

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____
Commission File Number: 001-37874

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:

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

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

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

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

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

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

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

As of November 7, 2022, the registrant had 39,925,589 shares of common stock outstanding.

EVERBRIDGE, INC. AND SUBSIDIARIES
FORM 10-Q
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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

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

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 486,906	\$ 488,035
Restricted cash	1,985	3,880
Accounts receivable, net	93,330	120,995
Prepaid expenses	14,064	13,740
Deferred costs and other current assets	28,023	28,469
Total current assets	624,308	655,119
Property and equipment, net	9,387	12,185
Capitalized software development costs, net	27,623	22,720
Goodwill	492,366	531,163
Intangible assets, net	178,510	219,319
Restricted cash	782	843
Prepaid expenses	1,575	1,916
Deferred costs and other assets	31,791	35,750
Total assets	\$ 1,366,342	\$ 1,479,015
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 12,397	\$ 16,002
Accrued payroll and employee related liabilities	28,392	36,725
Accrued expenses	11,946	13,884
Deferred revenue	220,488	223,579
Convertible senior notes	8	8
Other current liabilities	10,342	14,132
Total current liabilities	283,573	304,330
Long-term liabilities:		
Deferred revenue, noncurrent	12,550	14,261
Convertible senior notes	812,023	665,695
Deferred tax liabilities	4,060	16,082
Other long-term liabilities	8,946	15,958
Total liabilities	1,121,152	1,016,326
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001, 10,000,000 shares authorized, no shares issued or outstanding as of September 30, 2022 and December 31, 2021, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 39,886,939 and 39,389,733 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	40	39
Additional paid-in capital	714,761	853,664
Accumulated deficit	(418,285)	(388,112)
Accumulated other comprehensive loss	(51,326)	(2,902)
Total stockholders' equity	245,190	462,689
Total liabilities and stockholders' equity	\$ 1,366,342	\$ 1,479,015

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 111,401	\$ 96,746	\$ 314,762	\$ 265,605
Cost of revenue	35,447	30,310	100,543	83,255
Gross profit	75,954	66,436	214,219	182,350
Operating expenses:				
Sales and marketing	46,580	42,426	133,755	118,436
Research and development	25,177	23,197	75,355	61,527
General and administrative	23,357	19,904	72,786	67,130
Restructuring	37	—	6,779	—
Total operating expenses	95,151	85,527	288,675	247,093
Operating loss	(19,197)	(19,091)	(74,456)	(64,743)
Other expense, net:				
Interest and investment income	2,054	83	2,795	316
Interest expense	(1,312)	(9,792)	(3,919)	(26,007)
Loss on extinguishment of convertible notes, capped call modification and change in fair value	(4,770)	—	(4,770)	(2,925)
Other income (expense), net	1,170	(623)	1,261	(1,274)
Total other expense, net	(2,858)	(10,332)	(4,633)	(29,890)
Loss before income taxes	(22,055)	(29,423)	(79,089)	(94,633)
Benefit from (provision for) income taxes	(25)	745	1,754	10,345
Net loss	\$ (22,080)	\$ (28,678)	\$ (77,335)	\$ (84,288)
Net loss per share attributable to common stockholders:				
Basic	\$ (0.56)	\$ (0.75)	\$ (1.95)	\$ (2.24)
Diluted	\$ (0.56)	\$ (0.75)	\$ (1.95)	\$ (2.24)
Weighted-average common shares outstanding:				
Basic	39,746,242	38,407,313	39,583,684	37,610,147
Diluted	39,746,242	38,407,313	39,583,684	37,610,147

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (22,080)	\$ (28,678)	\$ (77,335)	\$ (84,288)
Other comprehensive loss:				
Foreign currency translation adjustment, net of taxes	(19,879)	(3,095)	(48,424)	(4,461)
Total comprehensive loss	<u>\$ (41,959)</u>	<u>\$ (31,773)</u>	<u>\$ (125,759)</u>	<u>\$ (88,749)</u>

See accompanying notes to condensed consolidated financial statements.

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

	Common stock		Additional	Accumulated	Accumulated-	
	Shares	Par value	paid-in	deficit	other	Total
			capital		comprehensive	
					loss	
Balance at December 31, 2021	39,389,733	\$ 39	\$ 853,664	\$ (388,112)	\$ (2,902)	\$ 462,689
Cumulative effect of adoption of ASU 2020-06, net of taxes	—	—	(185,141)	47,162	—	(137,979)
Stock-based compensation	—	—	6,314	—	—	6,314
Vesting of restricted stock units and performance-based restricted stock units	68,560	1	—	—	—	1
Stock award shares withheld to settle employee tax withholding liability	(13,411)	—	(572)	—	—	(572)
Exercise of stock options	725	—	17	—	—	17
Issuance of shares under employee stock purchase plan	58,747	—	1,702	—	—	1,702
Other comprehensive loss	—	—	—	—	(5,360)	(5,360)
Net loss	—	—	—	(19,073)	—	(19,073)
Balance at March 31, 2022	39,504,354	40	675,984	(360,023)	(8,262)	307,739
Stock-based compensation	—	—	16,578	—	—	16,578
Vesting of restricted stock units and performance-based restricted stock units	219,765	—	—	—	—	—
Stock award shares withheld to settle employee tax withholding liability	(50,305)	—	(1,724)	—	—	(1,724)
Exercise of stock options	3,286	—	65	—	—	65
Other comprehensive loss	—	—	—	—	(23,185)	(23,185)
Net loss	—	—	—	(36,182)	—	(36,182)
Balance at June 30, 2022	39,677,100	40	690,903	(396,205)	(31,447)	263,291
Modification of 2022 Notes capped call options and resulting reclassification to derivative asset	—	—	6,110	—	—	6,110
Stock-based compensation	—	—	18,181	—	—	18,181
Vesting of restricted stock units and performance-based restricted stock units	226,980	—	—	—	—	—
Stock award shares withheld to settle employee tax withholding liability	(65,212)	—	(1,913)	—	—	(1,913)
Exercise of stock options	1,122	—	17	—	—	17
Issuance of shares under employee stock purchase plan	46,949	—	1,463	—	—	1,463
Other comprehensive loss	—	—	—	—	(19,879)	(19,879)
Net loss	—	—	—	(22,080)	—	(22,080)
Balance at September 30, 2022	39,886,939	\$ 40	\$ 714,761	\$ (418,285)	\$ (51,326)	\$ 245,190

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated- other comprehensive income (loss)	Total
	Shares	Par value				
Balance at December 31, 2020	35,449,447	\$ 35	\$ 542,776	\$ (293,316)	\$ 2,810	\$ 252,305
Issuance of common stock in connection with acquisition	162,820	—	23,032	—	—	23,032
Stock-based compensation	—	—	12,770	—	—	12,770
Vesting of restricted stock units and performance-based restricted stock units	64,304	1	—	—	—	1
Stock award shares withheld to settle employee tax withholding liability	(11,649)	—	(1,611)	—	—	(1,611)
Exercise of stock options	52,955	—	1,604	—	—	1,604
Issuance of shares under employee stock purchase plan	23,499	—	2,451	—	—	2,451
Equity component of convertible notes due 2026, net of allocated issuance costs and taxes	—	—	99,000	—	—	99,000
Purchase of capped call hedge for the convertible notes due 2026, including issuance costs	—	—	(35,124)	—	—	(35,124)
Settlement of convertible notes due 2022	1,870,823	2	15,650	—	—	15,652
Termination and modification of capped call hedge for convertible notes due 2022	—	—	10,886	—	—	10,886
Other comprehensive loss	—	—	—	—	(2,597)	(2,597)
Net loss	—	—	—	(21,789)	—	(21,789)
Balance at March 31, 2021	37,612,199	38	671,434	(315,105)	213	356,580
Issuance of common stock in connection with acquisition	555,332	—	64,482	—	—	64,482
Issuance of common stock for contingent consideration	6,188	—	720	—	—	720
Stock-based compensation	—	—	15,635	—	—	15,635
Vesting of restricted stock units and performance-based restricted stock units	65,364	—	—	—	—	—
Stock award shares withheld to settle employee tax withholding liability	(9,929)	—	(1,233)	—	—	(1,233)
Exercise of stock options	22,898	—	559	—	—	559
Settlement of convertible notes due 2022	36,633	—	1,176	—	—	1,176
Other comprehensive income	—	—	—	—	1,231	1,231
Net loss	—	—	—	(33,821)	—	(33,821)
Balance at June 30, 2021	38,288,685	38	752,773	(348,926)	1,444	405,329
Issuance of common stock for acquisition-related deferred consideration	12,390	—	1,773	—	—	1,773
Issuance of common stock for contingent consideration	45,726	—	6,457	—	—	6,457
Stock-based compensation	—	—	17,632	—	—	17,632
Vesting of restricted stock units and performance-based restricted stock units	178,221	1	—	—	—	1
Stock award shares withheld to settle employee tax withholding liability	(23,538)	—	(3,557)	—	—	(3,557)
Exercise of stock options	30,036	—	784	—	—	784
Issuance of shares under employee stock purchase plan	17,665	—	2,136	—	—	2,136
Other comprehensive loss	—	—	—	—	(3,095)	(3,095)
Net loss	—	—	—	(28,678)	—	(28,678)
Balance at September 30, 2021	38,549,185	\$ 39	\$ 777,998	\$ (377,604)	\$ (1,651)	\$ 398,782

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (77,335)	\$ (84,288)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	45,253	38,080
Amortization of deferred costs	13,365	10,398
Deferred income taxes	(7,132)	(11,232)
Accretion of interest on convertible senior notes	3,492	25,470
Loss on disposal of assets	940	—
Loss on extinguishment of convertible notes, capped call modification and change in fair value	4,770	2,925
Provision for credit losses and sales reserve	(712)	2,679
Stock-based compensation	39,702	45,631
Change in fair value of contingent consideration obligation	(57)	(7,046)
Payment of contingent consideration in excess of acquisition date fair value	—	(2,653)
Other non-cash adjustments	—	13
Changes in operating assets and liabilities:		
Accounts receivable	28,760	16,020
Prepaid expenses	17	93
Deferred costs	(16,157)	(11,387)
Other assets	7,591	(6,525)
Accounts payable	(3,172)	(3,535)
Accrued payroll and employee related liabilities	(6,919)	(3,812)
Accrued expenses	(637)	2,836
Deferred revenue	(4,678)	3,744
Other liabilities	(11,278)	(5,430)
Net cash provided by operating activities	15,813	11,981
Cash flows from investing activities:		
Capital expenditures	(2,951)	(4,170)
Proceeds from landlord reimbursement	1,219	—
Payment for acquisition of business, net of acquired cash	(1,249)	(199,679)
Additions to capitalized software development costs	(11,609)	(8,879)
Net cash used in investing activities	(14,590)	(212,728)
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	—	375,000
Payments of debt issuance costs	—	(10,640)
Purchase of convertible notes capped call hedge	—	(35,100)
Repurchase of convertible notes	—	(58,641)
Proceeds from termination of convertible notes capped call hedge	—	10,650
Payment of contingent consideration	—	(2,540)
Stock award shares withheld to settle employee tax withholding liability	(4,208)	(6,399)
Proceeds from employee stock purchase plan	3,165	4,587
Proceeds from stock option exercises	99	2,947
Other	(55)	—
Net cash provided by (used in) financing activities	(999)	279,864
Effect of exchange rates on cash, cash equivalents and restricted cash	(3,309)	219
Net increase (decrease) in cash, cash equivalents and restricted cash	(3,085)	79,336
Cash, cash equivalents and restricted cash—beginning of period	492,758	475,630
Cash, cash equivalents and restricted cash—end of period	\$ 489,673	\$ 554,966
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 281	\$ 610
Taxes, net of refunds received	1,545	1,564
Supplemental disclosure of non-cash activities:		
Common stock issued in connection with acquisition	—	89,287
Contingent consideration in connection with acquisition	—	9,135
Common stock issued in connection with contingent consideration payment	—	7,177
Common stock issued in connection with settlement of convertible notes	—	16,826
Modification of 2022 Notes capped call options and resulting reclassification from equity to derivative asset	6,090	—
Stock-based compensation capitalized for software development costs	1,675	406
Other non-cash activities	156	365

See accompanying notes to condensed consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

(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 enterprise software applications that automate and accelerate organizations’ operational response to critical events in order to keep people safe and organizations running. The Company’s SaaS-based platform enables the Company’s customers to manage and mitigate critical events. The Company’s enterprise applications, such as Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911, automate numerous critical event management (“CEM”) processes. The Company generates revenue primarily from subscription fees to the Company’s enterprise applications. The Company has operations in the United States, United Kingdom, Norway, China, Netherlands, Canada, New Zealand, France, India, and other countries.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

The condensed consolidated balance sheet as of December 31, 2021, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by U.S. GAAP on an annual reporting basis.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss, statements of stockholders’ equity and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year 2022 or any future period.

Effective January 1, 2022, the Company adopted the requirements of Accounting Standards Update (“ASU”) 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*, as discussed in this Note 2 and Note 9.

Principles of Consolidation

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

Use of Estimates

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

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

There have been significant changes to the global economic situation as a consequence of the COVID-19 pandemic. There continue to be uncertainties with respect to macroeconomic conditions as a result of the pandemic and otherwise and there may be future periods of global instability and volatility in markets where the Company conducts business which could cause changes to estimates as a result of the financial circumstances. Such changes to estimates could potentially result in impacts that would be material to the consolidated financial statements, particularly with respect to the timing of revenue recognition resulting from potential implementation delays, evaluating the recoverability of long-lived assets with finite useful lives for impairment and estimates of credit losses for accounts receivables and contract assets. No impairments were recorded as of the balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. As of the date of issuance of these financial statements, the Company's results of operations have not been significantly impacted by the COVID-19 pandemic; however, the Company continues to monitor the situation.

Concentrations of Credit and Business Risk

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

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

The Company's accounts receivable are generally unsecured and are derived from revenue earned from customers primarily located in the United States, Norway, Netherlands, Sweden and the United Kingdom and are generally denominated in U.S. Dollars, Norwegian Krone, Euro, Swedish Kronor or British Pounds. Each reporting period, the Company reevaluates each customer's ability to satisfy credit obligations and maintains an allowance for credit risk based on the evaluations. No single customer comprised more than 10% of the Company's total revenue for the three and nine months ended September 30, 2022 and 2021. No single customer comprised more than 10% of the Company's gross accounts receivable as of September 30, 2022. One customer comprised approximately 10% of the Company's gross accounts receivable balance at December 31, 2021.

