhere to such corrected schedule; and (iv) Tenant shall abide by all rules made by Landlord's Building contractor or Landlord's Building manager with respect to the use of freight, loading dock and service elevators, storage of materials, coordination of work with the contractors of other tenants, and any other matter in connection with this Tenant Work Letter, including, without limitation, the construction of the Tenant Improvements.

4.2.2.2 Coordination Fee. Tenant shall pay a logistical coordination fee (the "Coordination Fee") to Landlord in an amount equal to the product of (i) one percent (1%), and (ii) the sum of the Tenant Improvement Allowance, the Over- Allowance Amount, as such amount may be increased hereunder, and any other amounts expended by Tenant in connection with the design and construction of the Tenant Improvements, which Coordination Fee shall be for services relating to the coordination of the construction of the Tenant Improvements.

4.2.2.3 Indemnity. Tenant's indemnity of Landlord as set forth in the Lease shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements and/or Tenant's disapproval of all or any portion of any request for payment. Such indemnity by Tenant, as set forth in the Lease, shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to Landlord's performance of any ministerial acts reasonably necessary (i) to permit Tenant to complete the Tenant Improvements, and (ii) to enable Tenant to obtain any building permit or certificate of occupancy for the Premises.

4.2.2.4 Insurance Requirements.

4.2.2.4.1 General Coverages. All of Tenant's Agents shall carry worker's compensation insurance covering all of their respective employees, and shall also carry public liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in the Lease.

4.2.2.4.2 Special Coverages. Tenant shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Tenant Improvements, and such other insurance as Landlord may require, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to the Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord, and in form and with companies as are required to be carried by Tenant as set forth in the Lease.

4.2.2.4.3 General Terms. Certificates for all insurance carried pursuant to this Section 4.2.2.4 shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the Contractor's equipment is moved onto the site. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days prior written notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall immediately repair the same at Tenant's sole cost and expense. All policies carried under this Section 4.2.2.4 shall insure Landlord and Tenant, as their interests may appear, as well as Contractor and Tenant's Agents, and shall name as additional insureds Landlord's Property Manager, Landlord's Asset Manager, and all mortgagees and ground lessors of the Building. All insurance, except Workers' Compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the owner and that any other insurance maintained by owner is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2.2.3 of this Tenant Work Letter.

4.2.3 Governmental Compliance. The Tenant Improvements shall comply in all respects with the following: (i) the Code and other state, federal, city or quasi- governmental laws, codes, ordinances and regulations, as each may apply according to the rulings of the controlling public official, agent or other person; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) building material manufacturer's specifications.

4.2.4 Inspection by Landlord. Landlord shall have the right to inspect the Tenant Improvements at all times, provided however, that Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute Landlord's approval of the same. Should Landlord disapprove any portion of the Tenant Improvements, Landlord shall notify Tenant in writing of such disapproval and shall specify the items disapproved. Any defects or deviations in, and/or disapproval by Landlord of, the Tenant Improvements shall be rectified by Tenant at no expense to Landlord, provided however, that in the event Landlord determines that a defect or deviation exists or disapproves of any matter in connection with any portion of the Tenant Improvements and such defect, deviation or matter might adversely affect the mechanical, electrical, plumbing, heating, ventilating and air conditioning or life-safety systems of the Building, the structure or exterior appearance of the Building or any other tenant's use of such other tenant's leased premises, Landlord may, take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such defect, deviation and/or matter, including, without limitation, causing the cessation of performance of the construction of the Tenant Improvements until such time as the defect, deviation and/or matter is corrected to Landlord's satisfaction.

4.2.5 Meetings. When reasonably determined by Tenant, Tenant shall hold weekly meetings at a reasonable time, with the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and the construction of the Tenant Improvements, which meetings shall be held at a location designated by Landlord, and Landlord and/or its agents shall receive prior notice of, and shall have the right to attend, all such meetings, and, upon Landlord's request, certain of Tenant's Agents shall attend such meetings. In addition, minutes shall be taken at all such meetings, a copy of which minutes shall be promptly delivered to all parties in attendance. One such meeting each month shall include the review of Contractor's current request for payment.

