

**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, 2021

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 Securities 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 3, 2021, the registrant had 38,562,142 shares of common stock issued and 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, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 546,522	\$ 467,171
Restricted cash	4,666	4,667
Accounts receivable, net	86,211	94,376
Prepaid expenses	12,520	11,774
Deferred costs and other current assets	27,448	20,464
Total current assets	<u>677,367</u>	<u>598,452</u>
Property and equipment, net	10,772	7,774
Capitalized software development costs, net	19,144	16,329
Goodwill	403,626	187,411
Intangible assets, net	204,612	113,762
Restricted cash	3,778	3,792
Prepaid expenses	1,561	1,943
Deferred costs and other assets	36,621	31,481
Total assets	<u>\$ 1,357,481</u>	<u>\$ 960,944</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,634	\$ 9,698
Accrued payroll and employee related liabilities	28,368	27,674
Accrued expenses	11,866	7,246
Deferred revenue	202,800	165,389
Contingent consideration liabilities	—	10,619
Other current liabilities	11,120	15,602
Total current liabilities	<u>261,788</u>	<u>236,228</u>
Long-term liabilities:		
Deferred revenue, noncurrent	11,271	4,738
Convertible senior notes	656,183	441,514
Deferred tax liabilities	12,531	10,065
Other long-term liabilities	16,926	16,094
Total liabilities	<u>958,699</u>	<u>708,639</u>
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, 2021 and December 31, 2020, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 38,549,185 and 35,449,447 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	39	35
Additional paid-in capital	777,998	542,776
Accumulated deficit	(377,604)	(293,316)
Accumulated other comprehensive income (loss)	(1,651)	2,810
Total stockholders' equity	<u>398,782</u>	<u>252,305</u>
Total liabilities and stockholders' equity	<u>\$ 1,357,481</u>	<u>\$ 960,944</u>

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,	
	2021	2020	2021	2020
Revenue	\$ 96,746	\$ 71,256	\$ 265,605	\$ 195,533
Cost of revenue	30,310	20,885	83,255	61,197
Gross profit	<u>66,436</u>	<u>50,371</u>	<u>182,350</u>	<u>134,336</u>
Operating expenses:				
Sales and marketing	42,426	31,395	118,436	89,724
Research and development	23,197	16,948	61,527	46,057
General and administrative	19,904	19,766	67,130	52,476
Total operating expenses	<u>85,527</u>	<u>68,109</u>	<u>247,093</u>	<u>188,257</u>
Operating loss	<u>(19,091)</u>	<u>(17,738)</u>	<u>(64,743)</u>	<u>(53,921)</u>
Other expense, net:				
Interest and investment income	83	107	316	1,915
Interest expense	(9,792)	(6,062)	(26,007)	(17,982)
Loss on extinguishment of convertible notes and capped call modification	—	(44)	(2,925)	(44)
Other expense, net	(623)	(195)	(1,274)	(710)
Total other expense, net	<u>(10,332)</u>	<u>(6,194)</u>	<u>(29,890)</u>	<u>(16,821)</u>
Loss before income taxes	(29,423)	(23,932)	(94,633)	(70,742)
Benefit from (provision for) income taxes	745	(273)	10,345	1,932
Net loss	<u>\$ (28,678)</u>	<u>\$ (24,205)</u>	<u>\$ (84,288)</u>	<u>\$ (68,810)</u>
Net loss per share attributable to common stockholders:				
Basic	<u>\$ (0.75)</u>	<u>\$ (0.70)</u>	<u>\$ (2.24)</u>	<u>\$ (2.00)</u>
Diluted	<u>\$ (0.75)</u>	<u>\$ (0.70)</u>	<u>\$ (2.24)</u>	<u>\$ (2.00)</u>
Weighted-average common shares outstanding:				
Basic	38,407,313	34,738,572	37,610,147	34,406,665
Diluted	38,407,313	34,738,572	37,610,147	34,406,665

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,	
	2021	2020	2021	2020
Net loss	\$ (28,678)	\$ (24,205)	\$ (84,288)	\$ (68,810)
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of taxes	(3,095)	3,455	(4,461)	(722)
Total comprehensive loss	<u>\$ (31,773)</u>	<u>\$ (20,750)</u>	<u>\$ (88,749)</u>	<u>\$ (69,532)</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 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
Restricted stock units and performance-based restricted stock units 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	—	—	—	—	—
Restricted stock units and performance-based restricted stock units 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
Restricted stock units and performance-based restricted stock units 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	<u>38,549,185</u>	<u>\$ 39</u>	<u>\$ 777,998</u>	<u>\$ (377,604)</u>	<u>\$ (1,651)</u>	<u>\$ 398,782</u>

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated- other comprehensive loss	Total
	Shares	Par value				
Balance at December 31, 2019	33,848,627	\$ 34	\$ 425,945	\$ (199,920)	\$ (5,747)	\$ 220,312
Issuance of common stock in connection with acquisitions	301,941	—	30,434	—	—	30,434
Stock-based compensation	—	—	10,368	—	—	10,368
Vesting of restricted stock units	44,606	—	—	—	—	—
Restricted stock units withheld to settle employee tax withholding liability	(4,483)	—	(400)	—	—	(400)
Exercise of stock options	126,374	—	2,989	—	—	2,989
Issuance of shares under employee stock purchase plan	30,943	—	1,710	—	—	1,710
Other comprehensive loss	—	—	—	—	(6,520)	(6,520)
Net loss	—	—	—	(25,385)	—	(25,385)
Balance at March 31, 2020	34,348,008	34	471,046	(225,305)	(12,267)	233,508
Issuance of common stock in connection with acquisition	38,425	—	5,074	—	—	5,074
Stock-based compensation	—	—	11,372	—	—	11,372
Vesting of restricted stock units	21,507	—	—	—	—	—
Restricted stock units withheld to settle employee tax withholding liability	(3,980)	—	(527)	—	—	(527)
Exercise of stock options	59,841	—	1,596	—	—	1,596
Other comprehensive income	—	—	—	—	2,343	2,343
Net loss	—	—	—	(19,220)	—	(19,220)
Balance at June 30, 2020	34,463,801	34	488,561	(244,525)	(9,924)	234,146
Issuance of common stock in connection with acquisition	121,858	—	17,685	—	—	17,685
Stock-based compensation	—	—	13,442	—	—	13,442
Vesting of restricted stock units	247,669	—	—	—	—	—
Restricted stock units withheld to settle employee tax withholding liability	(23,618)	—	(3,342)	—	—	(3,342)
Exercise of stock options	88,974	1	2,178	—	—	2,179
Issuance of shares under employee stock purchase plan	18,376	—	1,679	—	—	1,679
Settlement of convertible notes due 2022	29,898	—	938	—	—	938
Other comprehensive income	—	—	—	—	3,455	3,455
Net loss	—	—	—	(24,205)	—	(24,205)
Balance at September 30, 2020	<u>34,946,958</u>	<u>\$ 35</u>	<u>\$ 521,141</u>	<u>\$ (268,730)</u>	<u>\$ (6,469)</u>	<u>\$ 245,977</u>

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,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (84,288)	\$ (68,810)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	38,080	22,116
Amortization of deferred costs	10,398	9,152
Deferred income taxes	(11,232)	(2,310)
Accretion of interest on convertible senior notes	25,470	16,527
Loss on extinguishment of convertible notes and capped call modification	2,925	44
Provision for credit losses and sales reserve	2,679	1,442
Stock-based compensation	45,631	34,939
Change in fair value of contingent consideration obligation	(7,046)	1,500
Payment of contingent consideration in excess of acquisition date fair value	(2,653)	—
Other non-cash adjustments	13	(81)
Changes in operating assets and liabilities:		
Accounts receivable	16,020	(7,929)
Prepaid expenses	93	(4,752)
Deferred costs	(11,387)	(12,000)
Other assets	(6,525)	(3,248)
Accounts payable	(3,535)	2,286
Accrued payroll and employee related liabilities	(3,812)	3,965
Accrued expenses	2,836	(1)
Deferred revenue	3,744	1,107
Other liabilities	(5,430)	2,457
Net cash provided by (used in) operating activities	11,981	(3,596)
Cash flows from investing activities:		
Capital expenditures	(4,170)	(2,122)
Payments for acquisition of business, net of acquired cash	(199,679)	(54,757)
Additions to capitalized software development costs	(8,879)	(7,296)
Net cash used in investing activities	(212,728)	(64,175)
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	375,000	—
Payments of debt issuance costs	(10,640)	(131)
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)	—
Restricted stock units withheld to settle employee tax withholding liability	(6,399)	(4,269)
Proceeds from employee stock purchase plan	4,587	3,389
Proceeds from stock option exercises	2,947	6,764
Net cash provided by financing activities	279,864	5,753
Effect of exchange rates on cash, cash equivalents and restricted cash	219	(411)
Net increase (decrease) in cash, cash equivalents and restricted cash	79,336	(62,429)
Cash, cash equivalents and restricted cash—beginning of period	475,630	539,662
Cash, cash equivalents and restricted cash—end of period	\$ 554,966	\$ 477,233
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 610	\$ 974
Taxes, net of refunds received	1,564	577
Supplemental disclosure of non-cash activities:		
Common stock issued in connection with acquisitions	89,287	53,193
Deferred consideration in connection with acquisition	—	4,044
Contingent consideration in connection with acquisitions	9,135	6,267
Common stock issued in connection with contingent consideration payment	7,177	—
Common stock issued in connection with settlement of convertible notes	16,826	938
Stock-based compensation capitalized for software development costs	406	243
Other non-cash activities	365	71

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, Incident Management, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, Secure Collaboration, and Control Center, 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, 2020.

The condensed consolidated balance sheet as of December 31, 2020, 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 2021 or any future period.

Principles of Consolidation

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

Use of Estimates

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

Assets and liabilities which are subject to judgment and use of estimates include the determination of the period of benefit for deferred commissions, relative stand-alone selling price for identified performance obligations in our 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 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, 2021 and 2020. No single customer comprised more than 10% of the Company’s total accounts receivable as of September 30, 2021 and December 31, 2020.

Cash and Cash Equivalents

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

Restricted Cash

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

Significant Accounting Policies

There have been no changes to the Company’s significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 26, 2021, 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
- 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

On occasion the Company may sell software and related post contract support for on premises usage as well as professional services, hardware and hosting which is outside of the Company's core business and is not a significant revenue stream for the Company. 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 our other similar contracts, the applications sold, customer demographics, geographic locations, and the number and types of users within the Company's contracts. The significant judgment was primarily due to using such considerations to estimate the price that each distinct performance obligation would be sold for on a standalone basis because such performance obligations are typically sold together on a bundled basis. Changes in these estimates of standalone selling prices can have a material effect on the amount of revenue recognized from each distinct performance obligation.