Cash and Cash Equivalents

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

Restricted Cash

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

Significant Accounting Policies

Except for the accounting policies for restructuring charges, as set forth below, there have been no changes to the Company's significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on February 25, 2022, that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Revenue Recognition

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

The Company determines revenue recognition through the following steps:

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

Subscription Services Revenues

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

Professional Services Revenues

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

Software License Revenues

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

Contracts with Multiple Performance Obligations

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

Returns

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

Customer Acceptance

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

Trade and Other Receivables

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

Deferred Costs

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

Deferred Revenue

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

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

Restructuring Charges

Restructuring charges include costs directly associated with exit or disposal activities. Restructuring actions require management to estimate the timing and amount of severance and other employee separation costs for workforce reduction, the value of lease and contract cancellation and other exit costs. Employee termination benefits are accrued upon the commitment to a termination plan and when the benefit arrangement is communicated to affected employees, or when liabilities are determined to be probable and estimable. A liability for contract termination fees is recognized in the period in which the Company terminates the contract. The Company evaluates and adjusts these costs for changes in circumstances as additional information becomes available.

Recently Adopted Accounting Pronouncements

ASU 2021-10

In November 2021, the Financial Accounting Standards Board ("FASB") issued ASU 2021-10, *Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance*. ASU 2021-10 requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The Company adopted ASU 2021-10 on January 1, 2022 on a prospective basis. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

ASU 2021-04

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. ASU 2021-04 requires accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after the modification or exchange based on the economic substance of the modification or exchange. The recognition of the modification depends on the nature of the transaction in which the equity-classified written call option is modified. If there is more than one element in a transaction (for example, if the modification involves both a debt modification and an equity issuance), then the guidance requires allocating the effect of the option modification to each element. The Company adopted ASU 2021-04 on January 1, 2022 on a prospective basis. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

ASU 2020-06

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. ASU 2020-06 reduces the number of accounting models for convertible instruments by eliminating two of the three models in Accounting Standards Codification ("ASC") 470-20, *Debt—Debt with Conversion and Other Options*, that require separate accounting for embedded conversion features, amends the requirements for a contract that is potentially settled in an entity's own shares to be classified in equity, and amends certain guidance on the computation of earnings per share for convertible instruments and contracts on an entity's own equity. The Company adopted the standard on January 1, 2022 using the modified retrospective approach.

Upon adoption of ASU 2020-06, the Company no longer separately presents in equity the embedded conversion feature of the 0% convertible senior notes due March 15, 2026 (the "2026 Notes"), 0.125% convertible senior notes due December 15, 2024 (the "2024 Notes") and 1.50% convertible senior notes due November 1, 2022 (the "2022 Notes") (collective, the "Convertible Senior Notes"). Instead, the Company accounts for the Convertible Senior Notes wholly as debt. Applying the separation models prior to the adoption of ASU 2020-06 to the Convertible Senior Notes involved the recognition of a debt discount, which was amortized to interest expense via the effective interest method. The elimination of the cash conversion model will reduce reported interest expense in periods subsequent to adoption.

Adoption of ASU 2020-06 resulted in an adjustment to the carrying amount of the convertible senior notes, deferred tax liabilities, additional paid-in capital and a cumulative catch-up adjustment to the opening balance of accumulated deficit; however, prior-period information, including basic and diluted loss per share of common stock, has not been adjusted as a result of applying the modified retrospective approach and continue to be reported under the accounting standards in effect for the prior period. The adoption of ASU 2020-06 had no impact on total cash provided from or used in operating, financing, or investing activities in the Company's condensed consolidated statements of cash flows. For details on the impact of the Company's adoption of ASU 2020-06, see Note 9.

Recently Issued Accounting Guidance Not Yet Adopted

ASU 2021-08

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. ASU 2021-08 requires the recognition and measurement of contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, *Revenue from Contracts with Customers*. Considerations to determine the amount of contract assets and contract liabilities to record at the acquisition date include the terms of the acquired contract, such as timing of payment, identification of each performance obligation in the contract and allocation of the contract transaction price to each identified performance obligation on a relative standalone selling price basis as of contract inception. ASU 2021-08 is effective for the Company beginning in the first quarter of 2023. ASU 2021-08 should be applied prospectively for acquisitions occurring on or after the effective date of the amendments. Early adoption of the proposed amendments would be permitted, including adoption in an interim period. The Company is currently assessing the impact this standard will have on the Company's condensed consolidated financial statements.

ASU 2022-04

In September 2022, the FASB issued ASU 2022-04, *Liabilities—Supplier Finance Programs*. Supplier finance programs allow a buyer to offer its suppliers the option for access to payment in advance of an invoice due date, which is paid by a third-party finance provider or intermediary on the basis of invoices that the buyer has confirmed as valid. ASU 2022-04 requires that a buyer in a supplier finance program disclose key terms of the program, the balance sheet presentation of program obligations, amounts outstanding and rollforward of program obligations. ASU 2022-04 is effective for the Company beginning in the first quarter of 2023, except for rollforward information reporting which is effective for the Company beginning in the first quarter of 2024. The Company is currently assessing the impact this standard will have on the Company's condensed consolidated financial statements.

Other accounting standard updates effective for interim and annual periods beginning after December 31, 2021 are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

(3) Accounts Receivable and Contract Assets, Net

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

	As of September 30, 2022	As of December 31, 2021
Accounts receivable amortized cost	\$ 98,626	\$ 127,917
Allowance for credit losses	(5,296)	(6,922)
Net accounts receivable	<u>\$ 93,330</u>	<u>\$ 120,995</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance, beginning of period	\$ (6,685)	\$ (5,243)	\$ (6,922)	\$ (3,788)
Recovery of (provision for) expected credit losses, net	1,127	(321)	731	(1,738)
Write-offs, net	262	283	895	245
Balance, end of period	<u>\$ (5,296)</u>	<u>\$ (5,281)</u>	<u>\$ (5,296)</u>	<u>\$ (5,281)</u>

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

	As of September 30, 2022	As of December 31, 2021
Contract asset amortized cost	\$ 7,763	\$ 8,569
Allowance for credit losses	(1,078)	(1,160)
Net contract asset	<u>\$ 6,685</u>	<u>\$ 7,409</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance, beginning of period	\$ (1,067)	\$ (841)	\$ (1,160)	\$ (398)
Provision for expected credit losses, net	(45)	(316)	(7)	(789)
Write-offs	34	7	89	37
Balance, end of period	<u>\$ (1,078)</u>	<u>\$ (1,150)</u>	<u>\$ (1,078)</u>	<u>\$ (1,150)</u>

The Company recognized a net credit loss recovery of \$1.1 million and \$0.8 million during the three and nine months ended September 30, 2022, respectively, due to a payment received from a customer during the three months ended September 30, 2022 reducing the accounts receivable provision for expected credit losses by \$1.4 million. Credit loss expense was \$0.8 million and \$2.3 million for the three and nine months ended September 30, 2021, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance, beginning of period	\$ (251)	\$ (400)	\$ (250)	\$ (175)
Additions	(135)	20	(136)	(239)
Write-offs	36	130	36	164
Balance, end of period	<u>\$ (350)</u>	<u>\$ (250)</u>	<u>\$ (350)</u>	<u>\$ (250)</u>

(4) Property and Equipment, Net

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

	Useful life in years	As of September 30, 2022	As of December 31, 2021
Furniture and equipment	5	\$ 2,377	\$ 2,530
Leasehold improvements ⁽¹⁾	9	7,046	7,842
System hardware	5	1,610	1,357
Office computers	3	9,866	8,783
Computer and system software	3	2,555	2,694
		23,454	23,206
Less accumulated depreciation and amortization		(14,067)	(11,021)
Property and equipment, net		<u>\$ 9,387</u>	<u>\$ 12,185</u>

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

Depreciation and amortization expense for property and equipment was \$1.3 million and \$1.0 million for the three months ended September 30, 2022 and 2021, respectively. Depreciation and amortization expense for property and equipment was \$3.7 million and \$2.7 million for the nine months ended September 30, 2022 and 2021, respectively. During the nine months ended September 30, 2022, the Company recognized \$0.9 million of loss on disposal of assets related to the 2022 Strategic Realignment (as defined in Note 18). See Note 18 for details on the 2022 Strategic Realignment.

(5) Capitalized Software Development Costs, Net

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

	Gross carrying amount	Amortization period	Accumulated amortization	Net carrying amount
As of September 30, 2022	\$ 88,241	3 years	\$ (60,618)	\$ 27,623
As of December 31, 2021	75,042	3 years	(52,322)	22,720

The Company capitalized software development costs of \$13.3 million and \$9.3 million for the nine months ended September 30, 2022 and 2021, respectively.

Amortization expense for capitalized software development costs was \$2.9 million and \$2.2 million for the three months ended September 30, 2022 and 2021, respectively. Amortization expense for capitalized software development costs was \$8.4 million and \$6.5 million for the nine months ended September 30, 2022 and 2021, respectively. Amortization of capitalized software development costs is classified within cost of revenue in the condensed consolidated statements of operations.

The expected amortization of capitalized software development costs, as of September 30, 2022, for each of the following years is as follows (in thousands):

2022 (for the remaining three months)	\$ 3,643
2023	11,926
2024	8,889
2025	3,165
	<u>\$ 27,623</u>

(6) Fair Value Measurements

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

Certain assets, including long-lived assets, goodwill and intangible assets are also subject to measurement at fair value on a non-recurring basis if they are deemed to be impaired as a result of an impairment review. For the nine months ended September 30, 2022 and year ended December 31, 2021, no impairments were identified of those assets requiring measurement at fair value on a non-recurring basis.

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

As of September 30, 2022				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	\$ 412,462	\$ —	\$ —	\$ 412,462
Derivative instruments - cash-settled capped call options	—	1,340	—	1,340
Total financial assets	<u>\$ 412,462</u>	<u>\$ 1,340</u>	<u>\$ —</u>	<u>\$ 413,802</u>
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ —	\$ —
Total financial liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
As of December 31, 2021				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	\$ 409,692	\$ —	\$ —	\$ 409,692
Total financial assets	<u>\$ 409,692</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 409,692</u>
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ 59	\$ 59
Total financial liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 59</u>	<u>\$ 59</u>

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

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

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

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

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

The Company's assets that are measured by management at fair value on a recurring basis are generally classified within Level 1 or Level 2 of the fair value hierarchy. The Company did not have any transfers into or out of Level 3 during the nine months ended September 30, 2022.

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

The following tables summarize the changes in Level 3 financial instruments (in thousands):

Fair value at December 31, 2020	\$	10,619
Contingent consideration from RedSky acquisition		9,135
Adjustment for one2many acquisition		(690)
Adjustment for SnapComms acquisition		732
Foreign currency translation		(465)
Fair value at March 31, 2021		19,331
Adjustment for one2many acquisition		38
Adjustment for SnapComms acquisition		(23)
Payment for SnapComms acquisition		(720)
Foreign currency translation		149
Fair value at June 30, 2021		18,775
Adjustment for one2many acquisition		1,060
Adjustment for RedSky acquisition		(8,163)
Payment for one2many acquisition		(10,679)
Payment for RedSky acquisition		(972)
Foreign currency translation		(21)
Fair value at September 30, 2021	\$	—
Fair value at December 31, 2021	\$	59
Adjustment for Anvil acquisition		(52)
Foreign currency translation		(1)
Fair value at March 31, 2022		6
Adjustment for Anvil acquisition		(5)
Foreign currency translation		(1)
Fair value at June 30, 2022		—
Fair value at September 30, 2022	\$	—

The valuation of the contingent consideration was derived using estimates of the probability of achievement within specified time periods based on projections of future revenue metrics per the terms of the applicable agreements. These include estimates of the Company's assessment of the probability of meeting such results, with the probability-weighted earn-out using a Monte Carlo Simulation Model then discounted to estimate fair value. Fair value is estimated using the probability weighted cash flow estimate closer to the measurement date. The various operating performance measures included in these contingent consideration agreements primarily relate to product revenue. As these are unobservable inputs, the contingent consideration liabilities are included in Level 3 inputs.

In connection with the issuance of the 2022 Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and other financial institutions. See Note 9 for details on the 2022 Notes capped call transactions. In September 2022, the Company modified the capped call agreements to elect cash settlement as the final settlement method of the capped call options with two of the counterparties. Management analyzed the capped call options which will be settled in cash for derivative accounting consideration under ASC 815, *Derivatives and Hedging*, and determined that they qualify for derivative accounting. The derivative assets were not designated as a hedging instrument. In September 2022, the Company reclassified the fair value of the capped call options which will be settled in cash of \$6.1 million from additional paid-in capital to other current assets on the condensed consolidated balance sheet in accordance with ASC 815. The assets, which are classified as Level 2 of the fair value hierarchy, were marked-to-market and the decrease in fair value during the three months ended September 30, 2022 of \$4.7 million was recorded as a component of loss on extinguishment of convertible notes, capped call modification and change in fair value on the condensed consolidated statement of operations and on the condensed consolidated statement of cash flows. The fair value was derived using a Black-Scholes option-pricing model. The valuation model uses various market-based inputs, including stock price, remaining contractual term, expected volatility, risk-free interest rate and expected dividend yield. The Company applies judgment when determining expected volatility. The Company considers both historical and implied volatility levels of the underlying equity security. In November 2022, the Company received the related cash as final settlement of the capped call options.

During the nine months ended September 30, 2022, as a result of assessing the probabilities of payment for the potential contingent consideration for The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, "Anvil") through June 30, 2023, the Company recognized a decrease in the fair value of Anvil's contingent consideration obligation in the amount of \$0.1 million.

The Company estimates the fair value of the convertible senior notes based on market-observable inputs (Level 2). As of September 30, 2022 and December 31, 2021, the fair value of the 2026 Notes was determined to be \$322.5 million and \$318.3 million, respectively, and the principal amount of the notes was \$375.0 million for each period. As of September 30, 2022 and December 31, 2021, the fair value of 2024 Notes was determined to be \$387.0 million and \$440.6 million, respectively, and the principal amount of the notes was \$450.0 million for each period. As of September 30, 2022 and December 31, 2021, the fair value of the 2022 Notes was determined to be \$8 thousand and \$16 thousand, respectively, and the principal amount of the notes was \$8 thousand for each period.