4.3 Notice of Completion; Copy of "As Built" Plans. Within fifteen (15) days after completion of construction of the Tenant Improvements, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of the County in which the Building is located in accordance with Section 8182 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall cause the Architect and Contractor (A) to update the Approved Working Drawings as necessary to reflect all changes made to the Approved Working Drawings during the course of construction, (B) to certify to the best of their knowledge that the "record-set" of as-built drawings are true and correct, which certification shall survive the expiration or termination of the Lease, (C) to deliver

to Landlord two (2) sets of full-size prints of such as-built drawings within ninety (90) days following issuance of a certificate of occupancy for the Premises, and
(D) to deliver to Landlord a computer disk containing the Approved Working Drawings in AutoCAD format, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

4.4 Coordination by Tenant's Agents with Landlord. Upon Tenant's delivery of the Contract to Landlord under Section 4.2.1 of this Tenant Work Letter, Tenant shall furnish Landlord with a schedule setting forth the projected date of the completion of the Tenant Improvements and showing the critical time deadlines for each phase, item or trade relating to the construction of the Tenant Improvements.

SECTION 5

MISCELLANEOUS

5.1 Tenant's Representative. Upon Landlord's request, Tenant shall designate an individual as its sole representative with respect to the matters set forth in this Tenant Work Letter, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Tenant Work Letter.

5.2 Landlord's Representative. Landlord has designated Bernard Chua as its sole representative with respect to the matters set forth in this Tenant Work Letter, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Tenant Work Letter.

5.3 Time of the Essence in This Tenant Work Letter. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

5.4 Tenant's Lease Default. Notwithstanding any provision to the contrary contained in the Lease, if an Event of Default by Tenant under the Lease or a default by Tenant under this Tenant Work Letter has occurred at any time on or before the substantial completion of the Premises, then (i) in addition to all other rights and remedies granted to Landlord pursuant to the Lease, at law and/or in equity, Landlord shall have the right to withhold payment of all or any portion of the Tenant Improvement Allowance and/or Landlord may cause Contractor to cease the construction of the Premises (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Tenant Work Letter shall be forgiven until such time as such default is cured pursuant to the terms of the Lease (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such inaction by Landlord).

Exhibit C

EXHIBIT D

RULES AND REGULATIONS

Tenant shall faithfully observe and comply with the following Rules and Regulations. Landlord shall not be responsible to Tenant for the nonperformance of any of said Rules and Regulations by or otherwise with respect to the acts or omissions of any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of the Building or any part of the Premises visible from the exterior of the Premises without the prior written consent of Landlord, which consent may be withheld in Landlord's sole discretion. Landlord shall have the right to remove, at Tenant's expense and without notice to Tenant, any such sign, placard, picture, advertisement, name or notice that has not been approved by Landlord.

All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved of by Landlord.

If Landlord notifies Tenant in writing that Landlord objects to any curtains, blinds, shades or screens attached to or hung in or used in connection with any window or door of the Premises, such use of such curtains, blinds, shades or screens shall be removed immediately by Tenant. No awning shall be permitted on any part of the Premises.

2. No ice, drinking water, towel, barbering or bootblackening, shoeshining or repair services, or other similar services shall be provided to the Premises, except from persons authorized by Landlord and at the hours and under regulations fixed by Landlord.

3. The bulletin board or directory of the Building will be provided exclusively for the display of the name and location of tenants only and Landlord reserves the right to exclude any other names therefrom.

4. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the Tenant Parties or used by Tenant for any purpose other than for ingress to and egress from its Premises. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants. No tenant and no employees or invitees of any tenant shall go upon the roof of the Building.

5. Tenant shall not alter any lock or install any new or additional locks or any bolts on any interior or exterior door of the Premises without the prior written consent of Landlord.

6. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any

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kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose employees or invitees, shall have caused it.

7. Tenant shall not overload the floor of the Premises or mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises or any part thereof.

8. No furniture, freight or equipment of any kind shall be brought into the Building without the consent of Landlord and all moving of the same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on a platform of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause, and all damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant. The elevator designated for freight by Landlord shall be available for use by all tenants in the Building during the hours and pursuant to such procedures as Landlord may determine from time to time. The persons employed to move Tenant's equipment, material, furniture or other property in or out of the Building must be acceptable to Landlord. The moving company must be a locally recognized professional mover, whose primary business is the performing of relocation services, and must be bonded and fully insured. In no event shall Tenant employ any person or company whose presence may give rise to a labor or other disturbance in the Project. A certificate or other verification of such insurance must be received and approved by Landlord prior to the start of any moving operations. Insurance must be sufficient in Landlord's sole opinion, to cover all personal liability, theft or damage to the Project, including, but not limited to, floor coverings, doors, walls, elevators, stairs, foliage and landscaping. Special care must be taken to prevent damage to foliage and landscaping during adverse weather. All moving operations shall be conducted at such times and in such a manner as Landlord shall direct, and all moving shall take place during non-business hours unless Landlord agrees in writing otherwise.