Contracts with Multiple Performance Obligations

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

Returns

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

Customer Acceptance

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

Trade and Other Receivables

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

Deferred Costs

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

Deferred Revenue

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

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

Recently Adopted Accounting Pronouncements

ASU 2020-01

In January 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-01, *Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815*. ASU 2020-01 addresses the accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments. Observable transactions that require a company to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with FASB Accounting Standards Codification ("ASC") 321, *Investments – Equity Securities*, should be considered immediately before applying or upon discontinuing the equity method. Certain non-derivative forward contracts or purchased call options to acquire equity securities generally will be measured using the fair value principles of ASC 321 before settlement or exercise and consideration shall not be given to how entities will account for the resulting investments on eventual settlement or exercise. ASU 2020-01 is effective for the Company beginning in the first quarter of 2021 and early adoption is permitted. ASU 2020-01 should be applied prospectively. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

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 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. ASU 2021-04 is effective for the Company beginning in the first quarter of 2022. ASU 2021-04 should be applied prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Company is currently assessing the impact this standard will have 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 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. ASU 2020-06 is effective for the Company beginning in the first quarter of 2022 and early adoption is permitted beginning in the first quarter of 2021. ASU 2020-06 may be applied using a modified or full retrospective transition method. 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, 2020 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, 2021	As of December 31, 2020
Accounts receivable amortized cost	\$ 91,492	\$ 98,164
Allowance for credit losses	(5,281)	(3,788)
Net accounts receivable	<u>\$ 86,211</u>	<u>\$ 94,376</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,	
	2021	2020	2021	2020
Balance, beginning of period	\$ (5,243)	\$ (2,257)	\$ (3,788)	\$ (1,125)
Provision for expected credit losses	(321)	(372)	(1,738)	(1,700)
Write-offs, net	283	32	245	228
Balance, end of period	<u>\$ (5,281)</u>	<u>\$ (2,597)</u>	<u>\$ (5,281)</u>	<u>\$ (2,597)</u>

Contract assets, net is as follows (in thousands):

	As of September 30, 2021	As of December 31, 2020
Contract asset amortized cost	\$ 8,220	\$ 2,560
Allowance for credit losses	(1,150)	(398)
Net contract asset	<u>\$ 7,070</u>	<u>\$ 2,162</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,	
	2021	2020	2021	2020
Balance, beginning of period	\$ (841)	\$ (28)	\$ (398)	\$ —
Provision for expected credit losses	(316)	8	(789)	(20)
Write-offs	7	—	37	—
Balance, end of period	<u>\$ (1,150)</u>	<u>\$ (20)</u>	<u>\$ (1,150)</u>	<u>\$ (20)</u>

Credit loss expense was \$0.8 million and \$0.2 million for the three months ended September 30, 2021 and 2020, respectively. Credit loss expense was \$2.3 million and \$1.3 million for the nine months ended September 30, 2021 and 2020, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Balance, beginning of period	\$ (400)	\$ (375)	\$ (175)	\$ (175)
Additions, net	20	225	(239)	25
Write-offs	130	—	164	—
Balance, end of period	\$ (250)	\$ (150)	\$ (250)	\$ (150)

(4) Property and Equipment, Net

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

	Useful life in years	As of September 30, 2021	As of December 31, 2020
Furniture and equipment	5	\$ 2,326	\$ 2,041
Leasehold improvements ⁽¹⁾	9	6,483	4,944
System hardware	5	811	807
Office computers	3	8,984	6,547
Computer and system software	3	2,177	827
		20,781	15,166
Less accumulated depreciation and amortization		(10,009)	(7,392)
Property and equipment, net		\$ 10,772	\$ 7,774

(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 \$1.0 million and \$0.7 million for the three months ended September 30, 2021 and 2020, respectively. Depreciation and amortization expense for property and equipment was \$2.7 million and \$2.0 million for the nine months ended September 30, 2021 and 2020, respectively.

(5) Capitalized Software Development Costs, Net

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

	Gross carrying amount	Amortization period	Accumulated amortization	Net carrying amount
As of September 30, 2021	\$ 69,042	3 years	\$ (49,898)	\$ 19,144
As of December 31, 2020	59,761	3 years	(43,432)	16,329

The Company capitalized software development costs of \$9.3 million and \$7.4 million for the nine months ended September 30, 2021 and 2020, respectively.

Amortization expense for capitalized software development costs was \$2.2 million and \$2.0 million for the three months ended September 30, 2021 and 2020, respectively. Amortization expense for capitalized software development costs was \$6.5 million and \$5.8 million for the nine months ended September 30, 2021 and 2020, 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, 2021, for each of the following years is as follows (in thousands):

2021 (for the remaining three months)	\$	2,613
2022		8,523
2023		5,878
2024		2,130
	<u>\$</u>	<u>19,144</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, 2021 and year ended December 31, 2020, no impairments were identified.

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, 2021			Total Fair Value
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Cash equivalents:				
Money market funds	\$ 489,664	\$ —	\$ —	\$ 489,664
Total financial assets	<u>\$ 489,664</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 489,664</u>
Liabilities:				
Derivative instruments - acquisition-related deferred common stock consideration				
	—	1,024	—	1,024
Total financial liabilities	<u>\$ —</u>	<u>\$ 1,024</u>	<u>\$ —</u>	<u>\$ 1,024</u>

	As of December 31, 2020			Total Fair Value
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Cash equivalents:				
Money market funds	\$ 432,560	\$ —	\$ —	\$ 432,560
Total financial assets	<u>\$ 432,560</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 432,560</u>
Liabilities:				
Contingent consideration				
	\$ —	\$ —	\$ 10,619	\$ 10,619
Derivative instruments - acquisition-related deferred common stock consideration				
	—	1,011	—	1,011
Total financial liabilities	<u>\$ —</u>	<u>\$ 1,011</u>	<u>\$ 10,619</u>	<u>\$ 11,630</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 and out of Level 1 or Level 2 during the nine months ended September 30, 2021.

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

On May 27, 2020, the Company entered into a Stock Purchase Agreement with Techwan SA ("Techwan") pursuant to which the Company purchased all of the issued and outstanding shares of stock of Techwan (see Note 8). In accordance with the Stock Purchase Agreement, 6,779 shares of the Company's common stock were reserved and are expected to be issued to the sellers in November 2021 subject to the provisions in the Stock Purchase Agreement. Management analyzed the liability for derivative accounting consideration under ASC 815, *Derivatives and Hedging*, and determined that the liability qualifies for derivative accounting. The derivative liability is not designated as a hedging instrument. In accordance with ASC 815, the Company recorded the acquisition-related deferred common stock consideration derivative liability, which is carried at fair value, in other long-term liabilities on the condensed consolidated balance sheet. The derivative liability will be marked-to-market each measurement period. The change in fair value during the three and nine months ended September 30, 2021 of \$0.1 million and less than \$0.1 million, respectively, was recorded as a component of other expense, net on the condensed consolidated statement of operations. The change in fair value during the three months ended September 30, 2020 of \$(0.1) million was recorded as a component of other expense, net on the condensed consolidated statement of operations. The fair value is derived from the Company's stock price. The acquisition-related deferred common stock consideration derivative liability will remain in effect until such time as the associated shares are issued and the resulting derivative liability will be transitioned from a liability to equity as of such date.

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

Fair value at December 31, 2019	\$	—
Contingent consideration from Connexient acquisition		340
Contingent consideration from one2many acquisition		2,190
Fair value at March 31, 2020		2,530
Contingent consideration from Techwan acquisition		2,030
Adjustment for Connexient acquisition		(340)
Foreign currency translation		72
Fair value at June 30, 2020		4,292
Contingent consideration from SnapComms acquisition		2,047
Adjustment for one2many acquisition		1,370
Adjustment for Techwan acquisition		130
Foreign currency translation		157
Fair value at September 30, 2020	\$	<u>7,996</u>

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	\$	—

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.

During the six months ended June 30, 2021, as a result of assessing the probabilities of SnapComms Limited ("SnapComms") meeting revenue metrics during the period of April 1, 2020 through March 31, 2021, the Company recognized an increase in the fair value of SnapComms' contingent consideration obligation in the amount of \$0.7 million. During the three months ended June 30, 2021, the Company issued 6,188 shares of the Company's common stock to settle SnapComms' contingent consideration liability.

During the three and nine months ended September 30, 2021, as a result of assessing the probabilities of One2Many Group B.V. ("one2many") meeting revenue metrics during the period of March 1, 2020 through February 28, 2021 and the payment of the contingent consideration liability, the Company recognized an increase in the fair value of one2many's contingent consideration obligation in the amount of \$1.1 million and \$0.4 million, respectively. During the three months ended September 30, 2021, the Company paid €4.1 million in cash and issued 41,668 shares of the Company's common stock to settle one2many's contingent consideration liability.

During the three months ended September 30, 2021, as a result of assessing the probabilities of Red Sky Technologies Inc. ("RedSky") meeting certain revenue targets through the contractual measurement period, the Company recognized a decrease in the fair value of RedSky's contingent consideration obligation in the amount of \$8.2 million. During the three months ended September 30, 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 estimates the fair value of the convertible senior notes based on market-observable inputs (Level 2). As of September 30, 2021, the fair value of the 0% convertible senior notes due March 15, 2026 (the "2026 Notes") was determined to be \$421.5 million and the principal amount of the notes was \$375.0 million. As of September 30, 2021 and December 31, 2020, the fair value of the 0.125% convertible senior notes due December 15, 2024 (the "2024 Notes") was determined to be \$670.1 million and \$663.6 million, respectively, and the principal amount of the notes was \$450.0 million for each period. As of September 30, 2021 and December 31, 2020, the fair value of the 1.50% convertible senior notes due November 1, 2022 (the "2022 Notes") was determined to be \$1.4 million and \$265.5 million, respectively, and the principal amount of the notes was \$0.3 million and \$79.8 million, respectively.

(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, 2020	\$	187,411
Increase due to acquisitions		219,945
Foreign currency translation		(3,730)
Balance at September 30, 2021	\$	<u>403,626</u>

There were no impairments recorded against goodwill during the nine months ended September 30, 2021 and for the year ended December 31, 2020.

Intangible assets consisted of the following (in thousands):

	Gross carrying amount	Weighted average life (years)	As of September 30, 2021	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 42,441	3.40	\$ (12,878)	\$ 29,563
Tradenames	25,650	4.04	(11,036)	14,614
Customer relationships	197,696	8.20	(37,261)	160,435
Total intangible assets	<u>\$ 265,787</u>		<u>\$ (61,175)</u>	<u>\$ 204,612</u>

	Gross carrying amount	Weighted average life (years)	As of December 31, 2020	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 31,851	3.54	\$ (5,322)	\$ 26,529
Tradenames	15,360	3.52	(6,638)	8,722
Customer relationships	100,590	7.41	(22,079)	78,511
Total intangible assets	<u>\$ 147,801</u>		<u>\$ (34,039)</u>	<u>\$ 113,762</u>

Amortization expense for intangible assets was \$11.0 million and \$5.4 million for the three months ended September 30, 2021 and 2020, respectively. Amortization expense for intangible assets was \$28.9 million and \$14.3 million for the nine months ended September 30, 2021 and 2020, respectively. The Company recorded amortization expense attributed to developed technology within cost of revenue of \$8.8 million and \$2.8 million for the nine months ended September 30, 2021 and 2020, respectively. During the nine months ended September 30, 2021, the Company retired \$1.1 million of fully amortized intangible assets.

The expected amortization of the intangible assets, as of September 30, 2021, for each of the next five years and thereafter is as follows (in thousands):

2021 (for the remaining three months)	\$	11,022
2022		41,041
2023		36,084
2024		31,341
2025		23,560
Thereafter		61,564
	\$	<u>204,612</u>

(8) Business Combinations

The Company continually evaluates potential acquisitions that either strategically fit within the Company's existing portfolio or expand the Company's portfolio into new product lines or adjacent markets. The Company has completed a number of acquisitions that have been accounted for as business combinations under ASC 805, *Business Combinations*, and have resulted in the recognition of goodwill in the Company's financial statements. 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 nine months ended September 30, 2021, the Company acquired Red Sky Technologies Inc. and xMatters Holdings, Inc. 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.

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.

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, 2021 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.

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 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 nine months ended September 30, 2021, the Company incurred transaction costs of \$1.5 million in connection with the xMatters acquisition, of which \$0.7 million was expensed during the nine months ended September 30, 2021 and included in general and administrative expenses.

Red Sky Technologies Inc.

On January 15, 2021, the Company entered into a Stock Purchase Agreement with Red Sky Technologies Inc. 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 preliminary fair value of contingent consideration as part of the purchase price allocation. During the three months ended September 30, 2021, the Company recognized a decrease in the fair value of RedSky's contingent consideration obligation in general and administrative expenses in the consolidated statements of operations in the amount of \$8.2 million. During the three months ended September 30, 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.

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,

2021 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.

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 RedSky made by the Company (in thousands):

	<u>RedSky</u>
Assets acquired	
Accounts receivable	\$ 2,926
Other assets	242
Property and equipment	18
Trade names	2,230
Acquired technology	3,590
Customer relationships	20,000
Goodwill	49,508
Total assets acquired	<u>78,514</u>
Liabilities assumed	
Accounts payable	233
Accrued expenses	773
Deferred revenue	5,866
Deferred tax liabilities	7,048
Other liabilities	26
Net assets acquired	<u>\$ 64,568</u>
Consideration paid	
Cash paid, net of cash acquired	\$ 32,401
Fair value of common stock issued	23,032
Contingent consideration	9,135
Total	<u>\$ 64,568</u>

The weighted average useful life of all identified acquired intangible assets is 7.73 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 9.0 years and 4.0 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 RedSky's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of RedSky 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 RedSky acquisition is not deductible for income tax purposes.