(7) Goodwill and Intangible Assets, Net

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

Balance at December 31, 2021	\$	531,163
Acquisition initial value adjustment		(1,788)
Foreign currency translation		(37,009)
Balance at September 30, 2022	\$	492,366

There were no impairments recorded against goodwill during the nine months ended September 30, 2022 and for the year ended December 31, 2021.

Intangible assets consisted of the following (in thousands):

	Gross carrying amount	Weighted average life (years)	As of September 30, 2022	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 36,311	3.48	\$ (19,259)	\$ 17,052
Tradenames	16,700	4.55	(6,359)	10,341
Customer relationships	207,165	8.37	(56,048)	151,117
Total intangible assets	\$ 260,176		\$ (81,666)	\$ 178,510

	Gross carrying amount	Weighted average life (years)	As of December 31, 2021	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 43,178	3.41	\$ (16,214)	\$ 26,964
Tradenames	28,250	4.13	(12,779)	15,471
Customer relationships	219,850	8.30	(42,966)	176,884
Total intangible assets	\$ 291,278		\$ (71,959)	\$ 219,319

Amortization expense for intangible assets was \$10.4 million and \$11.0 million for the three months ended September 30, 2022 and 2021, respectively. Amortization expense for intangible assets was \$33.2 million and \$28.9 million for the nine months ended September 30, 2022 and 2021, respectively. Included in the amortization expense amounts is amortization expense attributed to developed technology within cost of revenue of \$9.1 million and \$8.8 million for the nine months ended September 30, 2022 and 2021, respectively. During the nine months ended September 30, 2022, the Company retired \$19.2 million of fully amortized intangible assets.

The expected amortization of the intangible assets, as of September 30, 2022, for each of the next five years and thereafter is as follows (in thousands):

2022 (for the remaining three months)	\$	9,899
2023		37,715
2024		32,579
2025		26,327
2026		20,606
Thereafter		51,384
	\$	178,510

(8) Business Combinations

The Company accounted for the following acquisitions using the acquisition method of accounting for business combinations under ASC 805, *Business Combinations*, which required that the assets acquired and liabilities assumed be recognized on the balance sheet at their fair values as of the acquisition date. The excess of the purchase price over the net fair value of the assets and liabilities was recorded as goodwill. This goodwill includes the know-how of the assembled workforce, the ability of the workforce to further improve technology and product offerings, customer relationships and the expected cash flows resulting from these efforts. Goodwill may also include expected synergies resulting from the complementary strategic fit these businesses bring to existing operations.

Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives and the expected future cash flows and related discount rates, can materially impact the Company's results of operations. Significant inputs used for the model included the amount of cash flows, the expected period of the cash flows and the discount rates. Significant estimation was required by management in determining the fair value of the customer relationship intangible assets, deferred revenue and contingent consideration liabilities. The significant estimation is primarily due to the judgmental nature of the inputs to the valuation models used to measure the fair value of these intangible assets, deferred revenue and contingent consideration liabilities, as well as the sensitivity of the respective fair values to the underlying significant assumptions. The Company used the income approach to measure the fair value of these intangible assets, a discounted cash flow approach for deferred revenue and a Monte Carlo simulation model to measure the fair value of the contingent consideration liabilities. The significant assumptions used to estimate the fair value of the intangible assets, deferred revenue and contingent consideration liabilities included forecasted revenues from existing customers, existing customer attrition rates, estimated costs required to fulfill the deferred revenue obligation and forecasted revenues for the contingent consideration earnout period. When estimating the significant assumptions to be used in the valuation the Company includes a consideration of current industry information, market and economic trends, historical results of the acquired business, nature of the performance obligations associated with the deferred revenue and other relevant factors. These significant assumptions are forward-looking and could be affected by future economic and market conditions. The valuation of the contingent consideration was derived using estimates of the probability of achievement within specified time periods based on projections of future revenue metrics per the terms of the applicable agreements. These include estimates of the Company's assessment of the probability of meeting such results, with the probability-weighted earn-out using a Monte Carlo Simulation Model then discounted to estimate fair value. Fair value is estimated using the probability weighted cash flow estimate closer to the measurement date. The various operating performance measures included in these contingent consideration agreements primarily relate to product revenue.

The business acquisitions discussed below are included in the Company's results of operations from their respective dates of acquisition.

2021 Acquisitions

During the year ended December 31, 2021, the Company acquired Red Sky Technologies Inc., xMatters Holdings, Inc. and The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited. These acquisitions were not material and neither the investment in the assets nor the results of operations of these acquisitions were significant to the Company's consolidated financial position or results of operations, and thus pro forma information is not required to be presented.

Red Sky Technologies Inc.

On January 15, 2021, the Company entered into a Stock Purchase Agreement with Red Sky Technologies Inc. ("RedSky") pursuant to which the Company purchased all of the issued and outstanding shares of stock of RedSky for a base consideration of \$55.4 million, net of cash acquired. The Company paid \$32.4 million in cash, net of cash acquired, and issued 162,820 newly issued shares of the Company's common stock at closing. On the date of this acquisition, the average price of the Company's common stock on the Nasdaq Global Market was \$141.46 per share. In addition to the base purchase price, there was also a potential contingent payment of up to \$30 million that was eligible to be earned by the sellers based on certain revenue targets through the contractual measurement period. At the date of the acquisition, the Company preliminarily assessed the probability of RedSky meeting the revenue metrics through the contractual measurement period and recorded a \$9.1 million initial fair value of contingent consideration as part of the purchase price allocation. During the year ended December 31, 2021, the Company paid \$0.4 million in cash and issued 4,058 shares of the Company's common stock to settle RedSky's contingent consideration liability. The Company acquired RedSky for its E911 incident response solutions platform to enhance the Company's CEM suite of solutions as well as market penetration and customer reach.

xMatters Holdings, Inc.

On April 6, 2021, the Company and xMatters Holdings, Inc. (“xMatters”) signed a definitive agreement pursuant to which the Company agreed to purchase all of the issued and outstanding shares of stock of xMatters. This acquisition closed on May 7, 2021. The Company purchased all of the issued and outstanding shares of stock of xMatters for a base consideration of \$242.6 million. The Company paid \$178.1 million in cash and issued 555,332 newly issued shares of the Company’s common stock at closing. On the date of this acquisition, the average price of the Company’s common stock on the Nasdaq Global Market was \$116.12 per share. The Company acquired xMatters for its service reliability platforms to enhance the Company’s CEM suite of solutions as well as market penetration and customer reach.

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed, which were recorded as of the acquisition date, as well as the aggregate consideration for the acquisition of xMatters made by the Company (in thousands):

	xMatters
Assets acquired	
Accounts receivable	\$ 6,716
Property and equipment	1,458
Trade names	8,200
Acquired technology	8,390
Customer relationships	78,940
Goodwill	170,437
Other assets	5,433
Total assets acquired	279,574
Liabilities assumed	
Accounts payable	1,164
Accrued expenses	5,517
Deferred revenue	34,421
Deferred tax liabilities	3,436
Other liabilities	5,056
Net assets acquired	\$ 229,980
Consideration paid	
Cash paid, net of cash acquired	\$ 165,498
Fair value of common stock issued	64,482
Total	\$ 229,980

The weighted average useful life of all identified acquired intangible assets is 8.13 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 9.0 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. The straight-line method of amortization represents the Company’s best estimate of the period of expected cash flows of the identifiable intangible assets.

The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of xMatters’ products with the Company’s other solutions. The Company believes that the factors listed above in relation to the purchase of xMatters 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 xMatters acquisition is not deductible for income tax purposes.

For the year ended December 31, 2021, the Company incurred transaction costs of \$1.5 million in connection with the xMatters acquisition.

The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited

On November 4, 2021, the Company entered into an agreement with the shareholders of The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, “Anvil”) pursuant to which the Company purchased all of the issued and outstanding share capital of Anvil for a base consideration of \$161.5 million. The Company paid \$70.2 million in cash at closing, acquired net purchase liabilities of \$1.6 million and issued \$89.7 million consideration loan notes. On November 10, 2021, the Company issued 574,639 newly issued shares of the Company’s common stock to settle consideration loan notes issued on the acquisition date. During the nine months ended September 30, 2022, the Company paid approximately \$1.2 million to settle certain purchase liabilities. In addition to the base purchase price, there is also a potential contingent payment of up to \$0.8 million that may be paid to the sellers on or before June 30, 2023. At the date of the acquisition, the Company preliminarily assessed the probability of the contingent consideration payment and recorded a \$0.1 million preliminary fair value as part of the purchase price allocation. During the nine months ended September 30, 2022, the Company recognized a decrease in the fair value of Anvil’s contingent consideration obligation in general and administrative expenses in the condensed consolidated statements of operations in the amount of \$0.1 million. The Company acquired Anvil for its travel risk management, operational resiliency and occupational health solutions platforms to enhance the Company’s CEM suite of solutions as well as market penetration and customer reach.

As the Company finalizes its estimation of the fair value of the assets acquired and liabilities assumed, additional adjustments may be recorded during the measurement period (a period not to exceed 12 months). The initial accounting is incomplete as of September 30, 2022 for the acquired assets and liabilities as the Company is currently in the process of completing the assessment of the tax attributes of the business combination. The finalization of the acquisition accounting valuation assessment may result in a change in the valuation of the deferred tax assets and liabilities which could have a material impact on the Company’s results of operations and financial position.

During the nine months ended September 30, 2022, the Company recognized an increase of \$2.0 million in customer relationship intangible assets, a \$0.5 million increase in deferred tax liabilities and a \$1.6 million decrease to goodwill.

The following table summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed, which were recorded as of the acquisition date, as well as the aggregate consideration for the acquisition of Anvil made by the Company (in thousands):

	Anvil
Assets acquired	
Accounts receivable	\$ 2,361
Property and equipment	204
Trade names	2,600
Acquired technology	3,800
Customer relationships	25,280
Goodwill	127,061
Other assets	5,022
Total assets acquired	166,328
Liabilities assumed	
Accounts payable	837
Accrued expenses	560
Deferred revenue	3,365
Deferred tax liabilities	6,119
Other liabilities	1,821
Net assets acquired	\$ 153,626
Consideration paid	
Cash paid, net of cash acquired	\$ 63,911
Consideration loan notes issued	89,655
Contingent consideration	60
Total	\$ 153,626

The weighted average useful life of all identified acquired intangible assets is 8.07 years. The average useful lives for acquired technologies, customer relationships and trade names are 4.0 years, 9.0 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. The straight-line method of amortization represents the Company’s best estimate of the period of expected cash flows of the identifiable intangible assets.

The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of Anvil's products with the Company's other solutions. The acquisition of Anvil will bring in house the expertise and experience to manage medical and travel-related situations for the Company's travel risk management offerings to new and existing customers. The Company believes that the factors listed above in relation to the purchase of Anvil 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 Anvil acquisition is not deductible for income tax purposes.

For the year ended December 31, 2021, the Company incurred transaction costs of \$1.4 million in connection with the Anvil acquisition.

(9) Convertible Senior Notes

Adoption of ASU 2020-06

On January 1, 2022, the Company adopted ASU 2020-06 and applied it to its Convertible Senior Notes using the modified retrospective method. Adoption of ASU 2020-06 resulted in an adjustment to convertible senior notes, deferred tax liabilities, additional paid-in capital and accumulated deficit. The Company recognized the cumulative effect of initially applying ASU 2020-06 as an adjustment to the opening balance of accumulated deficit. 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, 2022 balance sheet for the adoption of ASU 2020-06 was as follows (in thousands):

	Balance at December 31, 2021	Adjustments Due to ASU 2020-06	Balance at January 1, 2022
BALANCE SHEET			
Liabilities and Stockholders' Equity			
Convertible senior notes, current	\$ 8	\$ —	\$ 8
Convertible senior notes, non-current	665,695	142,836	808,531
Deferred tax liabilities	16,082	(4,858)	11,224
Additional paid-in capital	853,664	(185,141)	668,523
Accumulated deficit	(388,112)	47,162	(340,950)

0% Convertible Senior Notes Due 2026

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

The 2026 Notes are governed by an Indenture between the Company, as issuer, and U.S. Bank National Association, as trustee (the "2026 Notes Indenture"). The 2026 Notes are unsecured and rank: senior in right of payment to the Company's indebtedness that is expressly subordinated in right of payment to the 2026 Notes; equal in right of payment to the Company's existing and future indebtedness that is not so subordinated, including its 1.50% convertible senior notes due 2022 (see 1.50% Convertible Senior Notes Due 2022 below) and 0.125% convertible senior notes due 2024 (see 0.125% Convertible Senior Notes Due 2024 below); effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness and other liabilities incurred by the Company's subsidiaries.

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

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

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

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

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

As of September 30, 2022, the 2026 Notes are not yet convertible. The 2026 Notes are classified as long-term on the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021 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.

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

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

	As of September 30, 2022	As of December 31, 2021
Liability component:		
Principal	\$ 375,000	\$ 375,000
Less: debt discount, net of amortization	(7,293)	(97,261)
Net carrying amount	\$ 367,707	\$ 277,739
Equity component ⁽¹⁾	—	99,000

(1) Upon adoption of ASU 2020-06, the Company no longer separately presents the embedded conversion feature in equity. As of December 31, 2021, the equity component was recorded in the consolidated balance sheet within additional paid-in capital, net of \$3.0 million transaction costs in equity and net of \$3.4 million for taxes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Amortization of debt discount and transaction costs	\$ 530	\$ 4,886	\$ 1,581	\$ 10,740

Effective interest rates were 0.6% and 7.3% for the three months ended September 30, 2022 and 2021, respectively. Effective interest rates were 0.6% and 7.3% for the nine months ended September 30, 2022 and 2021, respectively.

The fair value of the 2026 Notes, which was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, quoted price of the 2026 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments (prior to the adoption of ASU 2020-06, carrying value excluded the equity component of the Company's 2026 Notes classified in equity) were as follows (in thousands):

	As of September 30, 2022		As of December 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2026 Notes	\$ 322,549	\$ 367,707	\$ 318,311	\$ 277,739

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

Based on the closing price of the Company's common stock of \$30.88 on September 30, 2022, the if-converted value of the 2026 Notes was less than their respective principal amounts.

0.125% Convertible Senior Notes Due 2024

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

The 2024 Notes are governed by an Indenture between the Company, as issuer, and U.S. Bank National Association, as trustee (the "2024 Notes Indenture"). The 2024 Notes are unsecured and rank: senior in right of payment to the Company's indebtedness that is expressly subordinated in right of payment to the 2024 Notes; equal in right of payment to the Company's existing and future indebtedness that is not so subordinated, including its 2026 Notes and 2022 Notes; effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness and other liabilities incurred by the Company's subsidiaries.