9. Tenant shall not employ any person or persons other than the janitor of Landlord for the purpose of cleaning the Premises, unless otherwise agreed to by Landlord. Except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be permitted to enter the Building for the purpose of cleaning the Building or the Premises. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness.

10. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building. In no event shall Tenant keep, use, or permit to be used in the Premises or the Building any guns, firearm, explosive devices or ammunition.

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11. No cooking shall be done or permitted by Tenant in the Premises, nor shall the Premises be used for the storage of merchandise, for washing clothes, for lodging, or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, however, Tenant may maintain and use microwave ovens and equipment for brewing coffee, tea, hot chocolate and similar beverages, provided that Tenant shall (i) prevent the emission of any food or cooking odor from leaving the Premises, (ii) be solely responsible for cleaning the areas where such equipment is located and removing food-related waste from the Premises and the Building, or shall pay Landlord's standard rate for such service as an addition to cleaning services ordinarily provided, (iii) maintain and use such areas solely for Tenant's employees and business invitees, not as public facilities, and (iv) keep the Premises free of vermin and other pest infestation and shall exterminate, as needed, in a manner and through contractors reasonably approved by Landlord, preventing any emission of odors, due to extermination, from leaving the Premises. Notwithstanding clause (ii) above, Landlord shall, without special charge, empty and remove the contents of one (1) 15-gallon (or smaller) waste container from the food preparation area so long as such container is fully lined with, and the contents can be removed in, a waterproof plastic liner or bag, supplied by Tenant, which will prevent any leakage of food related waste or odors; provided, however, that if at any time Landlord must pay a premium or special charge to Landlord's cleaning or scavenger contractors for the handling of food-related or so-called "wet" refuse, Landlord's obligation to provide such removal, without special charge, shall cease.

12. Tenant shall not use or keep in the Premises or the Building any kerosene, gasoline, or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord.

13. Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced into the Premises and the Building. No boring or cutting for wires will be allowed without the prior consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the prior approval of Landlord.

14. Upon the expiration or earlier termination of the Lease, Tenant shall deliver to Landlord the keys of offices, rooms and toilet rooms which have been furnished by Landlord to Tenant and any copies of such keys which Tenant has made. In the event Tenant has lost any keys furnished by Landlord, Tenant shall pay Landlord for such keys.

15. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises, except to the extent and in the manner approved in advance by Landlord. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by the tenant by whom, or by whose contractors, employees or invitees, the damage shall have been caused.

16. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours and in such elevators as shall be designated by Landlord, which elevator usage shall be subject to the Building's customary charge therefor as established from time to time by Landlord.

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17. On Saturdays, Sundays and legal holidays, and on other days between the hours of 6:00 P.M. and 8:00 A.M., access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the person seeking access is known to the person or employee of the Building in charge and has a pass or is properly identified. Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building during the continuance of the same by closing the doors or otherwise, for the safety of the tenants and protection of property in the Building.

18. Tenant shall be responsible for insuring that the doors of the Premises are closed and securely locked before leaving the Building and must observe strict care and caution that all water faucets or water apparatus are entirely shut off before Tenant or Tenant's employees leave the Building, and that all electricity, gas or air shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness Tenant shall make good all injuries sustained by other tenants or occupants of the Building or Landlord. Landlord shall not be responsible to Tenant for loss of property on the Premises, however occurring, or for any damage to the property of Tenant caused by the employees or independent contractors of Landlord or by any other person.

19. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

20. The requirements of any tenant will be attended to only upon application at the office of the Building. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee will admit any person (tenant or otherwise) to any office without specific instructions from Landlord.

21. No food, soft drink or other vending machine or machines of any description shall be installed, maintained or operated upon the Premises without the prior written consent of Landlord, except those for use by Tenant's employees.

22. Subject to Tenant's right of access to the Premises in accordance with Building security procedures, Landlord reserves the right to close and keep locked all entrance and exit doors of the Building on Saturdays, Sundays and legal holidays and on other days between the hours of 6:00 P.M. and 8:00 A.M., and during such further hours as Landlord may deem advisable for the adequate protection of the Building and the property of its tenants. Subject to Applicable Laws, except when and where Tenant's right of access is specifically excluded in this Lease, and except in the event of an emergency, Tenant shall have the right of access to the Premises, the Building, and the parking facilities servicing the Building twenty-four (24) hours per day, seven (7) days per week during the Term.