For the nine months ended September 30, 2021, the Company incurred transaction costs of less than \$0.1 million in connection with the RedSky acquisition, which were expensed as incurred and included in general and administrative expenses.

2020 Acquisitions

During the year ended December 31, 2020, the Company acquired Connexient, Inc., CNL Software Limited, One2Many Group B.V., Techwan SA and SnapComms Limited. These acquisitions were not material individually or on a consolidated basis. Additionally, 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.

Connexient, Inc.

On February 7, 2020, the Company entered into a Stock Purchase Agreement with Connexient, Inc. (“Connexient”) pursuant to which the Company purchased all of the issued and outstanding shares of stock of Connexient for a base consideration of \$20.2 million. The Company paid \$11.5 million in cash at closing and paid the remaining purchase price with 96,611 newly issued shares of the Company’s common stock. On the date of this acquisition, the average price of the Company’s common stock on the Nasdaq Global Market was \$93.32 per share. In addition to the base purchase price, there was also a potential contingent payment of up to \$6.0 million that was eligible to be earned by the sellers based on fiscal year 2020 revenue metrics. At December 31, 2020, it was determined that Connexient would not meet the fiscal year 2020 revenue metric threshold. The Company acquired Connexient for its strategic technology assets to enhance the Company’s CEM suite of solutions to broaden support for Internet of Things (“IoT”) applications as well as market penetration and customer reach.

CNL Software Limited

On February 25, 2020, the Company entered into a Stock Purchase Agreement with CNL Software Limited (“CNL Software”) for a base consideration of approximately \$35.7 million. The Company paid approximately \$19.8 million in cash at closing and paid the remaining purchase price with 153,217 newly issued shares of the Company’s common stock. On the date of this acquisition, the average price of the Company’s common stock on the Nasdaq Global Market was \$104.10 per share. The Company acquired CNL Software for its strategic technology assets to enhance the Company’s CEM suite of solutions to broaden support for IoT applications as well as market penetration and customer reach.

One2Many Group B.V.

On March 19, 2020, the Company entered into a Stock Purchase Agreement with One2Many Group B.V. pursuant to which the Company purchased all of the issued and outstanding shares of stock of one2many for a base consideration of \$13.1 million. The Company paid \$5.5 million in cash at closing, acquired purchase liabilities of \$2.0 million and paid the remaining purchase price with 52,113 newly issued shares of the Company’s common stock. On the date of this acquisition, the average price of the Company’s common stock on the Nasdaq Global Market was \$104.95 per share. In addition to the base purchase price, there was also a potential contingent payment of up to approximately \$15.0 million that was eligible to be earned by the sellers based on revenue metrics during the period of March 1, 2020 through February 28, 2021. The potential contingent payment included an amount payable to the Company if a certain revenue threshold is not met during the period of March 1, 2020 through February 28, 2021. At the date of the acquisition, the Company preliminarily assessed the probabilities of one2many meeting the revenue metrics during the period of March 1, 2020 through February 28, 2021 and recorded a \$2.2 million initial fair value of contingent consideration as part of the purchase price allocation. During the three and nine months ended September 30, 2021, the Company recognized in general and administrative expenses in the condensed consolidated statement of operations an increase in the fair value of one2many’s contingent consideration obligation in the amount of \$1.1 million and \$0.4 million, respectively. During the three months ended September 30, 2021, the Company paid €4.1 million in cash and issued 41,668 shares of the Company’s common stock to settle one2many’s contingent consideration liability. The Company acquired one2many for its cell broadcast technology to enhance the Company’s public warning applications as well as market penetration and customer reach.

Techwan SA

On May 27, 2020, the Company entered into a Stock Purchase Agreement with Techwan SA pursuant to which the Company purchased all of the issued and outstanding shares of stock of Techwan for a base consideration of \$15.5 million. The Company paid \$9.4 million in cash at closing, acquired purchase liabilities of \$0.1 million and paid the remaining purchase price with 38,425 newly issued shares of the Company’s common stock. In addition, in accordance with the Stock Purchase Agreement, 6,779 shares of the Company’s common stock were reserved and are expected to be issued to the sellers in November 2021 subject to the provisions in the Stock Purchase Agreement. On the date of this acquisition, the average price of the Company’s common stock on the Nasdaq Global Market was \$132.05 per share. In addition to the base purchase price, there was also a potential contingent payment of up to approximately \$7.0 million that was eligible to be earned by the sellers based on revenue metrics during the period of April 1, 2020 through March 31, 2021. At the date of the acquisition, the Company preliminarily assessed the probabilities of Techwan meeting the revenue metrics during the period of April 1, 2020 through March 31, 2021 and recorded a \$2.0 million initial fair value of contingent consideration as part of the purchase price allocation. During the three months ended March 31, 2021, the Company determined that Techwan did not meet the revenue metrics during the period of April 1, 2020 through March 31, 2021. The Company acquired Techwan for its strategic technology assets 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 Techwan made by the Company (in thousands):

	<u>Techwan</u>
Assets acquired	
Accounts receivable	\$ 921
Other current assets	235
Acquired technology	1,160
Trade names	580
Customer relationships	5,100
Goodwill	12,678
Other assets	254
Total assets acquired	<u>20,928</u>
Liabilities assumed	
Accrued expenses	673
Deferred revenue	1,190
Deferred tax liabilities	838
Other current liabilities	927
Net assets acquired	<u>\$ 17,300</u>
Consideration paid	
Cash consideration, net of cash acquired	\$ 9,301
Fair value of common stock issued	5,074
Acquisition-related deferred common stock consideration	895
Contingent consideration	2,030
Total	<u>\$ 17,300</u>

The weighted average useful life of all identified acquired intangible assets is 7.47 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 9.0 years and 3.0 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 Techwan's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of Techwan 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 Techwan acquisition is not deductible for income tax purposes.

During the year ended December 31, 2020, the Company incurred transaction costs of \$0.2 million in connection with the Techwan acquisition, which were expensed as incurred and included in general and administrative expenses.

SnapComms Limited

On August 4, 2020, the Company entered into a Stock Purchase Agreement with SnapComms Limited pursuant to which the Company purchased all of the issued and outstanding shares of stock of SnapComms for a base consideration of \$34.4 million. The Company paid \$13.6 million in cash and issued 121,858 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 \$145.13 per share. In August 2021, the Company paid deferred consideration of approximately New Zealand \$2.5 million in cash and issued 12,390 shares of the Company's common stock. In addition to the base purchase price, there was also a potential contingent payment of up to approximately \$5.0 million that was eligible to be earned by the sellers based on revenue metrics during the period of April 1, 2020 through March 31, 2021. At the date of the acquisition, the Company preliminarily assessed the probability of SnapComms meeting the revenue metrics during the period of April 1, 2020 through March 31, 2021 and recorded a \$2.0 million initial fair value of contingent consideration as part of the purchase price allocation. During the six months ended June 30, 2021, the Company recognized in general and administrative expenses in the consolidated statements of operations an increase in the fair value of SnapComms' contingent consideration obligation in the amount of \$0.7 million, respectively. During the three months ended June 30, 2021, the Company issued 6,188 shares of the Company's common stock to settle SnapComms' contingent consideration liability. The Company acquired SnapComms for its internal communications software 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 SnapComms made by the Company (in thousands):

	<u>SnapComms</u>
Assets acquired	
Accounts receivable	\$ 1,808
Other current assets	283
Property and equipment	118
Acquired technology	2,300
Trade names	960
Customer relationships	13,300
Goodwill	22,629
Other assets	943
Total assets acquired	<u>42,341</u>
Liabilities assumed	
Accrued expenses	503
Deferred revenue	3,165
Deferred tax liabilities	4,960
Other liabilities	742
Net assets acquired	<u>\$ 32,971</u>
Consideration paid	
Cash consideration, net of cash acquired	\$ 10,090
Fair value of common stock issued	17,685
Acquisition-related deferred consideration	3,149
Contingent consideration	2,047
Total	<u>\$ 32,971</u>

The weighted average useful life of all identified acquired intangible assets is 7.82 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 9.0 years and 3.0 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 SnapComms' products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of SnapComms 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 SnapComms acquisition is not deductible for income tax purposes.

During the year ended December 31, 2020, the Company incurred transaction costs of \$0.1 million in connection with the SnapComms acquisition, which were expensed as incurred and included in general and administrative expenses.

(9) Convertible Senior Notes

0% Convertible Senior Notes Due 2026

In March 2021, the Company issued \$375.0 million aggregate principal

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

The 2026 Notes are governed by an Indenture between the Company, as issuer, and U.S. Bank National Association, as trustee (the "2026 Notes Indenture"). The 2026 Notes are unsecured and rank: senior in right of payment to the Company's indebtedness that is expressly subordinated in right of payment to the 2026 Notes; equal in right of payment to the Company's existing and future indebtedness that is not so subordinated, including its 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, 2021, the 2026 Notes are not yet convertible. The 2026 Notes are classified as long-term on the condensed consolidated balance sheet as of September 30, 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.

Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2026 Notes to be approximately 7.25%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the equity component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2026 Notes, which resulted in a fair value of the liability component of \$269.6 million upon issuance, calculated as the present value of implied future payments based on the \$375.0 million aggregate principal amount. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense over the term of the 2026 Notes. The \$105.4 million difference between the aggregate principal amount of \$375.0 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2026 Notes were not considered redeemable.

Significant judgment is required in determining the liability component of the related convertible senior notes as well as the balance sheet classification of the elements of the convertible senior notes. The Company accounted for the convertible senior notes and the partial extinguishment of the 2022 Notes, discussed below, as separate liability and equity components, determining the fair value of the respective liability components based on an estimate of the fair value of a similar liability without a conversion option and assigning the residual value to the equity component.

The Company estimated the fair value of the liability component of the convertible senior notes using a discounted cash flow model with a risk adjusted yield for similar debt instruments, absent any embedded conversion feature. In estimating the risk adjusted yield, the Company utilized both an income and market approach. For the income approach, the Company used a convertible bond pricing model, which included several assumptions including volatility and the risk-free rate. For the market approach, the Company performed an evaluation of issuances of convertible debt securities issued by other comparable companies. Additionally, a detailed analysis of the terms of the convertible senior notes transactions was required to determine existence of any derivatives that may require separate mark-to-market accounting under applicable accounting guidance.

In accounting for the transaction costs related to the issuance of the 2026 Notes, the Company allocated the total amount incurred to the liability and equity components based on their estimated relative fair values. Transaction costs attributable to the liability component, totaling \$7.6 million, are being amortized to expense over the term of the 2026 Notes, and transaction costs attributable to the equity component, totaling \$3.0 million, were netted with the equity component in shareholders' equity.

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

	<u>As of September 30, 2021</u>	
Liability component:		
Principal	\$	375,000
Less: debt discount, net of amortization		<u>(102,236)</u>
Net carrying amount	\$	272,764
Equity component (1)		99,000

(1) 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):

	<u>Three Months Ended September 30, 2021</u>		<u>Nine Months Ended September 30, 2021</u>	
Amortization of debt discount and transaction costs	\$	4,886	\$	10,740

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 (carrying value excludes the equity component of the Company's 2026 Notes classified in equity) was as follows (in thousands):

	<u>As of September 30, 2021</u>			
	<u>Fair Value</u>		<u>Carrying Value</u>	
2026 Notes	\$	421,493	\$	272,764

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 to reduce potential dilution of earnings per share upon conversion of the 2026 Notes. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the 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 \$151.04 on September 30, 2021, 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.

Based on the market price of the Company's common stock during the 30 trading days preceding September 30, 2021, the 2024 Notes are convertible at the option of the debt holder during the calendar quarter beginning on October 1, 2021. The 2024 Notes are classified as long-term on the condensed consolidated balance sheet as of September 30, 2021 and December 31, 2020 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.

Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2024 Notes to be approximately 5.16%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the equity component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2024 Notes, which resulted in a fair value of the liability component of \$360.4 million upon issuance, calculated as the present value of implied future payments based on the \$450.0 million aggregate principal amount. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense over the term of the 2024 Notes. The \$89.6 million difference between the aggregate principal amount of \$450.0 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2024 Notes were not considered redeemable.

Significant judgment is required in determining the liability component of the related convertible senior notes as well as the balance sheet classification of the elements of the convertible senior notes. The Company accounted for the convertible senior notes and the partial extinguishment of the 2022 Notes, discussed below, as separate liability and equity components, determining the fair value of the respective liability components based on an estimate of the fair value of a similar liability without a conversion option and assigning the residual value to the equity component.