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

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

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

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2020 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

- during the five business day period after any ten consecutive trading day period (the “2024 Notes Measurement Period”), in which the “trading price” (as the term is defined in the 2024 Notes Indenture) per \$1,000 principal amount of notes for each trading day of such 2024 Notes Measurement Period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day;
- if the Company calls such notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of specified corporate events.

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

As of September 30, 2022, the 2024 Notes were not convertible at the option of the debt holder. The 2024 Notes are classified as long-term on the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021 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.

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

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

	As of September 30, 2022	As of December 31, 2021
Liability component:		
Principal	\$ 450,000	\$ 450,000
Less: debt discount, net of amortization	(5,684)	(62,044)
Net carrying amount	\$ 444,316	\$ 387,956
Equity component ⁽¹⁾	—	86,133

⁽¹⁾ Upon adoption of ASU 2020-06, the Company no longer separately presents the embedded conversion feature in equity. As of December 31, 2021, the equity component was recorded in the consolidated balance sheet within additional paid-in capital, net of \$2.6 million transaction costs in equity and net of \$0.9 million for taxes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
0.125% coupon	\$ 140	\$ 141	\$ 422	\$ 422
Amortization of debt discount and transaction costs	638	4,759	1,911	14,100
	<u>\$ 778</u>	<u>\$ 4,900</u>	<u>\$ 2,333</u>	<u>\$ 14,522</u>

Effective interest rates were 0.7% and 5.2% for the three months ended September 30, 2022 and 2021, respectively. Effective interest rates were 0.7% and 5.2% for the nine months ended September 30, 2022 and 2021, respectively.

The fair value of the 2024 Notes, which was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, quoted price of the 2024 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments (prior to the adoption of ASU 2020-06, carrying value excluded the equity component of the Company’s 2024 Notes classified in equity) were as follows (in thousands):

	As of September 30, 2022		As of December 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2024 Notes	\$ 387,000	\$ 444,316	\$ 440,564	\$ 387,956

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

Based on the closing price of the Company's common stock of \$30.88 on September 30, 2022, the if-converted value of the 2024 Notes was less than their respective principal amounts.

1.50% Convertible Senior Notes Due 2022

In November 2017, the Company issued \$115.0 million aggregate principal amount of 1.50% convertible senior notes due 2022 including \$15.0 million aggregate principal amount of 2022 Notes issued upon the initial purchasers' exercise in full of their option to purchase additional 2022 Notes. The 2022 Notes will mature on November 1, 2022, unless earlier redeemed or repurchased by the Company or converted by the holders pursuant to their terms. Interest is payable semiannually in arrears on May 1 and November 1 of each year, commencing on May 1, 2018.

Based on the market price of the Company's common stock during the 30 trading days preceding March 31, 2022, the 2022 Notes were not convertible at the option of the debt holder from April 1, 2022 through May 1, 2022. 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 2022 Notes at the conversion rate at any time. In November 2022, the Company settled the \$8 thousand aggregate principal amount of the 2022 Notes at maturity.

The 2022 Notes consist of the following (in thousands):

	As of September 30, 2022	As of December 31, 2021
Liability component:		
Principal	\$ 8	\$ 8
Less: debt discount, net of amortization	—	—
Net carrying amount	\$ 8	\$ 8
Equity component ⁽¹⁾	—	(39,358)

⁽¹⁾ Upon adoption of ASU 2020-06, the Company no longer separately presents the embedded conversion feature in equity. As of December 31, 2021, the equity component was recorded in the consolidated balance sheet within additional paid-in capital, net of \$0.8 million transaction costs in equity. Additional paid-in capital as of December 31, 2021 also included \$2.7 million and \$36.7 million, respectively, market premium representing the excess of the total consideration delivered over the fair value of the liability recognized related to the \$58.6 million and \$23.0 million, respectively, principal balance extinguishment of the 2022 Notes in March 2021 and December 2019.

The following table sets forth total interest expense recognized related to the 2022 Notes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
1.50% coupon	\$ —	\$ 2	\$ —	\$ 110
Amortization of debt discount and transaction costs	—	4	—	630
	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 740</u>

Effective interest rates were 2.2% and 6.9% for the three months ended September 30, 2022 and 2021, respectively. Effective interest rates were 2.2% and 6.9% for the nine months ended September 30, 2022 and 2021, respectively.

The fair value of the 2022 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 2022 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments (prior to the adoption of ASU 2020-06, carrying value excluded the equity component of the Company's convertible notes classified in equity) were as follows (in thousands):

	As of September 30, 2022		As of December 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2022 Notes	\$ 8	\$ 8	\$ 16	\$ 8

In connection with the issuance of the 2022 Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and others. The capped call transactions are expected generally to reduce potential dilution to the Company's common stock upon any conversion of the 2022 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2022 Notes, as the case may be, with such reduction and/or offset subject to a cap. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the 2022 Notes, with an initial strike price of approximately \$33.71 per share, which corresponds to the initial conversion price of the 2022 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the 2022 Notes, and have a cap price of approximately \$47.20. During the three months ended March 31, 2021, the Company amended one of the capped call agreements to reduce the cap price to \$46.68 and recognized modification expense of \$0.2 million in loss on extinguishment of convertible notes and capped call modification on the condensed consolidated statement of operations. The cost of the purchased capped call options of \$12.9 million was recorded to shareholders' equity.

In September 2022, the Company modified the capped call agreements to elect cash settlement as the final settlement method of the capped call options with two of the counterparties. Management analyzed the capped call options which will be settled in cash for derivative accounting consideration under ASC 815, *Derivatives and Hedging*, and determined that they qualify for derivative accounting. In September 2022, the Company reclassified the fair value of the capped call options which will be settled in cash of \$6.1 million from additional paid-in capital to other current assets on the condensed consolidated balance sheet. The asset will be remeasured through the settlement date. See Note 6 for details on the fair value measurement of the capped call options which will be settled in cash. The remaining capped call options which do not require cash settlement will not be re-measured. In November 2022, the Company received \$1.3 million in cash and 22,914 in the Company's shares as final settlement of the capped call options.

Based on the closing price of the Company's common stock of \$30.88 on September 30, 2022, the if-converted value of the 2022 Notes was less than their respective principal amounts.

The following table summarizes the Company's debt obligations as of September 30, 2022 (in thousands):

	Remainder of 2022	2023-2024	2025-2026	Total
Debt obligations	\$ 8	\$ 450,000	\$ 375,000	\$ 825,008

Debt obligations include the principal amount of the 2026 Notes, 2024 Notes and 2022 Notes but exclude interest payments to be made under the 2026 Notes, 2024 Notes and 2022 Notes. Although the 2026 Notes, 2024 Notes and 2022 Notes mature in 2026, 2024 and 2022, respectively, they can be converted into cash and shares of the Company's common stock prior to maturity if certain conditions are met. Any conversion prior to maturity can result in repayments of the principal amounts sooner than the scheduled repayments as indicated in the table. The 2026 Notes, 2024 Notes and 2022 Notes balance excludes debt discount capitalized on the balance sheet.

(10) Stockholders' Equity

Preferred Stock

As of September 30, 2022, the Company had authorized 10,000,000 shares of preferred stock, par value \$0.001, of which no shares were outstanding.

Common Stock

As of September 30, 2022, the Company had authorized 100,000,000 shares of common stock, par value \$0.001. Holders of common stock are entitled to one vote per share. At September 30, 2022 and December 31, 2021, there were 39,886,939 and 39,389,733 shares of common stock issued and outstanding, respectively.

(11) Stock Plans and Stock-Based Compensation

The Company's 2016 Equity Incentive Plan (the "2016 Plan") became effective on September 15, 2016. The 2016 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights and performance share awards to employees, directors and consultants of the Company. The number of shares of common stock reserved for issuance under the 2016 Plan will automatically increase on January 1 of each year by 3% of the number of shares of the Company's capital stock outstanding on the immediately preceding December 31, or such lesser number of shares as determined by the Company's board of directors.

2016 Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the "2016 ESPP") became effective on September 15, 2016. The number of shares reserved for issuance under the 2016 ESPP will automatically increase on January 1 of each year by the lesser of 200,000 shares of the Company's common stock, 1% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31, or such lesser number of shares as determined by the Company's board 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. The 2016 ESPP provides for separate six-month offering periods beginning each March and September of each fiscal year.

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

For the nine months ended September 30, 2022 and 2021, 105,696 and 41,164 shares of common stock were purchased under the 2016 ESPP, respectively. The Company recorded stock-based compensation expense of \$0.4 million and \$0.4 million for the three months ended September 30, 2022 and 2021, respectively. The Company recorded stock-based compensation expense of \$1.2 million and \$1.3 million for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, unrecognized compensation cost related to the 2016 ESPP was \$0.9 million which will be amortized over a weighted-average period of 0.42 years.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Employee Stock Purchase Plan:				
Expected term (in years) ⁽¹⁾	0.50	0.50	0.50	0.50
Expected volatility ⁽²⁾	70%	45%	65% - 70%	45% - 60%
Risk-free interest rate ⁽³⁾	3.33%	0.05%	0.86% - 3.33%	0.05% - 0.06%
Dividend rate ⁽⁴⁾	0%	0%	0%	0%

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

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

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

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

Stock Options

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

There were no stock options granted during the nine months ended September 30, 2022. There was no stock-based compensation expense recorded during the three months ended September 30, 2022 as stock options were fully vested. The Company recorded stock-based compensation expense of \$0.2 million for the three months ended September 30, 2021 attributed to stock options. The Company recorded stock-based compensation expense of \$0.1 million and \$1.0 million for the nine months ended September 30, 2022 and 2021, respectively, attributed to stock options.

The total intrinsic value of options exercised for the nine months ended September 30, 2022 and 2021 was \$0.1 million and \$12.2 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 September 30, 2022 and 2021, the total intrinsic value of all outstanding options was \$1.4 million and \$21.2 million, respectively.

There was no unrecognized compensation cost related to nonvested stock options as of September 30, 2022. The amount of cash received from the exercise of stock options during the nine months ended September 30, 2022 and 2021 was \$0.1 million and \$2.9 million, respectively.

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

	Stock options outstanding	Weighted average exercise price
Outstanding at December 31, 2021	157,740	\$ 23.83
Exercised	(5,133)	19.40
Forfeited	(4,393)	36.98
Outstanding at September 30, 2022	148,214	23.60

Stock options outstanding, vested and expected to vest and exercisable are as follows:

	As of September 30, 2022		
	Number of shares	Remaining contractual life (years)	Weighted- average exercise price
Outstanding	148,214	4.35	\$ 23.60
Vested and expected to vest	148,214	4.35	23.60
Exercisable	148,214	4.35	23.60

Vested and nonvested stock option activity was as follows:

	Vested	
	Options outstanding	Weighted average exercise price
Outstanding at September 30, 2022	148,214	\$ 23.60

Restricted Stock Units

During the nine months ended September 30, 2022, the Company granted 2,712,456 restricted stock units ("RSUs") to members of its senior management and certain other employees pursuant to the 2016 Plan. There were 423,314 RSUs that vested during the nine months ended September 30, 2022. The Company accounts for RSUs issued to employees at fair value, based on the market price of the Company's common stock on the date of grant. The weighted-average grant date fair values of RSUs granted during the nine months ended September 30, 2022 and 2021 were \$40.23 and \$124.17, respectively. The fair values of RSUs that vested during the nine months ended September 30, 2022 and 2021, were \$29.7 million and \$20.8 million, respectively. During the three months ended September 30, 2022 and 2021, the Company recorded \$13.0 million and \$8.7 million, respectively, of stock-based compensation related to the RSUs. During the nine months ended September 30, 2022 and 2021, the Company recorded \$31.9 million and \$22.0 million, respectively, of stock-based compensation related to the RSUs.

As of September 30, 2022, there was \$103.1 million of unrecognized compensation expense related to unvested RSUs which is expected to be recognized over a weighted-average period of approximately 2.43 years. For RSUs subject to graded vesting, the Company recognizes compensation cost on a straight-line basis over the service period for the entire award.

Performance-Based Restricted Stock Units

On February 9, 2022, the Compensation Committee of the Company's Board of Directors approved a modification to the performance thresholds of the Company's performance-based restricted stock unit ("PSU") awards which affected 785 grantees and excluded our Named Executive Officers for 2021. The modified PSUs vest based on the Company achieving certain revenue growth thresholds which range from 1% to 40% compounded annual growth over the measurement period. For the portion of the PSUs where the expectation of the achievement of performance conditions changed from improbable prior to the modification to probable post-modification, the Company accounted for this change as a Type III modification under ASC 718, *Compensation—Stock Compensation*. The modification date fair value for the PSUs was \$55.31. As of the modification date, total incremental stock-based compensation expense was \$17.5 million which will be recognized over the remaining service periods of the PSU less subsequent forfeitures.

During the nine months ended September 30, 2022, the Company granted 717,638 PSUs to members of its management pursuant to the 2016 Plan. There were 91,991 PSUs that vested during the nine months ended September 30, 2022. The PSUs, other than those modified on February 9, 2022 as described above, generally vest based on the Company achieving certain revenue growth thresholds which ranged from 20% to 40% compounded annual growth for grants through 2020 and 15% to 35% compounded annual growth for grants starting in 2021 over a measurement period of two years for the first 50% 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. During the nine months ended September 30, 2022, the share price of the Company's common stock on the date of issuance of the PSUs ranged from \$25.50 to \$55.31 per share. The fair value is based on the value of the Company's common stock at the date of issuance and the probability of achieving the performance metric. Compensation cost is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions. The weighted-average grant date fair values of PSUs granted during the nine months ended September 30, 2022 and 2021 were \$35.29 and \$124.45, respectively.

During the three months ended September 30, 2022 and 2021, the Company recognized \$4.0 million and \$8.1 million, respectively, of stock compensation expense in connection with the PSU awards. During the nine months ended September 30, 2022 and 2021, the Company recognized \$6.2 million and \$21.3 million, respectively, of stock compensation expense in connection with the PSU awards. During the three months ended March 31, 2022, prior to the PSU modification, as a result of forecasted decreases in the compounded annual growth rate, the Company reduced the expected achievement of performance metrics and recognized a reduction in stock-based compensation expense. This reduction was offset by the incremental compensation expense recognized for the modified PSUs. As of September 30, 2022, there was \$22.4 million of unrecognized compensation expense related to unvested PSUs which is expected to be recognized over a weighted-average period of approximately 1.91 years. Compensation cost is recognized under the accelerated method and is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions.