23. Tenant, its employees and agents shall not loiter in or on the entrances, corridors, sidewalks, lobbies, courts, halls, stairways, elevators, vestibules or any Common Areas for the

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purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises.

24. Tenant shall not waste electricity, water or air conditioning and agrees to cooperate fully with Landlord to ensure the most effective operation of the Building's heating and air conditioning system, and shall refrain from attempting to adjust any controls. Tenant shall comply with and participate in any program for metering or otherwise measuring the use of utilities and services, including, without limitation, programs requiring the disclosure or reporting of the use of any utilities or services. Tenant shall also cooperate and comply with, participate in, and assist in the implementation of (and take no action that is inconsistent with, or which would result in Landlord, the Building and/or the Project failing to comply with the requirements of) any conservation, sustainability, recycling, energy efficiency, and waste reduction programs, environmental protection efforts and/or other programs that are in place and/or implemented from time to time at the Building and/or the Project, including, without limitation, any required reporting, disclosure, rating or compliance system or program (including, but not limited to any LEED ([Leadership in Energy and Environmental Design] rating or compliance system, including those currently coordinated through the U.S. Green Building Council).

25. Smoking (including vaping) is prohibited in the Premises, the Building and all enclosed Common Areas of the Project, including all lobbies, all hallways, all elevators and all lavatories. Without limiting the foregoing, Tenant must comply with the State of California "No- Smoking" law set forth in California Labor Code Section 6404.5, and any local "No-Smoking" ordinance which may be in effect from time to time and which is not superseded by such State law.

26. Tenant hereby acknowledges that Landlord shall have no obligation to provide guard service or other security measures for the benefit of the Premises, the Building or the Project. Tenant hereby assumes all responsibility for the protection of Tenant and its agents, employees, contractors, invitees and guests, and the property thereof, from acts of third parties, including keeping doors locked and other means of entry to the Premises closed, whether or not Landlord, at its option, elects to provide security protection for the Project or any portion thereof. Tenant further assumes the risk that any safety and security devices, services and programs which Landlord elects, in its sole discretion, to provide may not be effective, or may malfunction or be circumvented by an unauthorized third party, and Tenant shall, in addition to its other insurance obligations under this Lease, obtain its own insurance coverage to the extent Tenant desires protection against losses related to such occurrences. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by law.

27. Tenant shall install and maintain, at Tenant's sole cost and expense, an adequate visibly marked (at all times properly operational) fire extinguisher next to any duplicating or photocopying machine or similar heat producing equipment, which may or may not contain combustible material, in the Premises.

28. The Premises shall not be used as an employment agency, a public stenographer or typist, a labor union office, a physician's or dentist's office, a dance or music studio, a school, a

beauty salon, or barber shop, the business of photographic, multilith or multigraph reproductions or offset printing (not precluding using any part of the Premises for photographic, multilith or multigraph reproductions solely in connection with Tenant's own business and/or activities), a restaurant or bar, an establishment for the sale of confectionery, soda, beverages, sandwiches, ice cream or baked goods, an establishment for preparing, dispensing or consumption of food or beverages of any kind in any manner whatsoever, or news or cigar stand, or a radio, television or recording studio, theatre or exhibition-hall, or manufacturing, or the storage or sale of merchandise, goods, services or property of any kind at wholesale, retail or auction.

29. Tenant shall not store any vehicle within the parking area. Tenant's parking rights are limited to the use of parking spaces for short-term parking, of up to twenty-four (24) hours, of vehicles utilized in the normal and regular daily travel to and from the Project. Tenants who wish to park a vehicle for longer than a 24- hour period shall notify the Building manager for the Project and consent to such long-term parking may be granted for periods up to two (2) weeks. Any motor vehicles parked without the prior written consent of the Building manager for the Project for longer than a 24-hour period shall be deemed stored in violation of this rule and regulation and shall be towed away and stored at the owner's expense or disposed of as provided by Applicable Laws.

Landlord reserves the right at any time to change or rescind any one or more of these Rules and Regulations, or to make such other and further reasonable Rules and Regulations as in Landlord's judgment may from time to time be necessary for the management, safety, care and cleanliness of the Premises, Building, the Common Areas and the Project, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing any such Rules or Regulations against any or all tenants of the Project. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition of its occupancy of the Premises.