The Company estimated the fair value of the liability component of the convertible senior notes using a discounted cash flow model with a risk adjusted yield for similar debt instruments, absent any embedded conversion feature. In estimating the risk adjusted yield, the Company utilized both an income and market approach. For the income approach, the Company used a convertible bond pricing model, which included several assumptions including volatility and the risk-free rate. For the market approach, the Company performed an evaluation of issuances of convertible debt securities issued by other comparable companies. Additionally, a detailed analysis of the terms of the convertible senior notes transactions was required to determine existence of any derivatives that may require separate mark-to-market accounting under applicable accounting guidance.

In accounting for the transaction costs related to the issuance of the 2024 Notes, the Company allocated the total amount incurred to the liability and equity components based on their estimated relative fair values. Transaction costs attributable to the liability component, totaling \$10.2 million, are being amortized to expense over the term of the 2024 Notes, and transaction costs attributable to the equity component, totaling \$2.6 million, were netted with the equity component in shareholders' equity.

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

	As of September 30, 2021	As of December 31, 2020
Liability component:		
Principal	\$ 450,000	\$ 450,000
Less: debt discount, net of amortization	(66,867)	(80,968)
Net carrying amount	\$ 383,133	\$ 369,032
Equity component (1)	86,133	86,133

(1) 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,	
	2021	2020	2021	2020
0.125% coupon	\$ 141	\$ 141	\$ 422	\$ 422
Amortization of debt discount and transaction costs	4,759	4,521	14,100	13,393
	<u>\$ 4,900</u>	<u>\$ 4,662</u>	<u>\$ 14,522</u>	<u>\$ 13,815</u>

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 (carrying value excludes the equity component of the Company's 2024 Notes classified in equity) were as follows (in thousands):

	As of September 30, 2021		As of December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2024 Notes	\$ 670,050	\$ 383,133	\$ 663,615	\$ 369,032

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 to reduce potential dilution of earnings per share upon conversion of the 2024 Notes. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the 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 \$151.04 on September 30, 2021, the if-converted value of the 2024 Notes was more 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.

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

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

The 2022 Notes have an initial conversion rate of 29.6626 shares of common stock per \$1,000 principal amount of 2022 Notes. This represents an initial effective conversion price of approximately \$33.71 per share of common stock and initially approximately 3.4 million shares issuable upon conversion. Throughout the term of the 2022 Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the 2022 Notes will not receive any cash payment representing accrued and unpaid interest, if any, upon conversion of a 2022 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 2022 Note.

Holders may convert all or a portion of their 2022 Notes prior to the close of business on the business day immediately preceding May 1, 2022, in multiples of \$1,000 principal amount, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2018 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "2022 Notes Measurement Period"), in which the "trading price" (as the term is defined in the 2022 Notes Indenture) per \$1,000 principal amount of notes for each trading day of such 2022 Notes Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock on such trading day and the conversion rate on each such trading day;
- if the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date; or
- upon the occurrence of specified corporate events.

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 regardless of whether the conditions set forth above have been met.

The 2022 Notes were not redeemable by the Company prior to November 6, 2020. The Company may redeem for cash all or any portion of the 2022 Notes, at its option, on or after November 6, 2020 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 2022 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. The Company has not provided notice to exercise its option to redeem the 2022 Notes.

Based on the market price of the Company's common stock during the 30 trading days preceding June 30, 2018, the 2022 Notes were convertible at the option of the debt holder as of September 30, 2018 and continue to be convertible at the option of the debt holder as of September 30, 2021.

In connection with the issuance of the 2024 Notes in December 2019, the Company paid \$57.8 million to repurchase \$23.0 million aggregate principal amount of the 2022 Notes. The Company determined the fair value of the liability portion being extinguished immediately prior to extinguishment. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes to be approximately 4.64%. The fair value of such liability portion was then deducted from the amount of consideration transferred and allocated to the liability component. The difference between the fair value of the liability and its carrying value, inclusive of any unamortized debt issue costs, was recognized as an extinguishment loss in the amount of \$1.4 million in loss on extinguishment of convertible notes on the consolidated statement of operations and comprehensive loss during the year ended December 31, 2019. The remaining consideration was allocated to the reacquisition of the equity component and recognized as a reduction of additional paid-in capital on the consolidated balance sheet in the amount of \$36.7 million. The Company also partially terminated capped call options entered into in connection with the 2022 Notes during fiscal year 2019 and received \$5.8 million recorded to additional paid-in capital on the consolidated balance sheet.

During the year ended December 31, 2020, the Company issued 362,029 shares upon the conversion of approximately \$12.2 million in aggregate principal amount of the 2022 Notes and recognized \$11.4 million in additional paid-in capital on the condensed consolidated balance sheet related to shares issued. The Company determined the fair value of the liability portion being extinguished immediately prior to extinguishment. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes ranged from approximately 4.64% to 5.13%. The fair value of such liability portion was then deducted from the amount of consideration transferred and allocated to the liability component. The difference between the fair value of the liability and its carrying value, inclusive of any unamortized debt issue costs, was recognized as an extinguishment loss in the amount of \$0.4 million in loss on extinguishment of convertible notes on the consolidated statements of operations and comprehensive loss during the year ended December 31, 2020.

During the nine months ended September 30, 2021, the Company issued 618,462 shares upon the conversion of approximately \$20.9 million in aggregate principal amount of the 2022 Notes and recognized \$19.5 million in additional paid-in capital on the condensed

consolidated balance sheet related to shares issued. The Company determined the fair value of the liability portion being extinguished immediately prior to extinguishment. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes ranged from approximately 4.87% to 5.13%. The fair value of such liability portion was then deducted from the amount of consideration transferred and allocated to the liability component. The difference between the fair value of the liability and its carrying value, inclusive of any unamortized debt issue costs, was recognized as an extinguishment loss in the amount of \$0.5 million in loss on extinguishment of convertible notes and capped call modification on the condensed consolidated statement of operations during the nine months ended September 30, 2021.

In connection with the issuance of the 2026 Notes in March 2021, the Company paid approximately \$58.6 million in cash and issued 1,288,994 shares of common stock to repurchase approximately \$58.6 million aggregate principal amount of the 2022 Notes. The Company determined the fair value of the liability portion being extinguished immediately prior to extinguishment. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes to be approximately 4.87%. The fair value of such liability portion was then deducted from the amount of consideration transferred and allocated to the liability component. The difference between the fair value of the liability and its carrying value, inclusive of any unamortized debt issue costs, was recognized as an extinguishment loss in the amount of \$2.2 million in loss on extinguishment of convertible notes and capped call modification on the condensed consolidated statement of operations during the three months ended March 31, 2021. The remaining consideration was allocated to the reacquisition of the equity component and recognized as a reduction of additional paid-in capital on the consolidated balance sheet in the amount of \$2.7 million. The Company also partially terminated capped call options entered into in connection with the 2022 Notes in March 2021 and received \$10.6 million recorded to additional paid-in capital on the condensed consolidated balance sheet and modified a capped call option 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 and additional paid-in capital on the condensed consolidated balance sheet.

The 2022 Notes are classified as long-term on the consolidated balance sheet as of September 30, 2021 and December 31, 2020. On November 1, 2021, as the 2022 Notes mature in 12 months, the Company reclassified the 2022 Notes to current liabilities on the consolidated balance sheet. The Company may repurchase the 2022 Notes prior to maturity and intends to settle in shares if exercised by the debt holder prior to maturity.

Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes at the time of issuance to be approximately 6.93%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the equity component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2022 Notes, which resulted in a fair value of the liability component of \$92.1 million upon issuance, calculated as the present value of implied future payments based on the \$115.0 million aggregate principal amount. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense over the term of the 2022 Notes. The \$22.9 million difference between the aggregate principal amount of \$115.0 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2022 Notes were not considered redeemable.

In accounting for the transaction costs related to the issuance of the 2022 Notes, the Company allocated the total amount incurred to the liability and equity components based on their estimated relative fair values. Transaction costs attributable to the liability component on the remaining outstanding notes as of the issuance date, of less than \$0.1 million, are being amortized to expense over the term of the 2022 Notes, and transaction costs attributable to the equity component as of the issuance date, totaling \$0.8 million, were netted with the equity component in shareholders' equity.

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

	As of September 30, 2021	As of December 31, 2020
Liability component:		
Principal	\$ 303	\$ 79,795
Less: debt discount, net of amortization	(17)	(7,313)
Net carrying amount	\$ 286	\$ 72,482
Equity component (1)	(39,301)	(21,318)

- (1) Recorded in the consolidated balance sheet within additional paid-in capital, net of \$0.8 million transaction costs in equity. Additional paid-in capital also includes \$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,	
	2021	2020	2021	2020
1.50% coupon	\$ 2	\$ 342	\$ 110	\$ 1,032
Amortization of debt discount and transaction costs	4	1,057	630	3,134
	<u>\$ 6</u>	<u>\$ 1,399</u>	<u>\$ 740</u>	<u>\$ 4,166</u>

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 (carrying value excludes the equity component of the Company's convertible notes classified in equity) were as follows (in thousands):

	As of September 30, 2021		As of December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2022 Notes	\$ 1,356	\$ 286	\$ 265,488	\$ 72,482

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 to reduce potential dilution of earnings per share upon conversion of the 2022 Notes. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the 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. The cost of the purchased capped calls of \$12.9 million was recorded to shareholders' equity and will not be re-measured. 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.

Based on the closing price of the Company's common stock of \$151.04 on September 30, 2021, the if-converted value of the 2022 Notes was more than their respective principal amounts.

The following table summarizes the Company's debt obligations at September 30, 2021 (in thousands):

	Remainder of 2021	2022-2023	2024-2025	Thereafter	Total
Debt obligations	\$ —	\$ 303	\$ 450,000	\$ 375,000	\$ 825,303

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 our common stock prior to maturity if certain conditions are met. Any conversion prior to maturity can result in repayments of the principal amounts sooner than the scheduled repayments as indicated in the table. The 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, 2021, 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, 2021, 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, 2021 and December 31, 2020, there were 38,549,185 and 35,449,447 shares of common stock issued and outstanding, respectively.

(11) Stock Plans and Stock-Based Compensation

The Company's 2016 Equity Incentive Plan ("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, 2021 and 2020, 41,164 and 49,319 shares of common stock were purchased under the 2016 ESPP, respectively. The Company recorded stock-based compensation expense of \$0.4 million and \$0.3 million for the three months ended September 30, 2021 and 2020, respectively. The Company recorded stock-based compensation expense of \$1.3 million and \$0.9 million for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021, unrecognized compensation cost related to the 2016 ESPP was \$0.9 million which will be amortized over a weighted-average period of 0.45 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,	
	2021	2020	2021	2020
Employee Stock Purchase Plan:				
Expected term (in years) (1)	0.50	0.50	0.50	0.50
Expected volatility (2)	45% - 60%	55% - 65%	45% - 60%	55% - 65%
Risk-free interest rate (3)	0.05% - 0.06%	0.12% - 0.29%	0.05% - 0.06%	0.12% - 0.29%
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, 2021 and 2020. The Company recorded stock-based compensation expense of \$0.2 million and \$0.9 million for the three months ended September 30, 2021 and 2020, respectively, attributed to stock options. The Company recorded stock-based compensation expense of \$1.0 million and \$2.8 million for the nine months ended September 30, 2021 and 2020, respectively, attributed to stock options.

The total intrinsic value of options exercised for the nine months ended September 30, 2021 and 2020 was \$12.2 million and \$26.1 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each option. Based on the fair market value of the Company's common stock at September 30, 2021 and 2020, the total intrinsic value of all outstanding options was \$21.2 million and \$42.8 million, respectively.

Total unrecognized compensation cost related to nonvested stock options was approximately \$0.2 million as of September 30, 2021 and is expected to be recognized over a weighted average period of 0.5 years. The amount of cash received from the exercise of stock options during the nine months ended September 30, 2021 and 2020 was \$2.9 million and \$6.8 million, respectively.