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

	Number of Shares
Outstanding at December 31, 2021	1,579,738
Granted	3,430,094
Vested	(515,305)
Forfeited	(647,122)
Outstanding at September 30, 2022	3,847,405

Market-Based Grants

During the three months ended March 31, 2022, the Company issued market-based grants, which are payable in cash to partially settle a vendor contract. The grants vest contingent upon the achievement of pre-determined market and service conditions. Cash payment at settlement will range from zero to approximately \$1.3 million based on the Company's total stockholder return ("TSR") relative to the performance of peer companies through September 2023. The market-based grants are classified as a liability on the Company's balance sheet and will be remeasured at each reporting period until settlement. Fair value of the market-based grants at the grant date and as of September 30, 2022 was \$0.4 million and \$0.3 million, respectively. During the three and nine months ended September 30, 2022, the Company recognized less than \$0.1 million and \$0.3 million, respectively, of stock compensation expense in connection with these awards.

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

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Market-Based Grants:		
Expected term (in years)	0.98	0.98 - 1.50
Expected volatility	69%	58% - 69%
Risk-free interest rate	4.00%	1.97% - 4.00%
Dividend rate	0%	0%

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 1,938	\$ 1,260	\$ 4,197	\$ 3,078
Sales and marketing	6,130	5,747	13,736	15,068
Research and development	4,543	3,106	10,497	7,696
General and administrative	4,796	7,328	11,272	19,789
Total	<u>\$ 17,407</u>	<u>\$ 17,441</u>	<u>\$ 39,702</u>	<u>\$ 45,631</u>

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

(12) Basic and Diluted Net Loss per Share

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

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

	As of September 30,	
	2022	2021
Convertible senior notes	6,080,480	6,089,230
Stock-based compensation grants	3,995,619	1,785,060
Total	<u>10,076,099</u>	<u>7,874,290</u>

In connection with the issuance of the 2026 Notes in March 2021, the Company paid \$35.1 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the 2026 Notes. In connection with the issuance of the 2024 Notes in December 2019, the Company paid \$44.9 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the 2024 Notes. In connection with the issuance of the 2022 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 2022 Notes. In March 2021 and December 2019, the Company partially terminated capped call options related to the 2022 Notes and received \$10.6 million and \$5.8 million, respectively. In March 2021, the Company also modified a capped call agreement entered into in connection with the 2022 Notes and recognized modification expense of \$0.2 million in loss on extinguishment of convertible notes and capped call modification on the condensed consolidated statement of operations. In November 2022, the Company received \$1.3 million in cash and 22,914 in the Company's shares as final settlement of the capped call options. The capped call option agreements are excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

Reserve for Unissued Shares of Common Stock

The Company is required to reserve and keep available out of its authorized but unissued shares of common stock such number of shares sufficient for the exercise of all shares granted and available for grant under the Company's 2008 Equity Incentive Plan, 2016 Plan and 2016 ESPP. The amount of such shares of the Company's common stock reserved for these purposes at September 30, 2022 was 6.3 million shares. Additionally, the Company is required to reserve and keep available out of its authorized but unissued shares of common stock shares that become issuable pursuant to the terms of the 2026 Notes, 2024 Notes and 2022 Notes.

(13) Income Taxes

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

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

For the three months ended September 30, 2022 and 2021, the Company recorded a provision for income taxes of less than \$0.1 million and a benefit from income taxes of \$0.7 million, respectively, resulting in an effective tax rate of (0.11)% and 2.53%, respectively. For the nine months ended September 30, 2022 and 2021, the Company recorded a benefit from income taxes of \$1.8 million and \$10.3 million, respectively, resulting in an effective tax rate of 2.22% and 10.93%, respectively. The provision for less than \$0.1 million and benefit of \$1.8 million, respectively, generated in the three and nine months ended September 30, 2022, was primarily generated by losses in foreign jurisdictions which are expected to be realized in the current or future years.

As of September 30, 2022, the Company had gross tax-effected unrecognized tax provision of \$1.8 million which, if recognized, would favorably impact the effective tax rate. The Company's existing tax positions will continue to generate an increase in unrecognized tax benefits in subsequent periods. The Company's policy is to record interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the three and nine months ended September 30, 2022 and 2021, the amounts recorded related to the accrual of interest and penalties were immaterial in each period.

(14) Segment information

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

(15) Revenue Recognition

During the second quarter of 2022, the Company updated the following geographic market presentation. Prior period has been recast to conform to the current presentation. North America includes United States and Canada and International aggregates international revenues excluding Canada. The majority of the Company's North America revenue is generated in the United States. The following table disaggregates the Company's revenue by geography which provides information as to the major source of revenue (in thousands):

Primary Geographic Markets	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
North America	\$ 81,880	\$ 73,751	\$ 233,379	\$ 201,031
International	29,521	22,995	81,383	64,574
Total	<u>\$ 111,401</u>	<u>\$ 96,746</u>	<u>\$ 314,762</u>	<u>\$ 265,605</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Subscription services	\$ 96,790	\$ 86,664	\$ 283,203	\$ 236,748
Professional services	8,006	6,467	20,571	18,866
Software licenses and other	6,605	3,615	10,988	9,991
Total	<u>\$ 111,401</u>	<u>\$ 96,746</u>	<u>\$ 314,762</u>	<u>\$ 265,605</u>

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 condensed consolidated balance sheet net of an allowance for credit losses.

Contract Liabilities

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

Deferred Costs

Current deferred costs, which primarily consist of deferred sales commissions, were \$15.3 million and \$15.8 million as of September 30, 2022 and December 31, 2021, respectively. Noncurrent deferred costs, which primarily consist of deferred sales commissions, were \$20.3 million and \$17.0 million as of September 30, 2022 and December 31, 2021, respectively. During the three months ended September 30, 2022 and 2021, amortization expense for the deferred costs was \$5.0 million and \$3.2 million, respectively. During the nine months ended September 30, 2022 and 2021, amortization expense for the deferred costs was \$13.7 million and \$10.4 million, respectively. There was no impairment loss in relation to the costs capitalized for the nine months ended September 30, 2022 and the year ended December 31, 2021, respectively.

Deferred Revenue

During the three months ended September 30, 2022 and 2021, \$89.3 million and \$78.8 million, respectively, of subscription services, license and other revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period. During the nine months ended September 30, 2022 and 2021, \$189.9 million and \$138.6 million, respectively, of subscription services, license and other revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period.

During the three months ended September 30, 2022 and 2021, \$3.0 million and \$3.7 million, respectively, of professional services revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period. During the nine months ended September 30, 2022 and 2021, \$7.3 million and \$9.1 million, respectively, of professional services revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period.

As of September 30, 2022, approximately \$454.5 million of revenue is expected to be recognized from remaining performance obligations for subscription and other contracts. The Company expects to recognize revenue on approximately \$283.6 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

As of September 30, 2022, approximately \$16.9 million of revenue is expected to be recognized from remaining performance obligations for professional services contracts. The Company expects to recognize revenue on approximately \$14.1 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

(16) Leases

The Company's leases relate primarily to office facilities that expire on various dates from 2022 through 2029. The terms of the Company's non-cancelable operating lease arrangements typically contain fixed lease payment which increases over the term of the lease at fixed rates, rent holidays and provide for additional renewal periods. Lease expense is recognized over the term of the lease on a straight-line basis. All of the Company's leases are classified as operating leases. The Company has determined that periods covered by options to extend the Company's leases are excluded from the lease term as the Company is not reasonably certain the Company will exercise such options. The Company terminated leases related to the 2022 Strategic Realignment (as defined in Note 18). See Note 18 for details on the 2022 Strategic Realignment.

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

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

	As of September 30, 2022	As of December 31, 2021
Balance sheet information		
ROU assets	\$ 10,968	\$ 18,160
Lease liabilities, current	\$ 5,225	\$ 6,356
Lease liabilities, non-current	8,373	15,328
Total lease liabilities	\$ 13,598	\$ 21,684
Supplemental data		
Weighted average remaining lease term	3.72 years	4.24 years
Weighted average discount rate	6.27 %	5.99 %

	Nine Months Ended September 30,	
	2022	2021
Cash paid for amounts included in lease liabilities	\$ 5,552	\$ 4,726
ROU assets obtained in exchange for new lease obligations	287	6,681

Maturities of lease liabilities as of September 30, 2022 were as follows (in thousands):

Year ending December 31,		
2022 (for the remaining three months)	\$	1,609
2023		5,516
2024		2,736
2025		1,075
2026		1,063
Thereafter		2,153
Total undiscounted lease payments		14,152
Less: imputed interest		(554)
Total lease liabilities	\$	13,598

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease expense	\$ 1,446	\$ 1,622	\$ 4,667	\$ 4,391
Short-term lease expense ⁽¹⁾	143	231	473	622
	1,589	1,853	5,140	5,013
Less: Sublease income	(56)	(23)	(102)	(38)
Total lease expense	\$ 1,533	\$ 1,830	\$ 5,038	\$ 4,975

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

As of September 30, 2022, the Company does not have any leases that have not yet commenced that create significant rights and obligations.

(17) Commitments and Contingencies

Litigation

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

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

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

Employee Contracts

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

(18) Restructuring and Restructuring-Related Activities

On May 3, 2022, the Board of Directors of the Company approved a program (the "2022 Strategic Realignment") to strategically realign the Company's resources in order to accelerate and grow the Company's investments in the Company's largest growth opportunities while streamlining the Company's operations. The 2022 Strategic Realignment program includes a targeted realignment and reduction of headcount, facilities and other third-party spend. On November 2, 2022, the Board of Directors of the Company approved an amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of headcount and other third-party spend (see Note 19).

The 2022 Strategic Realignment program is in support of the 2022 strategic initiatives to simplify the Company's business and accelerate the integration of recent acquisitions, and will help to drive the financial outcomes of sustainable growth and improved profitability and cash flow and is expected to be substantially completed by the end of fiscal 2023.

In addition to restructuring costs, the Company will also incur costs that do not constitute restructuring under ASC 420, *Exit and Disposal Cost Obligations*, and which the Company instead refers to as business transformation costs. These costs consist primarily of expenditures directly related to the 2022 Strategic Realignment and include employee retention costs, professional fees and investments in automation and technology. The following table provides a summary of the Company's estimates of total pre-tax charges associated with the 2022 Strategic Realignment, by major type of cost, of which approximately \$30 million to \$33 million are expected to result in cash outlays (in millions):

	Total Estimated Amount Expected to be Incurred			
Restructuring charges:				
Workforce	\$	9	to	\$ 9
Facilities-related		5	to	6
Other		—	to	—
Business transformation charges		17	to	19
Total restructuring and business transformation charges	\$	31	to	\$ 34

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

	Workforce ⁽¹⁾	Facilities-related ⁽²⁾	Other	Total
Balance at April 1, 2022	\$ —	\$ —	\$ —	\$ —
Charges	2,412	4,200	167	6,779
Charges settled in cash	(2,367)	(3,308)	(167)	(5,842)
Charges settled in non-cash	(3)	(857)	—	(860)
Balance at September 30, 2022	\$ 42	\$ 35	\$ —	\$ 77

(1) Balance at September 30, 2022 is recorded in accrued expenses in the condensed consolidated balance sheet.

(2) Balance at September 30, 2022 is recorded in accrued expenses in the condensed consolidated balance sheet. Charges settled in non-cash relate to the loss on disposal of assets partially offset by derecognizing the ROU asset and liability for lease terminations.

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

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Restructuring charges	\$ 37	\$ 6,779
Business transformation charges:		
Cost of revenue	259	694
Sales and marketing	426	634
Research and development	396	609
General and administrative	106	2,102
Other income (expense), net	3	3
Total business transformation charges	1,190	4,042
Total restructuring and business transformation charges	\$ 1,227	\$ 10,821

(19) Subsequent Event

2022 Strategic Realignment Amendment

On November 2, 2022, the Board of Directors of the Company approved an amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of headcount and other third-party spend. Overall, the 2022 Strategic Realignment charges will result in future cash expenditures of approximately \$30 million to \$33 million. The Company expects to record approximately \$14 million to \$15 million in restructuring charges associated with the 2022 Strategic Realignment, including employee termination benefits, costs to consolidate facilities and other costs. The Company also expects to incur \$17 million to \$19 million in business transformation costs associated with the 2022 Strategic Realignment, including employee retention costs, professional fees and investments in automation and technology. The 2022 Strategic Realignment is expected to be substantially completed by the end of fiscal 2023. See Note 18 for details on the 2022 Strategic Realignment.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (i) our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and (ii) our audited consolidated financial statements and the related notes and management’s discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2021 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 25, 2022. This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements are often identified by the use of words such as “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would” or the negative or plural of these words or similar expressions or variations. Such forward-looking statements include, but are not limited to, statements with respect to our outlook; the impact of new accounting standards; our ability to service our debt; our business strategy, including with respect to potential acquisitions; plans and objectives of future operations; the length and severity of the COVID-19 pandemic and its impact on the global economy and our financial results; the success of the 2022 Strategic Realignment; expected expenses, cash charges and cost savings; and our future financial and business performance. The events described in these forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, our ability to implement and achieve cost savings and the other operational and personnel changes described herein, and those discussed in the section titled “Risk Factors”, set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Everbridge is a global software company that provides enterprise software applications that automate and accelerate organizations’ operational response to critical events in order to keep people safe and organizations running. During public safety threats including severe weather conditions, active shooter situations, terrorist attacks or a pandemic, as well as critical business events such as IT outages, cyber-attacks, product recalls or supply-chain interruptions, global customers rely on our Critical Event Management platform to quickly and reliably aggregate and assess threat data, locate people at risk and responders able to assist, automate the execution of pre-defined communications processes 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 several languages and dialects – all simultaneously. Our Critical Event Management platform is comprised of a comprehensive set of software applications packaged for organizations to address five core use cases, safeguarding: Business Operations, People Resilience, Digital Operations, Smart Security, and Public Safety. Everbridge’s individual products, addressing the full spectrum of tasks an organization requires to manage a critical event, include Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911. 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 6,417 customers as of September 30, 2022. We provide our applications to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education and professional services.