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EXHIBIT E

FORM OF TENANT'S ESTOPPEL CERTIFICATE

The undersigned, as Tenant under that certain Office Lease (the "Lease") made and entered into as of _____, 201__ by and between _____, as Landlord, and the undersigned, as Tenant, for Premises on the _____ floor(s) of the office building located at _____, certifies as follows:

1. Attached hereto as Exhibit A is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in Exhibit A represent the entire agreement between the parties as to the Premises.
2. The undersigned currently occupies the Premises described in the Lease, the Lease Term commenced on _____, and the Lease Term expires on _____, and the undersigned has no option to terminate or cancel the Lease or to purchase all or any part of the Premises, the Building and/or the Project.
3. Base Rent became payable on _____.
4. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in Exhibit A.
5. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows:
6. Tenant shall not modify the documents contained in Exhibit A without the prior written consent of Landlord's mortgagee.
7. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through _____. The current monthly installment of Base Rent is \$ _____.
8. All conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied and Landlord is not in default thereunder. In addition, the undersigned has not delivered any notice to Landlord regarding a default by Landlord thereunder.
9. No rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord except the Security Deposit in the amount of \$ _____ as provided in the Lease.
10. As of the date hereof, there are no existing defenses or offsets, or, to the undersigned's knowledge, claims or any basis for a claim, that the undersigned has against Landlord.
11. If Tenant is a corporation, limited liability company, partnership or limited liability partnership, each individual executing this Estoppel Certificate on behalf of Tenant hereby

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represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

12. There are no actions pending against the undersigned under the bankruptcy or similar laws of the United States or any state.

13. Other than in compliance with all applicable laws and incidental to the ordinary course of the use of the Premises, the undersigned has not used or stored any hazardous substances in the Premises.

14. All tenant improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by the undersigned and all reimbursements and allowances due to the undersigned under the Lease in connection with any tenant improvement work have been paid in full.

The undersigned acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of making such loan or acquiring such property.

Executed at _____ on the _____ day of _____, 201__.

"Tenant":

a _____,

By:

Its: _____

By:

Its: _____

EXHIBIT F

COMMENCEMENT DATE MEMORANDUM

With respect to that certain lease ("Lease") dated _____, 201 between _____ ("Landlord"), and _____ ("Tenant"), whereby Landlord leased to Tenant and Tenant leased from Landlord approximately _____ rentable square feet of that certain office building located at _____, California ("Premises"), Tenant hereby acknowledges and certifies to Landlord as follows:

- (1) Landlord delivered possession of the Premises to Tenant substantially complete on _____;
- (2) The Lease commenced on _____ ("Commencement Date") _____ and Tenant's obligation to pay Rent commenced on _____;
- (3) The Expiration Date of the Lease is _____;
- (4) The Premises contain _____ rentable square feet of space;
- (5) Tenant has accepted and is currently in possession of the Premises and the Premises are acceptable for Tenant's use;
- (6) Tenant's Building Percentage is _____; and
- (7) Base Rent per month is _____.

IN WITNESS WHEREOF, this Commencement Date Memorandum is executed this day of

"Tenant"

By:

Its:

By:

Its:

Exhibit F

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE ("First Amendment") dated as of February 6, 2018, is made by and between 25 Corporate Drive, LLC, a Delaware limited liability company ("Landlord"), and Everbridge, Inc., a Delaware corporation ("Tenant").

Background

A. Pursuant to the provisions of that certain Lease dated as of December 16, 2016 between Burlington Centre Owner LLC ("Initial Landlord") and Tenant (the "Existing Lease"), Tenant leased from Initial Landlord, and Initial Landlord leased to Tenant a space containing approximately 9,422 rentable square feet on the third floor (the "Third Floor Premises") and 36,710 rentable square feet on the fourth (4th) floor (the "Fourth Floor Premises") of the building located at 25 Corporate Drive, Burlington, Massachusetts (the "Building"), all as more particularly described in the Existing Lease. The Third Floor Premises and the Fourth Floor Premises are referred to hereinafter as the "Original Premises." Landlord has succeeded to the interests of Initial Landlord. Capitalized terms used and not defined herein shall have the respective meanings ascribed to them in the Existing Lease. The Existing Lease, as amended by this First Amendment, is hereinafter referred to as the "Lease."