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

	Stock options outstanding	Weighted average exercise price
Outstanding at December 31, 2020	279,021	\$ 25.55
Exercised	(105,889)	27.83
Forfeited	(6,900)	37.19
Outstanding at September 30, 2021	166,232	23.61

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

	As of September 30, 2021		
	Number of shares	Remaining contractual life (years)	Weighted- average exercise price
Outstanding	166,232	5.33	\$ 23.61
Vested and expected to vest	166,088	5.33	23.60
Exercisable	147,478	5.17	21.38

Vested and nonvested stock option activity was as follows:

	Vested		Nonvested	
	Options outstanding	Weighted average exercise price	Options outstanding	Weighted average exercise price
Outstanding at September 30, 2021	147,478	\$ 21.38	18,754	\$ 41.22

Restricted Stock Units

During the nine months ended September 30, 2021, the Company granted 317,841 restricted stock units ("RSUs") to members of its senior management and certain other employees pursuant to the 2016 Plan. There were 248,689 RSUs that vested during the nine months ended September 30, 2021. 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, 2021 and 2020 were \$124.17 and \$120.09, respectively. The fair values of RSUs that vested during the nine months ended September 30, 2021 and 2020, were \$20.8 million and \$17.8 million, respectively. During the three months ended September 30, 2021 and 2020, the Company recorded \$8.7 million and \$5.8 million, respectively, of stock-based compensation related to the RSUs. During the nine months ended September 30, 2021 and 2020, the Company recorded \$22.0 million and \$15.1 million, respectively, of stock-based compensation related to the RSUs.

As of September 30, 2021, there was \$59.3 million of unrecognized compensation expense related to unvested RSUs which is expected to be recognized over a weighted-average period of approximately 2.34 years. For RSUs subject to graded vesting, the Company recognizes compensation cost on a straight-line basis over the service period for the entire award.

Performance-Based Restricted Stock Units

During the nine months ended September 30, 2021, the Company granted 323,601 performance-based restricted stock units ("PSUs") to members of its management pursuant to the 2016 Plan. There were 59,200 PSUs that vested during the nine months ended September 30, 2021. The PSUs 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, 2021, the share price of the Company's common stock on the date of issuance of the PSUs ranged from \$118.04 to \$151.04 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. The Company has assessed the probability of achievement of the award at 100% based on past performance of achievement of the performance metric. Compensation cost is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions. The weighted-average grant date fair values of PSUs granted during the nine months ended September 30, 2021 and 2020 were \$124.45 and \$120.11, respectively. During the three months ended September 30, 2021 and 2020, the Company recognized \$8.1 million and \$6.4 million, respectively, of stock compensation expense in connection with the PSU awards. During the nine months ended September 30, 2021 and 2020, the Company recognized \$21.3 million and \$16.1 million, respectively, of stock compensation expense in connection with the PSU awards.

As of September 30, 2021, there was \$43.8 million of unrecognized compensation expense related to unvested PSUs which is expected to be recognized over a weighted-average period of approximately 1.87 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:

	<u>Number of Shares</u>
Outstanding at December 31, 2020	1,420,541
Granted	641,442
Vested	(307,889)
Forfeited	(135,266)
Outstanding at September 30, 2021	<u>1,618,828</u>

Stock-Based Compensation Expense

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2021	2020	2021	2020
Cost of revenue	\$ 1,260	\$ 842	\$ 3,078	\$ 2,153
Sales and marketing	5,747	4,395	15,068	11,920
Research and development	3,106	2,571	7,696	6,743
General and administrative	7,328	5,543	19,789	14,123
Total	<u>\$ 17,441</u>	<u>\$ 13,351</u>	<u>\$ 45,631</u>	<u>\$ 34,939</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:

	<u>As of September 30,</u>	
	2021	2020
Convertible senior notes	6,089,230	6,704,014
Stock-based compensation grants	1,785,060	1,913,318
Total	<u>7,874,290</u>	<u>8,617,332</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 and, 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. 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, 2021 was 5.7 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, 2021 and 2020, the Company recorded a benefit from income taxes of \$0.7 million and a provision for income taxes of \$0.3 million, respectively, resulting in an effective tax rate of 2.53% and an effective rate of (1.14)%, respectively. For the nine months ended September 30, 2021 and 2020, the Company recorded a benefit from income taxes of \$10.3 million and \$1.9 million, respectively, resulting in an effective tax rate of 10.93% and 2.73%, respectively. During nine months ended September 30, 2021, there were deferred tax liabilities recognized in connection with the preliminary purchase price accounting for the Company's completed acquisitions. Certain of such deferred tax liabilities will be a source of future taxable income to realize a portion of Company's deferred tax assets, which resulted in a discrete tax benefit of approximately \$7.6 million related to U.S. acquired entities being recognized during the nine months ended September 30, 2021.

As of September 30, 2021, the Company had gross tax-effected unrecognized tax provision of \$1.6 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, 2021 and 2020, the amounts recorded related to the accrual of interest and penalties were immaterial in each period.

In response to the COVID-19 pandemic, the United States passed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act in March 2020 and the United States enacted the American Rescue Plan Act of 2021 in March 2021. These Acts include various income and payroll tax measures. Neither the income tax nor payroll tax measures had a material impact on our financial statements.

(14) Segment information

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

(15) Revenue Recognition

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

Primary Geographic Markets	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
United States	\$ 66,114	\$ 52,127	\$ 185,869	\$ 150,093
International	30,632	19,129	79,736	45,440
Total	<u>\$ 96,746</u>	<u>\$ 71,256</u>	<u>\$ 265,605</u>	<u>\$ 195,533</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,	
	2021	2020	2021	2020
Subscription services	\$ 86,664	\$ 63,627	\$ 236,748	\$ 176,944
Professional services	6,467	4,543	18,866	13,677
Software licenses and other	3,615	3,086	9,991	4,912
Total	<u>\$ 96,746</u>	<u>\$ 71,256</u>	<u>\$ 265,605</u>	<u>\$ 195,533</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 \$13.8 million and \$14.5 million as of September 30, 2021 and December 31, 2020, respectively. Noncurrent deferred costs, which primarily consist of deferred sales commissions, were \$17.5 million and \$15.9 million as of September 30, 2021 and December 31, 2020, respectively. During the three months ended September 30, 2021 and 2020, amortization expense for the deferred costs was \$3.2 million and \$3.5 million, respectively. During the nine months ended September 30, 2021 and 2020, amortization expense for the deferred costs was \$10.4 million and \$9.2 million, respectively. There was no impairment loss in relation to the costs capitalized for the nine months ended September 30, 2021 and the year ended December 31, 2020, respectively.

Deferred Revenue

During the three months ended September 30, 2021 and 2020, \$78.8 million and \$54.3 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, 2021 and 2020, \$138.6 million and \$110.7 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, 2021 and 2020, \$3.7 million and \$5.1 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, 2021 and 2020, \$9.1 million and \$6.0 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, 2021, approximately \$422.7 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 \$256.2 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

As of September 30, 2021, approximately \$10.8 million of revenue is expected to be recognized from remaining performance obligations for professional services contracts. The Company expects to recognize revenue on approximately \$9.7 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 2021 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 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, 2021	As of December 31, 2020
Balance sheet information		
ROU assets	\$ 18,317	\$ 15,045
Lease liabilities, current	\$ 6,343	\$ 4,259
Lease liabilities, non-current	15,266	14,403
Total lease liabilities	<u>\$ 21,609</u>	<u>\$ 18,662</u>
Supplemental data		
Weighted average remaining lease term	4.22 years	4.57 years
Weighted average discount rate	6.14%	7.00%
	Nine Months Ended September 30,	
	2021	2020
Cash paid for amounts included in lease liabilities	\$ 4,726	\$ 3,615
ROU assets obtained in exchange for new lease obligations	6,681	5,648
Maturities of lease liabilities as of September 30, 2021 were as follows (in thousands):		
Year ending December 31,		
2021 (for the remaining three months)	\$	1,895
2022		7,350
2023		6,142
2024		3,315
2025		1,628
Thereafter		<u>4,180</u>
Total undiscounted lease payments		24,510
Less: imputed interest		<u>(2,901)</u>
Total lease liabilities	<u>\$</u>	<u>21,609</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating lease expense	\$ 1,622	\$ 1,273	\$ 4,391	\$ 3,698
Short-term lease expense ⁽¹⁾	231	266	622	818
	1,853	1,539	5,013	4,516
Less: Sublease income	(23)	(98)	(38)	(236)
Total lease expense	\$ 1,830	\$ 1,441	\$ 4,975	\$ 4,280

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

As of September 30, 2021, the Company does not have any leases that have not yet commenced that create significant rights and obligations.

(17) Commitments and Contingencies

Litigation

From time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of business. Although the results of 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, operating results, financial condition 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) Subsequent Event

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

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 consideration of \$160.7 million. The Company paid \$70.2 million in cash at closing. Within 10 business days from the acquisition date, the Company expects to pay deferred consideration in 574,639 newly issued shares of the Company's common stock and on or before June 30, 2023, the Company expects to pay deferred consideration of approximately \$0.8 million in cash. Anvil is a provider of travel risk management, operational resiliency and occupational health solutions.

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, 2020 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 26, 2021. 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; 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, 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, 2020, 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 shooter situations, terrorist attacks or severe weather conditions, as well as critical business events such as IT outages, cyber-attacks or other incidents such as product recalls or supply-chain interruptions, 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 that address the full spectrum of tasks an organization has to perform to manage a critical event, including Mass Notification, Safety Connection, Incident Management, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, Secure Collaboration, and Control Center. 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 6,010 customers as of September 30, 2021. Our customers are based in over 70 countries and include eight of the 10 largest U.S. cities, nine of the 10 largest U.S.-based investment banks, 47 of the 50 busiest North American airports, nine of the 10 largest global consulting firms, eight of the 10 largest global automakers, nine of the 10 largest U.S.-based health care providers, and seven of the 10 largest technology companies in the world. 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, 2021, and generally bill and collect payment annually in advance. We derive most of our revenue from subscriptions to applications. Over 91% 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 50% of our revenue in 2020 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 \$96.7 million and \$71.3 million for the three months ended September 30, 2021 and 2020, respectively, representing a period-over-period increase of 36%. We generated revenue of \$265.6 million and \$195.5 million for the nine months ended September 30, 2021 and 2020, respectively, representing a period-over-period increase of 36%. We had net losses of \$28.7 million and \$24.2 million for the three months ended September 30, 2021 and 2020, respectively. We had net losses of \$84.3 million and \$68.8 million for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, 23% and 23% of our customers, respectively, were located outside of the United States. These customers generated 32% and 27% of our total revenue for the three months ended September 30, 2021 and 2020, respectively, and 30% and 23% of our total revenue for the nine months ended September 30, 2021 and 2020, 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

On November 4, 2021, we 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 we purchased all of the issued and outstanding share capital of Anvil for consideration of \$160.7 million. We paid \$70.2 million in cash at closing. Within 10 business days from the acquisition date, we expect to pay deferred consideration in 574,639 newly issued shares of our common stock and on or before June 30, 2023, we expect to pay deferred consideration of approximately \$0.8 million in cash. Anvil is a provider of travel risk management, operational resiliency and occupational health solutions.

Impacts of COVID-19 to Our Business

During the nine months ended September 30, 2021, financial results and operations for our Americas and international geographies were not significantly impacted by the COVID-19 pandemic. We are taking 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. These measures include requiring remote working arrangements for employees where practicable, among other modifications. We are following evolving public and private sector policies and initiatives to reduce the transmission of COVID-19, such as the imposition of travel restrictions, the promotion of social distancing and the adoption of work-from-home arrangements. All of these policies and initiatives have been and may continue to impact our operations. 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 for the last quarter of fiscal year 2021 and 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, 2020, as filed with the SEC on February 26, 2021, 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.

During 2020, (1) we launched COVID-19 Shield, a new set of coronavirus protection solutions designed to protect the safety of employees and customers, maintain business operations, safeguard supply chains, and reduce costs and liabilities stemming from the impact of the global coronavirus pandemic; (2) we launched COVID-19 Return to Work, a software solution designed to help businesses and governments navigate the complexity of operating during the next phase of the COVID-19 pandemic and prepare to bring back the workforce and reopen society; (3) we launched COVID-19 Shield: Contact Tracing, a solution for corporate, government and healthcare organizations to supplement or complement existing manual contact tracing efforts; (4) we launched Control Center, a physical security information management software platform, which includes features designed to help organizations return to work by integrating and managing data and analytics from video cameras, thermal cameras, badge access and other building systems, and by automating the response to help organizations ensure the safety and protection of employees, as well as compliance with social distancing and personal protective equipment policies; and (5) we announced COVID-19 Shield: Vaccine Distribution, an extension to our CEM platform offering risk insights, logistics awareness and vaccine appointment management. These new products were built off of our existing platforms.