We sell all of our critical event management applications on a subscription basis. We generally enter into contracts that range from one to three years in length, with an average contract duration of 1.8 years as of September 30, 2022, and generally bill and collect payment annually in advance. We derive most of our revenue from subscriptions to applications. On average, 95% of the revenue that we recognized in each of the eight most recently completed quarters was generated from contracts entered into in prior quarters or renewals of those contracts; the balance of the revenue that we recognized in each such quarter was generated from contracts entered into with new customers or new contracts, other than renewals, entered into with existing customers in such quarter. We derived approximately 42% of our revenue in 2021 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 \$111.4 million and \$96.7 million for the three months ended September 30, 2022 and 2021, respectively, representing a period-over-period increase of 15%. We generated revenue of \$314.8 million and \$265.6 million for the nine months ended September 30, 2022 and 2021, respectively, representing a period-over-period increase of 19%. We had net losses of \$22.1 million and \$28.7 million for the three months ended September 30, 2022 and 2021, respectively. We had net losses of \$77.3 million and \$84.3 million for the nine months ended September 30, 2022 and 2021, respectively. During the second quarter of 2022, we updated our geographic market presentation. Prior period has been recast to conform to the current presentation. North America includes United States and Canada and International aggregates international revenues excluding Canada. As of September 30, 2022 and 2021, 19% and 21% of our customers, respectively, were located outside of North America. These customers generated 26% and 24% of our total revenue for the three months ended September 30, 2022 and 2021, respectively, and 26% and 24% of our total revenue for the nine months ended September 30, 2022 and 2021, 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 event management solutions and our ability to effectively compete. In order to further penetrate the market for critical event management solutions and capitalize on what we believe to be a significant opportunity, we intend to continue to invest in research and development, build-out our data center infrastructure and services capabilities and hire additional sales representatives, both domestically and internationally, to drive sales to new customers and incremental sales of new applications to existing customers. Nevertheless, we expect to continue to incur losses in the near term and, if we are unable to achieve our growth objectives, we may not be able to achieve profitability.

Recent Developments

Appointment of Chief Executive Officer and Director

On July 25, 2022, David Wagner was appointed the Chief Executive Officer of Everbridge, Inc. and on July 28, 2022, Mr. Wagner was appointed as a member of the Board of Directors of Everbridge, Inc. Mr. Wagner will receive an initial annual base salary of \$425,000 and is eligible to earn an annual cash incentive bonus of \$425,000, which will be pro-rated for fiscal 2022, pursuant to our management incentive plan upon the achievement of certain individual and/or company performance goals set by the Compensation Committee of our Board of Directors. We granted Mr. Wagner the following awards pursuant to our 2016 Equity Incentive Plan: (i) 200,000 restricted stock units (“RSUs”) with 25% of the RSU grant vesting on December 31, 2022, and the remaining 75% vesting in twelve equal quarterly installments, with the first such vesting date on October 31, 2023, and (ii) 200,000 performance-based restricted stock units (“PSUs”), with up to 75% of the PSU grant becoming eligible to vest based on the compound annual growth rate (“CAGR”) achieved by us during the eight fiscal quarters from January 1, 2022 to December 31, 2023, and up to an additional 75% becoming eligible to vest based on the CAGR achieved during the 12 fiscal quarters from January 1, 2022 to December 31, 2024, with the actual vesting date in each case occurring on the filing of our quarterly reports on Form 10-Q for the quarters ending June 30, 2024 and June 30, 2025, respectively. The estimated total stock-based compensation associated with these grants of \$10.7 million is expected to be recognized over a weighted average period of 3.3 years.

Settlement of 2022 Notes and Capped Call Options

In November 2022, we settled the \$8 thousand aggregate principal amount of the 1.50% convertible senior notes due November 1, 2022 (the “2022 Notes”) at maturity. Additionally, in November 2022, we received \$1.3 million in cash and 22,914 in our shares as final settlement of the capped call options related to the 2022 Notes.

2022 Strategic Realignment Amendment

On May 3, 2022, our Board of Directors approved a program (the “2022 Strategic Realignment”) to strategically realign our resources in order to accelerate and grow our investments in our largest growth opportunities while streamlining our operations. On November 2, 2022, our Board of Directors approved an amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of headcount and other third-party spend. See Note 18 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for details on the 2022 Strategic Realignment and Note 19 for details on the 2022 Strategic Realignment amendment.

Impacts of COVID-19 to Our Business

During the six months ended September 30, 2022 financial results and operations for our Americas and international geographies were not significantly impacted by the COVID-19 pandemic. We have taken, and continue to take, a variety of measures to ensure the availability and functioning of our critical infrastructure, to promote the safety and security of our employees and to support the communities in which we operate. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required or that we determine are in the best interests of our employees, customers, suppliers and stockholders. Due to the evolving nature of the situation, we are not able at this time to estimate the future impact of the pandemic on our financial results and operations, but the impact could be material during any future period affected either directly or indirectly by this pandemic. Due to our primarily subscription-based business model, the effect of the coronavirus may not be fully reflected in our results of operations until future periods, if at all. See Part I-Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on February 25, 2022, for information on risks associated with pandemics in general and COVID-19 specifically. The extent of the future impact of COVID-19 on our operational and financial performance will depend on certain developments, including new information which may emerge concerning the duration and severity of the outbreak, impact of vaccinations and virus variants, international actions taken or which may be taken in the future to contain and treat it, impact on our customers and our sales cycles, and impact on our employees, all of which are highly uncertain and cannot be predicted.

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.

Adoption of Accounting Standards Update 2020-06

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. We adopted the standard on January 1, 2022 using the modified retrospective approach. Upon adoption of ASU 2020-06, we no longer separately present in equity the embedded conversion feature of the 0% convertible senior notes due March 15, 2026 (the “2026 Notes”), 0.125% convertible senior notes due December 15, 2024 (the “2024 Notes”) and the 2022 Notes (collective, the “Convertible Senior Notes”). Instead, we account for the Convertible Senior Notes wholly as debt. Applying the separation models prior to the adoption of ASU 2020-06 to the Convertible Senior Notes involved the recognition of a debt discount, which was amortized to interest expense via the effective interest method. The elimination of the cash conversion model will reduce reported interest expense in periods subsequent to adoption.

During the nine months ended September 30, 2022, we recognized amortization of deferred costs in interest expense based on ASU 2020-06. As we adopted the standard using the modified retrospective approach, periods prior to our adoption have not been recast and are not directly comparable. See Notes 2 and 9 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional discussion of the impact of the adoption of ASU 2020-06.

Components of Results of Operations

Revenue

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

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

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

Cost of Revenue

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

Operating Expenses

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

Sales and Marketing

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

Research and Development

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

General and Administrative

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

Restructuring

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

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

Interest and Investment Income

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

Interest Expense

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

Loss on Extinguishment of Convertible Notes, Capped Call Modification and Change in Fair Value

Loss on extinguishment of convertible notes, capped call modification and change in fair value relates to the partial extinguishment of our 2022 Notes, modification of a 2022 Notes capped call agreement and change in fair value of 2022 Notes capped call options which will be settled in cash.

Other Expense, Net

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

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 111,401	\$ 96,746	\$ 314,762	\$ 265,605
Cost of revenue ⁽¹⁾	35,447	30,310	100,543	83,255
Gross profit	75,954	66,436	214,219	182,350
Operating expenses:				
Sales and marketing ⁽¹⁾	46,580	42,426	133,755	118,436
Research and development ⁽¹⁾	25,177	23,197	75,355	61,527
General and administrative ⁽¹⁾	23,357	19,904	72,786	67,130
Restructuring	37	—	6,779	—
Total operating expenses	95,151	85,527	288,675	247,093
Operating loss	(19,197)	(19,091)	(74,456)	(64,743)
Other expense, net	(2,858)	(10,332)	(4,633)	(29,890)
Loss before income taxes	(22,055)	(29,423)	(79,089)	(94,633)
Benefit from (provision for) income taxes	(25)	745	1,754	10,345
Net loss	\$ (22,080)	\$ (28,678)	\$ (77,335)	\$ (84,288)

(1) Includes stock-based compensation expense and depreciation and amortization of acquired intangible assets as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stock-based compensation expense				
Cost of revenue	\$ 1,938	\$ 1,260	\$ 4,197	\$ 3,078
Sales and marketing	6,130	5,747	13,736	15,068
Research and development	4,543	3,106	10,497	7,696
General and administrative	4,796	7,328	11,272	19,789
Total	<u>\$ 17,407</u>	<u>\$ 17,441</u>	<u>\$ 39,702</u>	<u>\$ 45,631</u>
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Depreciation and amortization expense				
Cost of revenue	\$ 5,885	\$ 5,530	\$ 17,977	\$ 15,624
Sales and marketing	340	216	863	690
Research and development	243	188	657	544
General and administrative	8,094	8,292	25,756	21,222
Total	<u>\$ 14,562</u>	<u>\$ 14,226</u>	<u>\$ 45,253</u>	<u>\$ 38,080</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	32 %	31 %	32 %	31 %
Gross profit	68 %	69 %	68 %	69 %
Operating expenses:				
Sales and marketing	42 %	44 %	42 %	45 %
Research and development	23 %	24 %	24 %	23 %
General and administrative	21 %	21 %	23 %	25 %
Restructuring	0 %	0 %	2 %	0 %
Total operating expenses	85 %	88 %	92 %	93 %
Operating loss	(17) %	(20) %	(24) %	(24) %
Other expense, net	(3) %	(11) %	(1) %	(11) %
Loss before income taxes	(20) %	(30) %	(25) %	(36) %
Benefit from (provision for) income taxes	(0) %	1 %	1 %	4 %
Net loss	<u>(20) %</u>	<u>(30) %</u>	<u>(25) %</u>	<u>(32) %</u>

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

Comparison of the Three Months Ended September 30, 2022 and 2021

Revenue

(dollars in thousands)	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Revenue	\$ 111,401	\$ 96,746	\$ 14,655	15.1 %

Revenue increased by \$14.7 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase was due to a \$14.7 million increase in sales of our products driven by expansion of our customer base from 6,010 customers as of September 30, 2021 to 6,417 customers as of September 30, 2022, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

(dollars in thousands)	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Cost of revenue	\$ 35,447	\$ 30,310	\$ 5,137	16.9 %
Gross margin %	68 %	69 %		

Cost of revenue increased by \$5.1 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to a \$2.4 million increase in employee-related costs associated with our increased headcount from 423 employees as of September 30, 2021 to 471 employees as of September 30, 2022 and with employee-related costs related to the 2022 Strategic Realignment, a \$1.4 million increase in travel risk management, operational resiliency and occupational health solutions costs, a \$0.9 million increase in hosting, software and messaging costs and a \$0.4 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software.

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

Operating Expenses

Sales and Marketing Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Sales and marketing	\$ 46,580	\$ 42,426	\$ 4,154	9.8 %
% of revenue	42 %	44 %		

Sales and marketing expense increased by \$4.2 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to a \$4.6 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 591 employees as of September 30, 2021 to 642 employees as of September 30, 2022 and with employee-related costs related to the 2022 Strategic Realignment. The remaining increase was principally the result of a \$0.5 million increase in office related expenses to support the sales team. These increases were partially offset by a \$0.9 million decrease in advertising-related costs and trade show expenses.

Research and Development Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Research and development	\$ 25,177	\$ 23,197	\$ 1,980	8.5 %
% of revenue	23 %	24 %		

Research and development expense increased by \$2.0 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to a \$3.4 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 513 employees as of September 30, 2021 to 564 employees as of September 30, 2022 and with employee-related costs related to the 2022 Strategic Realignment, and a \$0.8 million increase in software related costs partially offset by a \$0.4 million decrease in professional services and office related expenses to support research and development activities. A total of \$2.6 million of internally developed software costs during the three months ended September 30, 2021 and \$4.4 million of internally developed software costs during the three months ended September 30, 2022 were capitalized, resulting in a \$1.8 million offset to the increase in the third quarter of 2022.

General and Administrative Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2022	2021	\$	%
General and administrative	\$ 23,357	\$ 19,904	\$ 3,453	17.3 %
% of revenue	21 %	21 %		

General and administrative expense increased by \$3.5 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to a \$7.1 million decrease in our contingent consideration obligation recognized in the prior year, partially offset by a \$1.9 million decrease in credit loss expense primarily due to a recovery from a payment received from a customer during the three months ended September 30, 2022, a \$1.5 million decrease in employee-related costs primarily related to a decrease in stock-based compensation partially offset by our increased headcount from 203 employees as of September 30, 2021 to 216 employees as of September 30, 2022 and with employee-related costs related to the 2022 Strategic Realignment and a \$0.2 million decrease in depreciation and amortization.

Other Expense, Net

(dollars in thousands)	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Other expense, net	\$ (2,858)	\$ (10,332)	\$ 7,474	72.3%
% of revenue	(3)%	(11)%		

Other expense, net decreased by \$7.5 million for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to an \$8.5 million decrease in interest expense related to our convertible senior notes resulting from our adoption of ASU 2020-06 (see Notes 2 and 9 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of the impact of the adoption of ASU 2020-06), a \$2.0 million increase in interest income and a \$1.7 million increase in other income, net, primarily due to a settlement of a receivable. These increases were partially offset by a \$4.7 million decrease in fair value of 2022 Notes capped call options to be settled in cash.

Income Taxes

(dollars in thousands)	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Benefit from (provision for) income taxes	\$ (25)	\$ 745	\$ (770)	(103.4)%
% of revenue	(0)%	1%		

The nominal income tax expense for the three months ended September 30, 2022 related to state and foreign taxes incurred by profitable separate legal subsidiaries. The change in income taxes of \$0.8 million for the three months ended September 30, 2022 as compared to the same period in 2021 was related to the change in valuation allowance and the realization of losses against deferred tax liabilities established for prior acquisitions.

Comparison of the Nine Months Ended September 30, 2022 and 2021

Revenue

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Revenue	\$ 314,762	\$ 265,605	\$ 49,157	18.5%

Revenue increased by \$49.2 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was due to a \$49.2 million increase in sales of our products driven by expansion of our customer base from 6,010 customers as of September 30, 2021 to 6,417 customers as of September 30, 2022, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Cost of revenue	\$ 100,543	\$ 83,255	\$ 17,288	20.8%
Gross margin %	68%	69%		

Cost of revenue increased by \$17.3 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to a \$9.8 million increase in employee-related costs associated with our increased headcount from 423 employees as of September 30, 2021 to 471 employees as of September 30, 2022, net of a reduction in stock-based compensation expense as a result of expected reduced performance metric achievement, and with employee-related costs related to the 2022 Strategic Realignment, a \$3.0 million increase in travel risk management, operational resiliency and occupational health solutions costs, a \$2.4 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software, a \$1.3 million increase in hosting, software and messaging costs and other costs and a \$0.8 million increase in office and other related expenses to support revenue generating activities.