B. Tenant has exercised its option under Section 20.2 of the Existing Lease to expand the Original Premises to include the Option B Expansion Premises (as defined in the Existing Lease), which consists of (i) the 13,956 rentable square feet on the third floor of the Building referred to as the Intrinsiq Space, (ii) the 7,838 rentable square feet on the third floor of the Building referred to as the Vacant Space and (iii) the 5,420 rentable square feet on the third floor of the Building referred to as the Additional Expansion Space, all as shown on Exhibit 20.1 (a) to the Existing Lease. After the addition of the Option B Expansion Premises, the Premises shall contain 73,346 rentable square feet.

C. Landlord and Tenant desire to enter into this First Amendment to (i) provide for the expansion of the Premises to include the Option B Expansion Premises, (ii) extend the term of the Lease, (iii) modify the rent and (iv) otherwise amend the Existing Lease, all in accordance with the terms and conditions set forth herein.

Agreement

NOW, THEREFORE, in consideration of the foregoing and mutual covenants contained herein, Landlord and Tenant hereby agree to modify and amend the Existing Lease as follows:

1) Expansion. (a) Landlord shall use commercially reasonable efforts to deliver the Option B Expansion Premises to Tenant broom clean, free and clear of tenants or other occupants, in a structurally sound condition and otherwise "as-is" (the "Delivery Condition") on September 1, 2018 (except for the Intrinsiq Space for which Landlord shall use commercially reasonable efforts to deliver such space to Tenant on October 1, 2018) (as applicable, the

"Estimated Expansion B Delivery Date"). The "Option B Expansion Premises Commencement Date" shall be the later of (i) October 1, 2018 and (ii) the date that the Option B Expansion Premises (or portion thereof) is delivered to Tenant in the Delivery Condition; provided that, in the event Tenant does not occupy any portion of the Option B Expansion Premises until all of the Option B Expansion Premises has been delivered to Tenant, then the Option B Expansion Premises Commencement Date shall be the later of (a) October 1, 2018 and (b) the date on which all of the Option B Expansion Premises has been delivered to Tenant. On the Option B Expansion Premises Commencement Date the "Premises" shall be deemed to be expanded to include such space, subject to the terms of this First Amendment. If Landlord fails to deliver any portion of the Option B Expansion Premises by the date that is ninety (90) days after the Estimated Expansion B Delivery Date for occupied space (Intrinsiq Space and Additional Expansion Space) and sixty (60) days after the Estimated Expansion B Delivery Date for unoccupied space (Vacant Space), in each case other than for Force Majeure, then Tenant shall receive a rent credit of one (1) day of Base Rent with respect to the applicable portion of the Option B Expansion Premises for each day during which Landlord so failed to deliver to Tenant the respective portion of the Option B Expansion Premises in the Delivery Condition beyond such sixty (60) or ninety (90) day period, as applicable. If Landlord fails to deliver the Intrinsiq Space and/or the Vacant Space by February 28, 2019 or the Additional Expansion Space by May 31, 2019, for any reason, including, but not limited to, the holding over of any prior tenant, then Tenant may, as its sole remedy, at any time after such respective dates and prior to Landlord's actual delivery of the respective portion(s) of the Option B Expansion Premises, cancel (a) the exercise of its option to lease the entire Option B Expansion Premises and (b) this First Amendment by giving to Landlord a written cancellation notice; provided, however, if Landlord delivers the respective portion(s) of the Option B Expansion Premises to Tenant on or before the date that is thirty (30) days after Landlord receives such cancellation notice, such cancellation notice shall be void and without further force or effect.

b) Effective as of the date hereof, (i) Tenant shall have no further option to expand the Premises pursuant to Sections 20.1 or 20.2 of the Existing Lease and (ii) Tenant's Extension Option (as defined in Article 17 of the Existing Lease) shall apply to the entire Premises including the Option B Expansion Premises.

c) Notwithstanding any provision of this First Amendment to the contrary, Tenant's rights and Landlord's obligations under this First Amendment are subject to there being no monetary or material non-monetary Event of Default of Tenant as of the Option B Expansion Premises Commencement Date, which Event of Default may be waived by Landlord in its sole discretion.

2) Tenant Improvements. Landlord shall not have any obligation to perform any leasehold improvements, alterations or any other work to make the Option B Expansion Premises ready for Tenant's use or occupancy, and Tenant shall accept the Option B Expansion Premises in its "as-is" condition as of the Option B Expansion Premises Commencement Date. All Alterations in the Option B Expansion Premises necessary for Tenant's occupancy ("Expansion Improvements") shall be constructed by Tenant, shall be consistent with first class office use and performed in accordance with the terms and provisions of the Lease including, without limitation, Section 8.3 of the Existing Lease. All Expansion Improvements shall be performed at Tenant's sole cost and expense, subject to the Expansion Improvement Allowance (as defined below).