Presentation of Financial Statements

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

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

Components of Results of Operations

Revenue

We derive substantially all 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.

We also sell professional services, which primarily consist of fees for deployment and optimization services as well as training. In addition, on occasion we may sell our software and related post contract support for on premises usage which is outside of our core business and is not a significant revenue stream for us.

Cost of Revenue

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

Operating Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. Salaries, bonuses, stock-based compensation expense and other personnel costs are the most significant components of each of these expense categories. We include stock-based compensation expense incurred in connection with the grant of stock options, restricted stock units, performance-based restricted stock units 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. In the near term, we expect our sales and marketing expense to increase on an absolute dollar basis as we hire new sales representatives in the United States and worldwide and grow our marketing staff.

Research and Development

Research and development expense primarily consists of employee-related expenses for research and development staff, including salaries, bonuses, benefits and stock-based compensation expense. Research and development expense also includes the cost of certain third-party services, office related costs to support research and development activities, software subscriptions and hosting costs. We capitalize certain software development costs that are attributable to developing new applications and adding incremental functionality to our platform and amortize these costs over the estimated life of the new application or incremental functionality, which is generally three years. We focus our research and development efforts on improving our applications, developing new applications and delivering new functionality. In the near term, we expect our research and development expense to increase on an absolute dollar basis as we continue to increase the functionality of our platform and applications.

General and Administrative

General and administrative expense primarily consists of employee-related expenses for administrative, legal, finance and human resource personnel, including salaries, bonuses, benefits and stock-based compensation expense. General and administrative expense also includes professional fees, insurance premiums, corporate expenses, transaction-related costs, office-related expenses, facility costs, depreciation and amortization and software license costs. In the near term, we expect our general and administrative expense to increase on an absolute dollar basis as we continue to incur the costs associated with being a publicly traded company.

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 and Capped Call Modification

Loss on extinguishment of convertible notes and capped call modification relates to the partial extinguishment of our 1.50% convertible senior notes due 2022 (the "2022 Notes") and modification of a 2022 Notes capped call agreement.

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,	
	2021	2020	2021	2020
Revenue	\$ 96,746	\$ 71,256	\$ 265,605	\$ 195,533
Cost of revenue ⁽¹⁾	30,310	20,885	83,255	61,197
Gross profit	66,436	50,371	182,350	134,336
Operating expenses:				
Sales and marketing ⁽¹⁾	42,426	31,395	118,436	89,724
Research and development ⁽¹⁾	23,197	16,948	61,527	46,057
General and administrative ⁽¹⁾	19,904	19,766	67,130	52,476
Total operating expenses	85,527	68,109	247,093	188,257
Operating loss	(19,091)	(17,738)	(64,743)	(53,921)
Other expense, net	(10,332)	(6,194)	(29,890)	(16,821)
Loss before income taxes	(29,423)	(23,932)	(94,633)	(70,742)
Benefit from (provision for) income taxes	745	(273)	10,345	1,932
Net loss	\$ (28,678)	\$ (24,205)	\$ (84,288)	\$ (68,810)

(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,	
	2021	2020	2021	2020
Stock-based compensation expense				
Cost of revenue	\$ 1,260	\$ 842	\$ 3,078	\$ 2,153
Sales and marketing	5,747	4,395	15,068	11,920
Research and development	3,106	2,571	7,696	6,743
General and administrative	7,328	5,543	19,789	14,123
Total	<u>\$ 17,441</u>	<u>\$ 13,351</u>	<u>\$ 45,631</u>	<u>\$ 34,939</u>
Depreciation and amortization expense				
Cost of revenue	\$ 5,530	\$ 3,165	\$ 15,624	\$ 8,696
Sales and marketing	216	240	690	707
Research and development	188	152	544	432
General and administrative	8,292	4,583	21,222	12,281
Total	<u>\$ 14,226</u>	<u>\$ 8,140</u>	<u>\$ 38,080</u>	<u>\$ 22,116</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,	
	2021	2020	2021	2020
Revenue	100%	100%	100%	100%
Cost of revenue	31%	29%	31%	31%
Gross profit	69%	71%	69%	69%
Operating expenses:				
Sales and marketing	44%	44%	45%	46%
Research and development	24%	24%	23%	24%
General and administrative	21%	28%	25%	27%
Total operating expenses	88%	96%	93%	96%
Operating loss	(20)%	(25)%	(24)%	(28)%
Other expense, net	(11)%	(9)%	(11)%	(9)%
Loss before income taxes	(30)%	(34)%	(36)%	(36)%
Benefit from (provision for) income taxes	1%	(0)%	4%	1%
Net loss	<u>(30)%</u>	<u>(34)%</u>	<u>(32)%</u>	<u>(35)%</u>

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

Comparison of the Three Months Ended September 30, 2021 and 2020

Revenue

(dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020	\$	%
Revenue	\$ 96,746	\$ 71,256	\$ 25,490	35.8%

Revenue increased by \$25.5 million for the three months ended September 30, 2021 compared to the same period in 2020. The increase was due to a \$25.5 million increase in sales of our products driven by expansion of our customer base from 5,467 customers as of September 30, 2020 to 6,010 customers as of September 30, 2021, 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	
	2021	2020	\$	%
Cost of revenue	\$ 30,310	\$ 20,885	\$ 9,425	45.1%
Gross margin %	69%	71%		

Cost of revenue increased by \$9.4 million for the three months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a \$4.6 million increase in employee-related costs associated with our increased headcount from 311 employees as of September 30, 2020 to 423 employees as of September 30, 2021, a \$2.4 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software, a \$2.1 million increase in hosting, software and messaging costs and a \$0.3 million increase in office related expenses.

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	
	2021	2020	\$	%
Sales and marketing	\$ 42,426	\$ 31,395	\$ 11,031	35.1%
% of revenue	44%	44%		

Sales and marketing expense increased by \$11.0 million for the three months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to an \$8.2 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 476 employees as of September 30, 2020 to 591 employees as of September 30, 2021. The remaining increase was principally the result of a \$2.0 million increase in advertising-related costs and trade show expenses, as well as a \$0.5 million increase in office related expenses to support the sales team and a \$0.3 million increase in software expenses.

Research and Development Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020	\$	%
Research and development	\$ 23,197	\$ 16,948	\$ 6,249	36.9%
% of revenue	24%	24%		

Research and development expense increased by \$6.2 million for the three months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a \$5.4 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 360 employees as of September 30, 2020 to 513 employees as of September 30, 2021, a \$0.5 million increase in software related costs, a \$0.4 million increase in office related expenses and a \$0.3 million increase in professional services to support research and development activities. A total of \$2.2 million of internally developed software costs during the three months ended September 30, 2020 and \$2.6 million of internally developed software costs during the three months ended September 30, 2021 were capitalized, resulting in a \$0.4 million offset to the increase in the third quarter of 2021.

General and Administrative Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020	\$	%
General and administrative	\$ 19,904	\$ 19,766	\$ 138	0.7%
% of revenue	21%	28%		

General and administrative expense increased by \$0.1 million for the three months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a \$3.2 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 159 employees as of September 30, 2020 to 203 employees as of September 30, 2021, a \$3.7 million increase in depreciation and amortization, a \$1.2 million increase in professional services and office related expenses to support the administrative team and a \$0.6 million increase in credit loss expense. These increases were offset by an \$8.6 million decrease in our contingent consideration obligation primarily as a result of final contingent consideration obligation adjustments for Red Sky Technologies Inc. (“RedSky”) and One2Many Group B.V. (“one2many”).

Other Expense, Net

(dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020	\$	%
Other expense, net	\$ (10,332)	\$ (6,194)	\$ (4,138)	(66.8)%
% of revenue	(11)%	(9)%		

Other expense, net increased by \$4.1 million for the three months ended September 30, 2021 compared to the same period in 2020 primarily due to a \$3.7 million increase in interest expense related to our convertible senior notes and a \$0.4 million increase in other expenses.

Income Taxes

(dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020	\$	%
Benefit from (provision for) income taxes	\$ 745	\$ (273)	\$ 1,018	372.9%
% of revenue	1%	(0)%		

A portion of the losses incurred during the three months ended September 30, 2021 are expected to be realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2021. Losses incurred for other operating jurisdictions required a valuation allowance. An income tax benefit of \$0.7 million was recorded during the three months ended September 30, 2021 attributable to losses reducing existing deferred tax liabilities established in purchase accounting in prior quarters. The change in income tax benefit of \$1.0 million for the three months ended September 30, 2021 as compared to the same period in 2020 was related to the realization of non-U.S. losses against deferred tax liabilities established for prior acquisitions.

Comparison of the Nine Months Ended September 30, 2021 and 2020

Revenue

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Revenue	\$ 265,605	\$ 195,533	\$ 70,072	35.8%

Revenue increased by \$70.1 million for nine months ended September 30, 2021 compared to the same period in 2020. The increase was due to a \$70.1 million increase in sales of our products driven by expansion of our customer base from 5,467 customers as of September 30, 2020 to 6,010 customers as of September 30, 2021, 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	
	2021	2020	\$	%
Cost of revenue	\$ 83,255	\$ 61,197	\$ 22,058	36.0%
Gross margin %	69%	69%		

Cost of revenue increased by \$22.1 million for the nine months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to an \$11.8 million increase in employee-related costs associated with our increased headcount from 311 employees as of September 30, 2020 to 423 employees as of September 30, 2021, a \$6.9 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software, a \$3.0 million increase in hosting, software and messaging costs and a \$0.4 million increase in office related expenses.

Gross margin percentage remained flat during the nine months ended September 30, 2021 compared to the same period in 2020.

Operating Expenses

Sales and Marketing Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Sales and marketing	\$ 118,436	\$ 89,724	\$ 28,712	32.0%
% of revenue	45%	46%		

Sales and marketing expense increased by \$28.7 million for the nine months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a \$22.1 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 476 employees as of September 30, 2020 to 591 employees as of September 30, 2021. The remaining increase was principally the result of a \$4.7 million increase in advertising-related costs and trade show expenses, as well as a \$1.0 million increase in software expenses and a \$0.9 million increase in office related expenses to support the sales team.

Research and Development Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Research and development	\$ 61,527	\$ 46,057	\$ 15,470	33.6%
% of revenue	23%	24%		

Research and development expense increased by \$15.5 million for the nine months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a \$13.8 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 360 employees as of September 30, 2020 to 513 employees as of September 30, 2021, a \$1.4 million increase in professional services, as well as a \$0.9 million increase in hosting and software related costs and a \$0.9 million increase in office related expenses to support research and development activities. A total of \$6.5 million of internally developed software costs during the nine months ended September 30, 2020 and \$8.0 million of internally developed software costs during the nine months ended September 30, 2021 were capitalized, resulting in a \$1.5 million offset to the increase during the nine months ended September 30, 2021.

General and Administrative Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
General and administrative	\$ 67,130	\$ 52,476	\$ 14,654	27.9%
% of revenue	25%	27%		

General and administrative expense increased by \$14.7 million for the nine months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a \$9.5 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 159 employees as of September 30, 2020 to 203 employees as of September 30, 2021, an \$8.9 million increase in depreciation and amortization, a \$3.8 million increase in professional services and office related expenses to support the administrative team and a \$1.0 million increase in credit loss expense. These increases were partially offset by an \$8.5 million decrease in our contingent consideration obligation primarily as a result of final contingent consideration obligation adjustments for RedSky and one2many.

Other Expense, Net

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Other expense, net	\$ (29,890)	\$ (16,821)	\$ (13,069)	(77.7)%
% of revenue	(11)%	(9)%		

Other expense, net increased by \$13.1 million for the nine months ended September 30, 2021 compared to the same period in 2020 primarily due to an \$8.0 million increase in interest expense related to our convertible senior notes, a \$2.9 million loss on extinguishment of convertible notes and capped call modification, a decrease of \$1.6 million of interest income due to lower interest rates on our investment balances and a \$0.6 million increase in other expenses.