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

Operating Expenses

Sales and Marketing Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Sales and marketing	\$ 133,755	\$ 118,436	\$ 15,319	12.9 %
% of revenue	42 %	45 %		

Sales and marketing expense increased by \$15.3 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to an \$13.6 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 591 employees as of September 30, 2021 to 642 employees as of September 30, 2022, net of a reduction in stock-based compensation expense as a result of expected reduced performance metric achievement, and with employee-related costs related to the 2022 Strategic Realignment. The remaining increase was principally the result of a \$1.1 million increase in office related expenses, a \$0.5 million increase in software expenses to support the sales team and a \$0.1 million increase in advertising-related costs and trade show expenses.

Research and Development Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Research and development	\$ 75,355	\$ 61,527	\$ 13,828	22.5 %
% of revenue	24 %	23 %		

Research and development expense increased by \$13.8 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to a \$16.3 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 513 employees as of September 30, 2021 to 564 employees as of September 30, 2022, net of a reduction in stock-based compensation expense as a result of expected reduced performance metric achievement, and with employee-related costs related to the 2022 Strategic Realignment, a \$2.3 million increase in software related costs and a \$0.2 million increase in office related expenses partially offset by a \$1.1 million decrease in professional services to support research and development activities. A total of \$8.0 million of internally developed software costs during the nine months ended September 30, 2021 and \$11.9 million of internally developed software costs during the nine months ended September 30, 2022 were capitalized, resulting in a \$3.9 million offset to the increase during the nine months ended September 30, 2022.

General and Administrative Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
General and administrative	\$ 72,786	\$ 67,130	\$ 5,656	8.4 %
% of revenue	23 %	25 %		

General and administrative expense increased by \$5.7 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to a \$7.0 million decrease in our contingent consideration obligation recognized in the prior year, a \$4.5 million increase in depreciation and amortization and a \$1.1 million increase in professional services and office related expenses to support the administrative team. These increases were partially offset by a \$3.8 million decrease in employee-related costs resulting from a reduction in stock-based compensation expense due to expected reduced performance metric achievement partially offset by increased employee-related costs due to increased headcount from 203 employees as of September 30, 2021 to 216 employees as of September 30, 2022 and with employee-related costs related to the 2022 Strategic Realignment, and a \$3.1 million decrease in credit loss expense partially due to a recovery from a payment received from a customer during the three months ended September 30, 2022.

Restructuring

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Restructuring	\$ 6,779	\$ —	\$ 6,779	N/A
% of revenue	2 %	0 %		

During the nine months ended September 30, 2022, we incurred approximately \$6.8 million of restructuring charges, of which \$2.4 million was for employee-related expenses, \$4.2 million was for facilities-related expenses and \$0.2 million for other expenses.

Other Expense, Net

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Other expense, net	\$ (4,633)	\$ (29,890)	\$ 25,257	84.5 %
% of revenue	(1) %	(11) %		

Other expense, net decreased by \$25.3 million for the nine months ended September 30, 2022 compared to the same period in 2021 primarily due to a \$22.1 million decrease in interest expense related to our convertible senior notes resulting from our adoption of ASU 2020-06 (see Notes 2 and 9 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of the impact of the adoption of ASU 2020-06), a \$2.9 million decrease in loss on extinguishment of convertible notes and capped call modification, a \$2.5 million increase in interest income and a \$2.5 million increase in other income, net partially due to a settlement of a receivable. These increases were partially offset by a \$4.7 million decrease in fair value of 2022 Notes capped call options to be settled in cash.

Income Taxes

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Benefit from income taxes	\$ 1,754	\$ 10,345	\$ (8,591)	(83.0) %
% of revenue	1 %	4 %		

A portion of the losses incurred during the nine months ended September 30, 2022 are expected to be realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2022 which was greater than the state and foreign tax incurred by our profitable separate legal subsidiaries. Losses incurred for other operating jurisdictions required a valuation allowance. An income tax benefit of \$1.8 million was recorded during the nine months ended September 30, 2022 primarily attributable to losses benefited in foreign jurisdictions. The change in income tax benefit of \$8.6 million for the nine months ended September 30, 2022 as compared to the same period in 2021 was related to the change in valuation allowance and the realization of losses against deferred tax liabilities established for prior acquisitions.

Other Metrics

We regularly monitor a number of financial and operating metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions. Our other business metrics may be calculated in a manner different than similar other business metrics used by other companies (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Adjusted EBITDA	\$ 15,169	\$ 4,850	\$ 22,524	\$ 10,648
Adjusted gross profit	80,941	70,887	228,165	194,201
Adjusted free cash flow	15,397	(7,529)	9,332	(1,068)

- Adjusted EBITDA.** Adjusted EBITDA represents our net loss before interest and investment (income) expense, net, (benefit from) provision for income taxes, depreciation and amortization expense, loss on extinguishment of convertible notes, capped call modification and change in fair value, change in fair value of contingent consideration, stock-based compensation expense and costs related to the 2022 Strategic Realignment. 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, loss on extinguishment of convertible notes, capped call modification and change in fair value, change in fair value of contingent consideration 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 generally accepted accounting principles in the United States of America ("U.S. GAAP"). We believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and 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 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (22,080)	\$ (28,678)	\$ (77,335)	\$ (84,288)
Interest and investment expense, net	(742)	9,709	1,124	25,691
(Benefit from) provision for income taxes	25	(745)	(1,754)	(10,345)
Depreciation and amortization	14,562	14,226	45,253	38,080
Loss on extinguishment of convertible notes, capped call modification and change in fair value	4,770	—	4,770	2,925
Change in fair value of contingent consideration	—	(7,103)	(57)	(7,046)
Stock-based compensation	17,407	17,441	39,702	45,631
2022 Strategic Realignment	1,227	—	10,821	—
Adjusted EBITDA	\$ 15,169	\$ 4,850	\$ 22,524	\$ 10,648

- Adjusted Gross Profit.** Adjusted gross profit represents gross profit plus amortization of acquired intangibles, stock-based compensation and costs related to the 2022 Strategic Realignment. Adjusted gross profit 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 amortization of acquired intangibles, stock-based compensation and costs related to the 2022 Strategic Realignment 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 profit is not a measure calculated in accordance with GAAP. We believe that adjusted gross profit 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 profit 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 profit 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 profit to gross profit, the most directly comparable GAAP measure, for each of the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross profit	\$ 75,954	\$ 66,436	\$ 214,219	\$ 182,350
Amortization of acquired intangibles	2,790	3,191	9,055	8,773
Stock-based compensation	1,938	1,260	4,197	3,078
2022 Strategic Realignment	259	—	694	—
Adjusted gross profit	<u>\$ 80,941</u>	<u>\$ 70,887</u>	<u>\$ 228,165</u>	<u>\$ 194,201</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net cash provided by (used in) operating activities	\$ 18,035	\$ (2,690)	\$ 15,813	\$ 11,981
Capital expenditures	(225)	(2,042)	(2,951)	(4,170)
Capitalized software development costs	(4,173)	(2,797)	(11,609)	(8,879)
Free cash flow	13,637	(7,529)	1,253	(1,068)
Cash payments for 2022 Strategic Realignment	1,760	—	8,079	—
Adjusted free cash flow	<u>\$ 15,397</u>	<u>\$ (7,529)</u>	<u>\$ 9,332</u>	<u>\$ (1,068)</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 income (loss) and non-GAAP net income (loss), which we collectively refer to as non-GAAP financial measures. These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense, amortization of acquired intangibles, change in fair value of contingent consideration, accretion of interest on convertible senior notes and loss on extinguishment of convertible notes, capped call modification and change in fair value, costs related to the 2022 Strategic Realignment and the tax impact of such adjustments. The tax impact of such adjustments was determined by recalculating the estimated annual effective tax rate utilizing non-GAAP pre-tax income estimated for the year and then applying the recalculated estimated annual effective tax rate to year-to-date non-GAAP income. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision making. While our non-GAAP financial measures are an important tool for financial and operational decision making and for evaluating our own operating results over different periods of time, you should consider our non-GAAP financial measures alongside our GAAP financial results.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 35,447	\$ 30,310	\$ 100,543	\$ 83,255
Amortization of acquired intangibles	(2,790)	(3,191)	(9,055)	(8,773)
Stock-based compensation	(1,938)	(1,260)	(4,197)	(3,078)
2022 Strategic Realignment	(259)	—	(694)	—
Non-GAAP cost of revenue	\$ 30,460	\$ 25,859	\$ 86,597	\$ 71,404
Gross profit	\$ 75,954	\$ 66,436	\$ 214,219	\$ 182,350
Amortization of acquired intangibles	2,790	3,191	9,055	8,773
Stock-based compensation	1,938	1,260	4,197	3,078
2022 Strategic Realignment	259	—	694	—
Non-GAAP gross profit	\$ 80,941	\$ 70,887	\$ 228,165	\$ 194,201
Non-GAAP gross margin	72.7 %	73.3 %	72.5 %	73.1 %
Sales and marketing	\$ 46,580	\$ 42,426	\$ 133,755	\$ 118,436
Stock-based compensation	(6,130)	(5,747)	(13,736)	(15,068)
2022 Strategic Realignment	(426)	—	(634)	—
Non-GAAP sales and marketing	\$ 40,024	\$ 36,679	\$ 119,385	\$ 103,368
Research and development	\$ 25,177	\$ 23,197	\$ 75,355	\$ 61,527
Stock-based compensation	(4,543)	(3,106)	(10,497)	(7,696)
2022 Strategic Realignment	(396)	—	(609)	—
Non-GAAP research and development	\$ 20,238	\$ 20,091	\$ 64,249	\$ 53,831
General and administrative	\$ 23,357	\$ 19,904	\$ 72,786	\$ 67,130
Amortization of acquired intangibles	(7,538)	(7,798)	(24,073)	(20,051)
Change in fair value of contingent consideration	—	7,103	57	7,046
Stock-based compensation	(4,796)	(7,328)	(11,272)	(19,789)
2022 Strategic Realignment	(106)	—	(2,102)	—
Non-GAAP general and administrative	\$ 10,917	\$ 11,881	\$ 35,396	\$ 34,336
Restructuring (2022 Strategic Realignment)	\$ 37	\$ —	\$ 6,779	\$ —
Total operating expenses	\$ 95,151	\$ 85,527	\$ 288,675	\$ 247,093
Amortization of acquired intangibles	(7,538)	(7,798)	(24,073)	(20,051)
Change in fair value of contingent consideration	—	7,103	57	7,046
Stock-based compensation	(15,469)	(16,181)	(35,505)	(42,553)
2022 Strategic Realignment	(965)	—	(10,124)	—
Non-GAAP operating expenses	\$ 71,179	\$ 68,651	\$ 219,030	\$ 191,535
Operating loss	\$ (19,197)	\$ (19,091)	\$ (74,456)	\$ (64,743)
Amortization of acquired intangibles	10,328	10,989	33,128	28,824
Change in fair value of contingent consideration	—	(7,103)	(57)	(7,046)
Stock-based compensation	17,407	17,441	39,702	45,631
2022 Strategic Realignment	1,224	—	10,818	—
Non-GAAP operating income	\$ 9,762	\$ 2,236	\$ 9,135	\$ 2,666
Net loss	\$ (22,080)	\$ (28,678)	\$ (77,335)	\$ (84,288)
Amortization of acquired intangibles	10,328	10,989	33,128	28,824
Change in fair value of contingent consideration	—	(7,103)	(57)	(7,046)
Stock-based compensation	17,407	17,441	39,702	45,631
2022 Strategic Realignment	1,227	—	10,821	—
Accretion of interest on convertible senior notes	1,168	9,649	3,492	25,470
Loss on extinguishment of convertible notes, capped call modification and change in fair value	4,770	—	4,770	2,925
Income tax adjustments	(510)	(185)	(1,321)	70
Non-GAAP net income	\$ 12,310	\$ 2,113	\$ 13,200	\$ 11,586

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash from sales to our customers, along with equity issuances and debt financing arrangements. Our principal source of liquidity is cash and cash equivalents totaling \$486.9 million as of September 30, 2022. 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. We believe that our financial resources will allow us to manage the anticipated impact of COVID-19 on our business operations for the foreseeable future, which could include delays in payments from our customers. The challenges posed by COVID-19 on our business could evolve rapidly. We will continue to evaluate our financial position in light of future developments, particularly those relating to COVID-19. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in the section of Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 and this Quarterly Report on Form 10-Q 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.

Material Cash Requirements and Contractual Obligations

We expect to use cash primarily for operating activities, such as expansion of our sales and marketing operations, research and development activities and other working capital needs, such as salaries, bonuses, and other personnel cost and data center hosting costs, as well as payments for acquisitions of businesses, interest payments on our convertible senior notes and payments related to the 2022 Strategic Realignment. We expect to continue to finance our operations primarily through cash from sales to our customers and may consider future equity issuances and debt financing arrangements. As of September 30, 2022, our commitments to settle contractual obligations include \$825.0 million principal amount of indebtedness under the 2026 Notes, 2024 Notes and 2022 Notes (see Note 9 of the notes to consolidated financial statements) and lease obligations of \$14.2 million (see Note 16 of the notes to condensed consolidated financial statements).

Cash Flows

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash, cash equivalents and restricted cash at beginning of period	\$ 477,479	\$ 568,302	\$ 492,758	\$ 475,630
Cash provided by (used in) operating activities	18,035	(2,690)	15,813	11,981
Cash used in investing activities	(4,381)	(6,852)	(14,590)	(212,728)
Cash provided by (used in) financing activities	(450)	(3,425)	(999)	279,864
Effects of exchange rates on cash, cash equivalents and restricted cash	(1,010)	(369)	(3,309)	219
Cash, cash equivalents and restricted cash at end of period	<u>\$ 489,673</u>	<u>\$ 554,966</u>	<u>\$ 489,673</u>	<u>\$ 554,966</u>

Sources of Funds

Our sources of funds include cash from sales to our customers, along with equity issuances and debt financing arrangements including our 2026 Notes, 2024 Notes and 2022 Notes.