Landlord shall provide Tenant with an allowance (the "Expansion Improvement Allowance") for the Expansion Improvements in an amount not to exceed the \$1,142,988.00 (being the product of (x) \$8.40 times (y) the rentable square footage of the Option B Expansion Premises as set forth above times (z) five). Any amounts to design and construct the Expansion Improvements in excess of the Expansion Improvement Allowance shall be paid by Tenant. Landlord shall receive a one percent (1%) percent construction oversight fee, payable out of the Expansion Improvement Allowance, in connection with the Expansion Improvements, which fee shall be calculated based only on the so-called "hard costs" of construction for the Expansion Improvements. The Expansion Improvement Allowance shall be advanced by Landlord on the terms and conditions set forth in Section 4 of the Work Letter attached to the Existing Lease, and any amounts not requisitioned by the first anniversary of the date upon which Rent payments commence with respect to the applicable Option B Expansion Premises Commencement Date shall be retained by Landlord with no further obligation to advance the same.

3) Extension. The Initial Term is hereby extended through and including the date that is the later of (a) May 31, 2024 and (b) the date that is sixty (60) full calendar months after the Option B Expansion Premises Commencement Date (or the last Option B Expansion Commencement Date to occur, if portions of the Option B Expansion Premises are delivered and occupied at different times) (the "Expiration Date").

4) Base Rent. Notwithstanding any provision of the Existing Lease to the contrary and commencing as of the earlier of (i) one hundred fifty (150) days after the applicable Option B Expansion Premises Commencement Date and (ii) the date that Tenant occupies the Option B Expansion Premises (or portion thereof) for the conduct of Tenant's business (the earlier of such dates, the "Option B Expansion Premises Rent Commencement Date"), Tenant shall pay to Landlord the Base Rent for the Option B Expansion Premises as follows:

- a) the Base Rent per rentable square foot payable by Tenant with respect to the Option B Expansion Premises shall be equal to the Base Rent per rentable square foot applicable to the Original Premises initially leased under the Existing Lease as provided in Section 4.1 of the Existing Lease through May 31, 2022; and
- b) Commencing on June 1, 2022 and continuing through the Expiration Date (as defined in Section 3 of this First Amendment), Base Rent for the entire Premises, including the Original Premises and the Option B Expansion Premises, shall increase annually on each June 1st in the amount of \$0.75 per square foot of rentable area.

When the Option B Expansion Premises Commencement Date and the Option B Expansion Premises Rent Commencement Date have been determined, Landlord and Tenant shall enter into a Commencement Date Agreement, which shall set forth the Option B Expansion Premises Commencement Date, the Option B Expansion Premises Rent Commencement Date, the Base Rent payable by Tenant and any other items reasonably requested by Landlord.

5) Additional Rent. Tenant shall continue to pay Additional Rent accruing with respect to the entire Premises in the manner and at the times set forth in the Existing Lease, provided the Tenant's Share shall be increased from 39.13% to 62.22% commencing on the Option B Expansion Premises Commencement Date. For avoidance of doubt, Tenant shall continue to pay the Electric Expense at all times during the Initial Term as extended.

6) Notices. Notwithstanding any provision of the Existing Lease to the contrary, Landlord's Notice Address shall be as follows:

25 Corporate Drive LLC
c/o Spear Street Capital
One Market Plaza, Suite 4125
San Francisco, CA 94105
Attn: Rajiv S. Patel

with a copy to:

25 Corporate Drive LLC c/o Spear Street Capital
450 Lexington Avenue, 39th Floor New York, NY 10017
Attn: Asset Manager

7) Miscellaneous

- a) Brokerage. Landlord and Tenant each represent and warrant to the other that they have not dealt with any broker in connection with this First Amendment other than Newmark Real Estate of Massachusetts LLC (d/b/a Newmark Knight Frank) and Cushman & Wakefield of Massachusetts (the "Brokers"). Each party covenants to pay, hold harmless, and indemnify the other from and against any and all costs, expense, or liability for any compensation, commissions, or charges claimed by any broker or agent with respect to this First Amendment or the negotiation thereof arising from its breach of the foregoing warranty, other than the Brokers who shall be paid by Landlord pursuant to separate agreements.
- b) Ratification. Except as expressly modified by this First Amendment, the Existing Lease is hereby confirmed and shall remain in full force and effect.
- c) Suite 220. Tenant acknowledges that in connection with Tenant's lease of the Option B Expansion Premises pursuant to this First Amendment, Landlord will relocate the current tenant of the Additional Expansion Space to Suite 220 in the Building. Tenant hereby agrees that notwithstanding any provision of the Lease to the contrary, Landlord shall have no obligation pursuant to Article 19 of the Existing Lease to offer to lease Suite 220 to Tenant before or in connection with such relocation to Suite 220.