Income Taxes

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Benefit from income taxes	\$ 10,345	\$ 1,932	\$ 8,413	435.5%
% of revenue	4%	1%		

A portion of the losses incurred during the nine months ended September 30, 2021 are expected to be realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2021. Losses incurred for other operating jurisdictions required a valuation allowance. An income tax benefit of \$10.3 million was recorded during the nine months ended September 30, 2021 attributed to a discrete tax benefit related to acquired deferred tax liabilities which provided support for releasing a portion of our U.S. valuation allowance and the recognition of tax losses that are decreasing acquired deferred tax liabilities established in prior quarters. The change in income tax benefit of \$8.4 million for the nine months ended September 30, 2021 as compared to the same period in 2020 was related to the change in valuation allowance for the current year acquired deferred tax liabilities and the realization of non-U.S. 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,	
	2021	2020	2021	2020
Adjusted EBITDA	\$ 4,850	\$ 5,058	\$ 10,648	\$ 3,924
Adjusted gross profit	70,887	52,567	194,201	139,511
Free cash flow	(7,529)	(4,097)	(1,068)	(13,014)

- 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 and capped call modification, change in fair value of contingent consideration and stock-based compensation expense. We do not consider these items to be indicative of our core operating performance. The items that are non-cash include depreciation and amortization expense, loss on extinguishment of convertible notes and capped call modification, 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,	
	2021	2020	2021	2020
Net loss	\$ (28,678)	\$ (24,205)	\$ (84,288)	\$ (68,810)
Interest and investment expense, net	9,709	5,955	25,691	16,067
(Benefit from) provision for income taxes	(745)	273	(10,345)	(1,932)
Depreciation and amortization	14,226	8,140	38,080	22,116
Loss on extinguishment of convertible notes and capped call modification	—	44	2,925	44
Change in fair value of contingent consideration	(7,103)	1,500	(7,046)	1,500
Stock-based compensation	17,441	13,351	45,631	34,939
Adjusted EBITDA	<u>\$ 4,850</u>	<u>\$ 5,058</u>	<u>\$ 10,648</u>	<u>\$ 3,924</u>

- Adjusted Gross Profit.** Adjusted gross profit represents gross profit plus amortization of acquired intangibles and stock-based compensation. 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 stock-based compensation expense and amortization of acquired intangibles facilitates comparisons of our operating performance on a period-to-period basis. In the near term, we expect these expenses to continue to negatively impact our gross profit. Adjusted gross 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,	
	2021	2020	2021	2020
Gross profit	\$ 66,436	\$ 50,371	\$ 182,350	\$ 134,336
Amortization of acquired intangibles	3,191	1,354	8,773	3,022
Stock-based compensation	1,260	842	3,078	2,153
Adjusted gross profit	<u>\$ 70,887</u>	<u>\$ 52,567</u>	<u>\$ 194,201</u>	<u>\$ 139,511</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net cash provided by (used in) operating activities	\$ (2,690)	\$ (527)	\$ 11,981	\$ (3,596)
Capital expenditures	(2,042)	(947)	(4,170)	(2,122)
Capitalized software development costs	(2,797)	(2,623)	(8,879)	(7,296)
Free cash flow	\$ (7,529)	\$ (4,097)	\$ (1,068)	\$ (13,014)

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 and capped call modification 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 tax impact was considered immaterial for fiscal year 2020 and quarters within fiscal year 2020; however, the prior period tax impact presentation has been recast to align with our 2021 reporting presentation. 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 and capped call modification allows for more meaningful comparisons between operating results from period to period as losses on the extinguishment of convertible notes and capped call modifications are non-operating in nature. We do not engage in the repurchase of convertible notes on a regular basis or in the ordinary course of business. Accordingly, we believe that excluding these expenses provides investors and management with greater visibility of the underlying performance of our business operations, facilitates comparison of our results with other periods and may also facilitate comparison with the results of other companies in our industry.

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

The following table reconciles our GAAP to non-GAAP financial measures (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of revenue	\$ 30,310	\$ 20,885	\$ 83,255	\$ 61,197
Amortization of acquired intangibles	(3,191)	(1,354)	(8,773)	(3,022)
Stock-based compensation	(1,260)	(842)	(3,078)	(2,153)
Non-GAAP cost of revenue	\$ 25,859	\$ 18,689	\$ 71,404	\$ 56,022
Gross profit	\$ 66,436	\$ 50,371	\$ 182,350	\$ 134,336
Amortization of acquired intangibles	3,191	1,354	8,773	3,022
Stock-based compensation	1,260	842	3,078	2,153
Non-GAAP gross profit	\$ 70,887	\$ 52,567	\$ 194,201	\$ 139,511
Non-GAAP gross margin	73.3%	73.8%	73.1%	71.3%
Sales and marketing	\$ 42,426	\$ 31,395	\$ 118,436	\$ 89,724
Stock-based compensation	(5,747)	(4,395)	(15,068)	(11,920)
Non-GAAP sales and marketing	\$ 36,679	\$ 27,000	\$ 103,368	\$ 77,804
Research and development	\$ 23,197	\$ 16,948	\$ 61,527	\$ 46,057
Stock-based compensation	(3,106)	(2,571)	(7,696)	(6,743)
Non-GAAP research and development	\$ 20,091	\$ 14,377	\$ 53,831	\$ 39,314
General and administrative	\$ 19,904	\$ 19,766	\$ 67,130	\$ 52,476
Amortization of acquired intangibles	(7,798)	(4,296)	(20,051)	(11,501)
Change in fair value of contingent consideration	7,103	(1,500)	7,046	(1,500)
Stock-based compensation	(7,328)	(5,543)	(19,789)	(14,123)
Non-GAAP general and administrative	\$ 11,881	\$ 8,427	\$ 34,336	\$ 25,352
Total operating expenses	\$ 85,527	\$ 68,109	\$ 247,093	\$ 188,257
Amortization of acquired intangibles	(7,798)	(4,296)	(20,051)	(11,501)
Change in fair value of contingent consideration	7,103	(1,500)	7,046	(1,500)
Stock-based compensation	(16,181)	(12,509)	(42,553)	(32,786)
Non-GAAP operating expenses	\$ 68,651	\$ 49,804	\$ 191,535	\$ 142,470
Operating loss	\$ (19,091)	\$ (17,738)	\$ (64,743)	\$ (53,921)
Amortization of acquired intangibles	10,989	5,650	28,824	14,523
Change in fair value of contingent consideration	(7,103)	1,500	(7,046)	1,500
Stock-based compensation	17,441	13,351	45,631	34,939
Non-GAAP operating income (loss)	\$ 2,236	\$ 2,763	\$ 2,666	\$ (2,959)
Net loss	\$ (28,678)	\$ (24,205)	\$ (84,288)	\$ (68,810)
Amortization of acquired intangibles	10,989	5,650	28,824	14,523
Change in fair value of contingent consideration	(7,103)	1,500	(7,046)	1,500
Stock-based compensation	17,441	13,351	45,631	34,939
Accretion of interest on convertible senior notes	9,649	5,578	25,470	16,527
Loss on extinguishment of convertible notes and capped call modification	—	44	2,925	44
Income tax adjustments	(185)	878	70	(227)
Non-GAAP net income (loss)	\$ 2,113	\$ 2,796	\$ 11,586	\$ (1,504)

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 \$546.5 million as of September 30, 2021. 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, 2020 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.

Cash Flows

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash, cash equivalents and restricted cash at beginning of period	\$ 568,302	\$ 491,298	\$ 475,630	\$ 539,662
Cash provided by (used in) operating activities	(2,690)	(527)	11,981	(3,596)
Cash used in investing activities	(6,852)	(14,062)	(212,728)	(64,175)
Cash provided by (used in) financing activities	(3,425)	516	279,864	5,753
Effects of exchange rates on cash	(369)	8	219	(411)
Cash, cash equivalents and restricted cash at end of period	\$ 554,966	\$ 477,233	\$ 554,966	\$ 477,233

Uses of Funds

Our historical uses of cash have primarily consisted of cash used for operating activities, such as expansion of our sales and marketing operations, research and development activities and other working capital needs.

Operating Activities

Our net loss and cash flows provided by 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 \$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.

Operating activities used \$3.6 million in cash in the nine months ended September 30, 2020, primarily as a result of our net loss of \$68.8 million as well as \$18.1 million in cash used by operating assets and liabilities, which was offset by an increase in non-cash operating expenses of \$83.3 million. Specifically, we recognized non-cash charges aggregating to \$34.9 million for stock-based compensation, \$22.1 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$16.5 million related to the accretion of interest on our convertible senior notes, \$9.2 million for amortization of deferred commissions, \$1.5 million change in fair value of contingent consideration and \$1.4 million for provision for credit losses, offset by \$2.3 million decrease in deferred income taxes. The net change in operating assets and liabilities of \$18.1 million reflected a \$12.0 million increase in deferred cost, a \$7.9 million increase in accounts receivable, a \$4.8 million increase in prepaid expenses for upfront payments made for prepaid software and insurance, a \$4.0 million increase in accrued employee related expenses due to timing of payments to employees, a \$3.2 million increase in other assets, a \$2.5 million increase in other liabilities, a \$2.3 million net increase in accounts payable and a \$1.1 million increase in deferred revenue.

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 \$212.7 million in cash in the nine months ended September 30, 2021, which consists of \$199.7 million of cash paid related to the acquisitions of xMatters Holdings, Inc. (“xMatters”), RedSky and SnapComms Limited (“SnapComms”), an \$8.9 million investment in software development and a \$4.2 million in purchases of property and equipment.

Investing activities used \$64.2 million in cash in the nine months ended September 30, 2020, which consists of \$54.8 million of cash paid for the acquisitions of Connexient, Inc. (“Connexient”), CNL Software Limited (“CNL Software”), one2many, Techwan SA (“Techwan”) and SnapComms, a \$7.3 million investment in software development and \$2.1 million in purchases of property and equipment.

Financing Activities

Cash generated by financing activities includes proceeds from the issuance of 0% convertible senior notes due March 15, 2026 (the “2026 Notes”), proceeds from the partial termination of the 2022 Notes capped call hedge, 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, repurchases of 2022 Notes and employee withholding liabilities from restricted stock units.

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.

Financing activities provided \$5.8 million of cash in the nine months ended September 30, 2020, which reflects proceeds of \$6.8 million from the exercise of stock options and \$3.4 million from the issuance of stock under our employee stock purchase plan. These amounts were offset by a \$4.3 million payment for employee withholding taxes related to the issuance of restricted stock units and cash payments of \$0.1 million for other financing activities.

Critical Accounting Policies

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, revenues, 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.

There have been no changes to our critical accounting policies and estimates described in the Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021, that have had a material impact on our condensed consolidated financial statements and related notes.

Recently Issued Accounting Pronouncements

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

Contractual Obligations and Commitments

As of September 30, 2021, other than our contractual debt and operating lease obligations there were no material changes in our commitments under contractual obligations except for scheduled payments from the ongoing business, as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The following table summarizes our commitments to settle contractual obligations as of September 30, 2021 (in thousands):

	Remainder of 2021	2022-2023	2024-2025	Thereafter	Total
Debt obligations ⁽¹⁾	\$ —	\$ 303	\$ 450,000	\$ 375,000	\$ 825,303
Operating leases ⁽²⁾	1,895	13,492	4,943	4,180	24,510
	<u>\$ 1,895</u>	<u>\$ 13,795</u>	<u>\$ 454,943</u>	<u>\$ 379,180</u>	<u>\$ 849,813</u>

- (1) Debt obligations include the principal amount of the 2026 Notes, 0.125% convertible senior notes due December 15, 2024 (the “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 our common stock prior to maturity if certain conditions are met. Any conversion prior to maturity can result in repayments of the principal amounts sooner than the scheduled repayments as indicated in the table. The 2026 Notes, 2024 Notes and 2022 Notes balance excludes debt discount capitalized on our balance sheet. Please see Note 9 of the notes to our consolidated financial statements for more information on the terms of the 2026 Notes, 2024 Notes and 2022 Notes.
- (2) Operating leases include total future minimum rent payments under non-cancelable operating lease agreements as described in Note 16 of our consolidated financial statements.

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

Off-Balance Sheet Arrangements

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

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 2021, 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, 2021.