Uses of Funds

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

Operating Activities

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

Operating activities generated \$15.8 million in cash in the nine months ended September 30, 2022, primarily as a result of non-cash operating expenses of \$99.6 million which was offset by our net loss of \$77.3 million and \$6.5 million in cash used as a result of changes in operating assets and liabilities. Included in the \$15.8 million cash provided by operating activities was \$8.1 million cash paid related to the 2022 Strategic Realignment. We recognized non-cash charges aggregating to \$45.3 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$39.7 million for stock-based compensation, \$13.4 million for amortization of deferred commissions, \$4.8 million loss on extinguishment of convertible notes, capped call modification and change in fair value, \$3.5 million related to the accretion of interest on our convertible senior notes, and \$0.9 million for loss on disposal of assets, offset by \$7.1 million for deferred income taxes, \$0.7 million for provision for credit losses and \$0.1 million change in the fair value of our contingent consideration obligation. The net change in operating assets and liabilities of \$6.5 million reflected a \$16.2 million increase in deferred cost, an \$11.3 million decrease in other liabilities, a \$6.9 million decrease in accrued payroll and employee related liabilities, a \$4.7 million decrease in deferred revenue, a \$3.2 million decrease in accounts payable and a \$0.6 million decrease in accrued expenses. These amounts were offset by a \$28.8 million decrease in accounts receivable and a \$7.6 million decrease in other assets.

Operating activities generated \$12.0 million in cash in the nine months ended September 30, 2021, primarily as a result of an increase in non-cash operating expenses of \$104.3 million which was offset by our net loss of \$84.3 million and decrease of \$8.0 million in cash used in operating assets and liabilities. Specifically, we recognized non-cash charges aggregating to \$45.6 million for stock-based compensation, \$38.1 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$25.5 million related to the accretion of interest on our convertible senior notes, \$10.4 million for amortization of deferred commissions, \$2.9 million loss on extinguishment of convertible notes and capped call modification, \$2.7 million for provision for credit losses, offset by \$11.2 million for deferred income taxes, \$7.0 million change in the fair value of our contingent consideration obligation and a \$2.7 million payment for contingent consideration. The net change in operating assets and liabilities of \$8.0 million reflected an \$11.4 million increase in deferred cost, a \$6.5 million increase in other assets, a \$5.4 million decrease in other liabilities, a \$3.8 million decrease in accrued payroll and employee related liabilities and a \$3.5 million decrease in accounts payable. These amounts were offset by a \$16.0 million decrease in accounts receivable, a \$3.7 million increase in deferred revenue, a \$2.8 million increase in accrued expenses and a \$0.1 million decrease in prepaid expenses.

Investing Activities

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

Investing activities used \$14.6 million in cash in the nine months ended September 30, 2022, which consists of a \$11.6 million investment in software development, \$3.0 million in purchases of property and equipment and \$1.2 million to settle certain The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, “Anvil”) acquisition purchase liabilities, offset by \$1.2 million attributed to a landlord reimbursement.

Investing activities used \$212.7 million in cash in the nine months ended September 30, 2021, which consists of \$199.7 million of cash paid for the acquisitions of xMatters Holdings, Inc., Red Sky Technologies Inc. and SnapComms Limited, an \$8.9 million investment in software development and a \$4.2 million in purchases of property and equipment.

Financing Activities

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

Financing activities used \$1.0 million of cash in the nine months ended September 30, 2022, which reflects a \$4.2 million payment for employee withholding taxes related to the issuance of restricted stock units and performance-based restricted stock units offset by \$3.2 million from the issuance of stock under our employee stock purchase plan.

Financing activities provided \$279.9 million of cash in the nine months ended September 30, 2021, which reflects proceeds of \$329.3 million from our 2026 Notes offering after deducting debt issuance cost and the cost for the capped call transactions entered into in connection with the 2026 Note offering, \$4.6 million from the issuance of stock under our employee stock purchase plan and \$2.9 million from the exercise of stock options. These amounts were offset by a \$48.0 million payment for the repurchase of 2022 Notes offset by cash received for the partial termination of the 2022 Notes capped call options, a \$6.4 million payment for employee withholding taxes related to the issuance of restricted stock units and a \$2.5 million payment for contingent consideration.

Critical Accounting Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of our condensed consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates. The future effects of the COVID-19 pandemic on our results of operations, cash flows, and financial position are unclear; however, we believe we have used reasonable estimates and assumptions in preparing the condensed consolidated financial statements.

Except for the adoption of ASU 2020-06 (see Notes 2 and 9 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q) and determination of the fair value of 2022 Notes capped call options accounted for as derivative instruments (see Notes 6 and 9 in the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q and below), there have been no changes to our critical accounting estimates described in the Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 25, 2022, that have had a material impact on our condensed consolidated financial statements and related notes.

Convertible Senior Notes Capped Call Options

Capped call options which will be settled in cash are accounted for as derivative instruments. Significant judgment is required in determining the value of derivative asset. The fair value was derived using a Black-Scholes option-pricing model. The valuation model uses various market-based inputs, including stock price, remaining contractual term, expected volatility, risk-free interest rate and expected dividend yield. We apply judgment when determining expected volatility and consider both historical and implied volatility levels of the underlying equity security.

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

Our investment portfolio is exposed to market risk from changes in interest rates. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not change the fair value of our interest sensitive financial instruments by a material amount. In addition, if a 100 basis point change in overall interest rates were to occur in 2022, 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 September 30, 2022.

Changes in interest rates may also impact gains or losses from the conversion of our outstanding convertible senior notes. In March 2021, we issued \$375 million in aggregate principal amount of our 2026 Notes. In December 2019, we issued \$450 million in aggregate principal amount of our 2024 Notes. In November 2017, we issued \$115 million in aggregate principal amount of our 2022 Notes, of which \$8 thousand remain outstanding. The 2026 Notes, 2024 Notes and 2022 Notes are convertible under certain circumstances, including trading price conditions related to our common stock, and upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. 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 2022 Notes at the conversion rate at any time. In November 2022, we settled the \$8 thousand aggregate principal amount of the 2022 Notes at maturity. The 2026 Notes and 2024 Notes were not convertible as of September 30, 2022.

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 2026 Notes, 2024 Notes and 2022 Notes, we will record a gain or loss in our consolidated statement of operations during the period in which the 2026 Notes, 2024 Notes and 2022 Notes are extinguished. An incremental borrowing rate that is a hypothetical 100 basis points lower than the implicit interest rate upon conversion of the 2026 Notes, 2024 Notes and 2022 Notes would result in a loss of approximately \$8.3 million.

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

We had cash and cash equivalents of \$486.9 million as of September 30, 2022, which consisted of bank deposits and money market funds. To date, fluctuations in interest income have not been significant.

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

Foreign Currency Exchange Risk

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

Inflation Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management is continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact to their design and operating effectiveness.

Inherent Limitations on Effectiveness of Controls

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

Item 1. Legal Proceedings.

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

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

From time to time, we may become involved in other legal proceedings or be subject to claims arising in the ordinary course of our business. Except for the claim described above, 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, financial condition, results of operations 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 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks, which could materially affect our business, financial condition or future results, some of which are beyond our control. Except as set forth below, during the three months ended September 30, 2022, there have been no material changes in our risk factors from those disclosed in Part I-Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on February 25, 2022, and in Part II-Item 1A under the heading "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, as filed with the SEC on May 9, 2022.

Implementation of our 2022 Strategic Realignment or simplification strategies may not be successful, which could affect our ability to increase our revenues or could reduce our profitability.

On May 3, 2022, our Board of Directors approved the 2022 Strategic Realignment program to strategically realign our resources in order to accelerate and grow our investments in our largest growth opportunities while streamlining our operations. The 2022 Strategic Realignment program includes a targeted realignment and reduction of headcount, facilities and other third-party spend. On November 2, 2022, our Board of Directors approved an amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of headcount and other third-party spend.

The 2022 Strategic Realignment program is in support of the 2022 strategic initiatives to simplify our business and accelerate the integration of recent acquisitions, and will help to drive the financial outcomes of sustainable growth and improved profitability and cash flow. We expect to record in the aggregate approximately \$14 million to \$15 million in restructuring charges associated with the 2022 Strategic Realignment and \$17 million to \$19 million in business transformation costs associated with the 2022 Strategic Realignment. A significant portion of these charges will result in future cash expenditures, and the program is expected to be substantially completed by the end of fiscal 2023.

Although we believe that the 2022 Strategic Realignment will reduce overhead costs, enhance operational simplicity, and result in improved Adjusted EBITDA, we cannot guarantee that the 2022 Strategic Realignment will achieve or sustain the targeted benefits, or that the benefits, even if achieved, will be adequate to meet our long-term profitability and operational expectations. Risks associated with the continuing impact of the 2022 Strategic Realignment also include additional unexpected costs and negative impacts on our cash flows from operations and liquidity, employee attrition beyond our intended reduction in force and adverse effects on employee morale, diversion of management attention, adverse effects to our reputation as an employer, which could make it more difficult for us to hire new employees in the future, and potential failure or delays to meet operational and growth targets due to the loss of qualified employees. If we do not realize the expected benefits or synergies of the 2022 Strategic Realignment, our business, financial condition, cash flows and results of operations could be negatively impacted.

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

(a) Recent Sales of Unregistered Equity Securities

None

(b) Use of Proceeds

None

(c) Issuer Purchase of Equity Securities

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

Adoption of Severance Plan

On August 5, 2022, upon the recommendation of the Compensation Committee, our Board of Directors adopted the Everbridge, Inc. Severance Plan (the “Severance Plan”), to be effective August 5, 2022. The Severance Plan provides severance benefits to our Chief Executive Officer, Executive Vice Presidents, Senior Vice Presidents, and certain specifically designated Vice Presidents, in the event such individual’s employment is terminated in either a Qualifying Termination or a CIC Qualifying Termination, in each case as described below. The Severance Plan supersedes any severance benefits that a participant would have been entitled to under any pre-existing employment agreement between the individual and the Company. To receive any of the severance benefits under these agreements, the participant would be required to execute a release of claims against the Company within 55 days of the qualifying termination.

Qualifying Termination

A Qualifying Termination means a termination of employment by the Company without “Cause” (as defined in the Severance Plan) or by the participant for “Good Reason” (as defined in the Severance Plan).

CIC Qualifying Termination

A “CIC Qualifying Termination” means a termination of the participant’s employment with the Company by the Company without Cause or by the participant for Good Reason, in each case, during the period commencing immediately prior to the date on which a “Change in Control” (as defined in the Severance Plan) is consummated and ending on the date that is one year following a Change in Control.

Severance Benefits

If a participant experiences a Qualifying Termination, he or she will receive (i) an amount equal to his or her annual base salary in the case of the Chief Executive Officer and the Executive Vice Presidents and one-half of his or her annual salary in the case of the Senior Vice Presidents or any eligible Vice President, payable in substantially equal bi-weekly installments over 12 months for the Chief Executive Officer and the Executive Vice Presidents and six months for the Senior Vice Presidents and any eligible Vice President, plus (ii) a cash lump sum equal to any earned but unpaid annual bonus for any performance years that were completed as of the date of termination.

If a participant experiences a CIC Qualifying Termination, he or she will receive (i) an amount equal to one times the participant's annual base salary plus the sum of any earned but unpaid annual bonus for any performance years that were completed as of the date of termination and a prorated annual target bonus for the year of termination, based upon the Company's actual performance during the year, payable in a lump sum within 60 days following the date the release executed by the participant becomes effective and irrevocable, and (ii) full accelerated vesting of all outstanding and unvested equity awards held by the participant; provided, that the performance conditions applicable to any stock-based awards subject to performance conditions will be deemed satisfied at the greater of the target level specified in the terms of the applicable award agreement or the performance achieved as of the date of the CIC Qualifying Termination.

In both a Qualifying Termination and CIC Qualifying Termination, the participant also would receive continuation of his or her then-current health insurance coverage, or payment of the premiums for such coverage, for up to the number of months for which separation payments are being paid.

If any of the payments and benefits to be paid or provided to a participant under the terms of the Severance Plan would be subject to the "golden parachute" excise taxes under the Internal Revenue Code, then such payments and benefits will be reduced to the extent necessary to avoid those excise taxes, but only if such a reduction of pay or benefits would result in a greater after-tax benefit to the eligible employee.

The foregoing description of the Severance Plan is qualified in its entirety by the provisions of the Severance Plan, a copy of which is filed as Exhibit 10.2.

Item 6. Exhibits.

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
3.1	Sixth Amended and Restated Certificate of Incorporation of Everbridge, Inc.		10-Q	001-37874	3.1	8/9/21
3.2	Second Amended and Restated Bylaws of Everbridge, Inc.		10-Q	001-37874	3.2	8/9/21
10.1+	Employment Agreement dated July 25, 2022, between David Wagner and the Company.		8-K	001-37874	10.1	7/25/22
10.2+	Everbridge, Inc. Severance Plan.		10-Q	001-37874	10.1	8/9/22
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File - the cover page interactive data is embedded within the Inline XBRL document or included within the Exhibit 101 attachments.	X				

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

+ Indicates management contract or compensatory plan.

SIGNATURES

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

Everbridge, Inc.

Date: November 8, 2022

By: /s/ David J. Wagner

David J. Wagner

Chief Executive Officer

Date: November 8, 2022

By: /s/ Patrick Brickley

Patrick Brickley

Executive Vice President and Chief Financial Officer

CERTIFICATIONS

I, David J. Wagner, certify that:

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

Date: November 8, 2022

By: /s/ David J. Wagner

Name: David J. Wagner

Title: Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Patrick Brickley, certify that:

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

Date: November 8, 2022

By: /s/ Patrick Brickley
Name: Patrick Brickley
Title: Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, David J. Wagner, Chief Executive Officer of Everbridge, Inc., do hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Everbridge, Inc. for the quarter ended September 30, 2022 (the “Report”):

- (1) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Everbridge, Inc. for the period presented herein.

Date: November 8, 2022

By: /s/ David J. Wagner

Name: David J. Wagner

Title: Chief Executive Officer
(Principal Executive Officer)

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

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, Patrick Brickley, Executive Vice President and Chief Financial Officer of Everbridge, Inc., do hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Everbridge, Inc. for the quarter ended September 30, 2022 (the “Report”):

- (1) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Everbridge, Inc. for the period presented herein.

Date: November 8, 2022

By: /s/ Patrick Brickley

Name: Patrick Brickley

Title: Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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