[Remainder of Page Left Blank Intentionally; Signatures on Following Page]

IN WITNESS WHEREOF, Landlord and Tenant have entered into this First Amendment as of the date first set forth above.

LANDLORD:

25 CORPORATE Drive, LLC,
a Delaware limited liability company

By: /s/ Rajiv S. Patel

Name: Rajiv S. Patel

Title: President

TENANT:

EVERBRIDGE, INC.,
a Delaware corporation

By: /s/ Jeff Lortz

Name: Jeff Lortz

Title: CIO and VP of Corporate Planning
and Services Operations

List of Subsidiaries of Everbridge, Inc.

Company Name

Beijing Wan Qiao Da Guan Information & Technology Ltd.
 Everbridge Holdings Limited
 Everbridge Europe Limited
 Everbridge Securities Corporation
 Microtech USA LLC
 Svensk Krisledning AB
 Unified Messaging Systems AS
 UMS AB
 UMS ApS
 UMS France SAS
 UMS Limited
 UMS OY
 Unified Messaging Systems & Services Private Limited
 UMS Americas, LLC
 Previstar, Inc.
 Previstar Private Limited
 Wilgenhof NB Heiloo B.V.
 Respond Beheer B.V.
 Everbridge Asia Pte. Ltd.

Jurisdiction

China
 United Kingdom
 United Kingdom
 Massachusetts
 Delaware
 Sweden
 Norway
 Sweden
 Denmark
 France
 United Kingdom
 Finland
 India
 Florida
 Delaware
 India
 Netherlands
 Netherlands
 Singapore

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Everbridge, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (No. 333-220777 and 333-229238) and on Form S-8 (No. 333-213679, 333-216909 and 333-227502) of Everbridge, Inc. of our report dated March 12, 2018, with respect to the consolidated balance sheets of Everbridge, Inc. and subsidiaries as of December 31, 2017, and the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the two year period ended December 31, 2017, and the related consolidated notes, which report appears in the December 31, 2018 annual report on Form 10-K of Everbridge, Inc.

/s/ KPMG LLP

Los Angeles, California
March 1, 2019

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-229239 and 333-220777) of Everbridge, Inc,
- (2) Registration Statement (Form S-8 Nos. 333-227502 and 333-216909) pertaining to the 2016 Equity Incentive Plan and the 2016 Employee Stock Purchase Plan of Everbridge, Inc., and
- (3) Registration Statement (Form S-8 No. 333-213679) pertaining to the 2008 Equity Incentive Plan, the 2016 Equity Incentive Plan, and the 2016 Employee Stock Purchase Plan of Everbridge, Inc.;

of our reports dated March 1, 2019, with respect to the consolidated financial statements Everbridge, Inc. and the effectiveness of internal control over financial reporting of Everbridge, Inc. included in this Annual Report (Form 10-K) of Everbridge, Inc. for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 1, 2019

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jaime Ellertson, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 1, 2019

By: /s/ Jaime Ellertson

Name: Jaime Ellertson

Title: Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick Brickley, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 1, 2019

By: /s/ Patrick Brickley

Name: Patrick Brickley

Title: Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

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

I, Jaime Ellertson, President, Chief Executive Officer of Everbridge, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the Annual Report on Form 10-K of Everbridge, Inc. for the year ended December 31, 2018 (the "Report"):

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

Date: March 1, 2019

By: /s/ Jaime Ellertson

Name: Jaime Ellertson

Title: Chief Executive Officer
(Principal Executive Officer)

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

I, Patrick Brickley, Chief Financial Officer of Everbridge, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the Annual Report on Form 10-K of Everbridge, Inc. for the year ended December 31, 2018 (the "Report"):

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

Date: March 1, 2019

By: /s/ Patrick Brickley

Name: Patrick Brickley

Title: Senior Vice President and
Chief Financial Officer
(*Principal Financial Officer*)