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 \$303 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. In the second quarter of 2018, the trading price of our common stock reached a price for a sustained period at 130% above the conversion price of \$33.71, resulting in the 2022 Notes

becoming convertible at the option of the holder during the third quarter of 2018. The 2022 Notes were still convertible at the option of the holder at September 30, 2021. During the nine months ended September 30, 2021, we issued 1,907,456 shares upon the extinguishment of approximately \$79.5 million in aggregate principal amount of the 2022 Notes. In the third quarter of 2021, the trading price of our common stock reached a price for a sustained period at 130% above the conversion price of \$112.36, resulting in the 2024 Notes becoming convertible at the option of the holder during the fourth quarter of 2021. The 2026 Notes were not convertible at September 30, 2021. 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 \$546.5 million as of September 30, 2021, 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. We do not currently engage in any hedging activity to reduce our potential exposure to currency fluctuations, although we may choose to do so in the future. A hypothetical 10% change in foreign exchange rates during any of the periods presented would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rate.

Inflation Risk

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

Item 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 Securities Exchange Act of 1934, as amended (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. In response to the COVID-19 pandemic, our employees began working from home starting in March 2020. 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 the Company 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.

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

Item 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 nine months ended September 30, 2021, 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, 2020, as filed with the SEC on February 26, 2021.

Business and Operational Risks

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance about our business, future operating results and other business metrics. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Some of those key assumptions relate to the impact of the COVID-19 pandemic, the anticipated contributions from the acquisitions of Anvil, xMatters, RedSky, Connexient, CNL Software, one2many, Techwan, and SnapComms, and the associated economic uncertainty on our business and the timing and scope of economic activity globally, which are inherently difficult to predict. This guidance, which consists of forward-looking statements, is qualified by, and subject to, such assumptions, estimates and expectations as provided, and the other information contained in or referred to in the factors described in this Quarterly Report on Form 10-Q and our other current and periodic reports filed with the Securities and Exchange Commission. While presented with numerical specificity, this guidance is necessarily speculative in nature, and is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions or economic conditions, some of which may change. It can be expected that some or all of the assumptions, estimates and expectations of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release of such guidance. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, including due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic, and which could adversely affect our operations and operating results. If we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would decline.

If we are unable to successfully hire, train, manage and retain qualified personnel, especially those in sales and marketing and research and development, our business may suffer.

We continue to be substantially dependent on our sales force to obtain new customers and increase sales with existing customers. Our ability to successfully pursue our growth strategy will also depend on our ability to attract, motivate and retain our personnel, especially those in sales, marketing, and research and development. There is significant competition for sales personnel, including sales engineers, with the sales skills and technical knowledge that we require, including experience selling to large enterprise customers. We face intense competition for these employees from numerous technology, software and other companies, especially in certain geographic areas in which we operate, and we cannot ensure that we will be able to attract, motivate and/or retain sufficient qualified employees in the future. In addition, training and integrating a large number of sales and marketing personnel in a short period of time requires the allocation of significant internal resources. If we are unable to attract new employees and retain our current employees, we may not be able to adequately develop and maintain new products or professional services or market our existing products or professional services at the same levels as our competitors and we may, therefore, lose customers and market share. Our failure to attract and retain personnel, especially those in sales and marketing and research and development positions for which we have historically had a high turnover rate, could have an adverse effect on our ability to execute our business objectives and, as a result, our ability to compete could decrease, our operating results could suffer, and our revenue could decrease. Even if we are able to identify and recruit a sufficient number of new hires, they may not become as productive as we require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we currently operate or where we seek to

conduct business. Our growth may be materially and adversely impacted if the efforts to expand our sales and marketing capabilities are not successful or if they do not generate a sufficient increase in revenue.

If we are unable to attract new customers and retain existing customers, our business and results of operations will be affected adversely.

To succeed, we must continue to attract new customers and retain existing customers who desire to use our existing Critical Event Management (“CEM”) solutions and new products we introduce from time to time. Acquiring new customers is a key element of our continued success, growth opportunity, and future revenue. We will continue to invest in a direct sales force combined with a focused channel strategy designed to serve the various requirements of our target customer base. Any failures by us to execute in these areas will negatively impact our business. The rate at which new and existing customers purchase our products depends on a number of factors, many of which are outside of our control. For example, a deterioration in macroeconomic conditions in the markets we operate in as a result of the continuation of the global COVID-19 pandemic, a slower than expected recovery from the pandemic, or for other reasons could have a negative impact on our customers, which could adversely impact our ability to attract new customers and retain existing customers. Our future success also depends on retaining our current customers at acceptable retention levels. Our retention rates may decline or fluctuate as a result of a number of factors outside our control, including competition, customers’ budgeting and spending priorities, and overall general economic conditions in the geographic regions in which we operate. For example, the impact of the COVID-19 pandemic on the current economic environment has caused, and may in the future cause, customers to request concessions such as extended payment terms. Customers may delay or cancel CEM projects or seek to lower their costs by renegotiating existing vendor contracts. If our customers do not renew their subscriptions for our products and services, our revenue would decline and our business would suffer. In future periods, our total customers and revenue could decline or grow more slowly than we expect.

If we are unable to sell additional services, features and products to our existing customers, our future revenue and operating results will be harmed.

A significant portion of our revenue growth is generated from sales of additional services, features and products to existing customers. Our future success depends, in part, on our ability to continue to sell such additional services, features and products to our existing customers. We devote significant efforts to developing, marketing, and selling additional services, features and products and associated professional services to existing customers and rely on these efforts for a portion of our revenue. These efforts require a significant investment in building and maintaining customer relationships, as well as significant research and development efforts in order to provide upgrades and launch new services, features, and products. The rate at which our existing customers purchase additional services, features, and products depends on a number of factors, including the perceived need for additional CEM solutions, the efficacy of our current services, the perceived utility and efficacy of our new offerings, our customers’ budgets, and general economic conditions in the geographic regions in which we operate, which may be impacted by, among other things, the economic uncertainty resulting from the global COVID-19 pandemic. If our efforts to sell additional services, features, and products to our customers are not successful, our future revenue and operating results will be harmed.

Our business depends substantially on customers renewing their subscriptions with us and a decline in our customer renewals would harm our future operating results.

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions with us when the existing subscription term expires. Although the majority of our customer contracts include auto-renew provisions, our customers have no obligation to renew their subscriptions upon expiration, and we cannot provide assurance that customers will renew subscriptions at the same or higher level of service, if at all, particularly given the economic uncertainty resulting from the global COVID-19 pandemic. The rate of customer renewals may decline or fluctuate as a result of a number of factors, including our customers’ satisfaction or dissatisfaction with our solutions, the effectiveness of our customer support services, our pricing, the prices of competing products or services, mergers and acquisitions affecting our customer base, or reductions in our customers’ spending levels or general economic conditions in the geographic regions in which we operate, which may be impacted by, among other things, the economic uncertainty resulting from the global COVID-19 pandemic. If our customers do not renew their subscriptions, or renew on less favorable terms, our revenue may decline, and we may not realize improved operating results from our customer base.

If we are unable to effectively increase sales of our services to large enterprises while mitigating the risks associated with serving such customers, our business, financial position, and results of operations may suffer.

As we seek to increase our sales to large enterprise customers, we may face longer sales cycles, more complex customer requirements, unfavorable contractual terms, substantial upfront sales costs, and less predictability in completing some of our sales than we do with smaller customers. In addition, our ability to successfully sell our services to large enterprises is dependent on us attracting and retaining sales personnel, including sales engineers, with experience in selling to large organizations. Also, because security or data

privacy breaches and disruptions of larger, more high-profile enterprises are likely to be heavily publicized, there is increased reputational risk associated with serving such customers. If we are unable to increase sales of our services to large enterprise customers while mitigating the risks associated with serving such customers, our business, financial position, and results of operations may suffer.

Failure to effectively expand our sales and marketing capabilities could harm our ability to acquire new customers and achieve broader market acceptance of our services.

Acquiring new customers and expanding sales to existing customers will depend to a significant extent on our ability to expand our sales and marketing operations. We generate approximately one-fifth of our revenue from direct sales and we expect to continue to rely on our sales force to obtain new customers and grow revenue from our existing customer base. We expect to expand our global sales force, and we face a number of challenges in achieving our hiring goals. For instance, there is significant competition for sales personnel, including sales engineers, with the sales skills and technical knowledge that we require, including experience selling to large enterprise customers. In addition, training and integrating a large number of sales and marketing personnel in a short period of time requires the allocation of significant internal resources. Our ability to achieve projected growth in revenue in the future will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel, all of which may be negatively impacted by the continuing global COVID-19 pandemic. We invest significant time and resources in training new sales personnel to understand our solutions. In general, new hires require significant training and substantial experience before becoming productive. Our recent hires and planned hires may not become as productive as we require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we currently operate or where we seek to conduct business. Our growth may be materially and adversely impacted if the efforts to expand our sales and marketing capabilities are not successful or if they do not generate a sufficient increase in revenue.

Acquisitions could disrupt our business and harm our financial condition and operating results.

We have in the past and may in the future seek to acquire additional businesses, products or technologies. Achieving the anticipated benefits of past or future acquisitions will depend in part upon whether we can integrate acquired operations, products, and technology in a timely and cost-effective manner and successfully market and sell these as new product offerings, or as new features within our existing offerings. During 2021, for example, we acquired Anvil, xMatters, and RedSky. The integration of these businesses and any other acquisitions may prove to be difficult due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and accustomed to different corporate cultures, business operations, and internal systems. We may need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked sufficiently effective controls, procedures and policies. The acquisition and integration processes are complex, expensive and time consuming, and may cause an interruption of, or loss of momentum in, product development, sales activities, and operations of both companies. Further, we may be unable to retain key personnel of an acquired company following the acquisition. If we are unable to effectively execute or integrate acquisitions, the anticipated benefits of such acquisition, including sales or growth opportunities or targeted synergies may not be realized, and our business, financial condition and operating results could be adversely affected.

In addition, we may only be able to conduct limited due diligence on an acquired company's operations or may discover that the products or technology acquired were not as capable as we thought based upon the initial or limited due diligence. Following an acquisition, we may be subject to unforeseen liabilities arising from an acquired company's past or present operations and these liabilities may be greater than the warranty and indemnity limitations that we negotiate. Any unforeseen liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition.

Risks Related to our Convertible Notes

Conversion of the 2026 Notes, 2024 Notes and 2022 Notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their Notes, or may otherwise depress the price of our common stock.

In March 2021, we issued the 2026 Notes, which will mature on March 15, 2026, unless earlier redeemed or repurchased by us or converted by the holder pursuant to their terms. In December 2019, we issued the 2024 Notes, which will mature on December 15, 2024, unless earlier redeemed or repurchased by us or converted by the holder pursuant to their terms. In November 2017, we issued the 2022 Notes, which will mature on November 1, 2022, unless earlier redeemed or repurchased by us or converted by the holder pursuant to their terms. The conversion of some or all of the convertible 2026 Notes, 2024 Notes and 2022 Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the 2026 Notes, 2024 Notes and 2022 Notes. Based on the market price of our common stock during the 30 trading days preceding June 30, 2018, the 2022 Notes were convertible at the option of the debt holder as of September 30, 2018 and continue to be convertible at the option of the debt holder as of September 30, 2021. During 2020, we issued 362,029 shares upon the conversion of approximately \$12.2 million in aggregate principal amount of the 2022 Notes. During the nine months ended September 30, 2021, we issued cash and 1,907,456 shares of our

common stock to holders of our 2022 Notes upon settlement of conversion and repurchase of an aggregate principal amount of approximately \$79.5 million of such notes. Based on the market price of our common stock during the 30 trading days preceding September 30, 2021, the 2024 Notes are convertible at the option of the debt holder during the calendar quarter beginning on October 1, 2021. The 2026 Notes were not convertible during the nine months ended September 30, 2021. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the 2026 Notes, 2024 Notes and 2022 Notes may encourage short selling by market participants because the conversion of the 2026 Notes, 2024 Notes and 2022 Notes could be used to satisfy short positions, or anticipated conversion of the 2026 Notes, 2024 Notes and 2022 Notes into shares of our common stock could depress the price of our common stock.

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

In connection with the issuances of the 2026 Notes, 2024 Notes and 2022 Notes, we entered into capped call transactions with the respective option counterparties. The capped call transactions are expected generally to reduce the potential dilution upon conversion of the 2026 Notes, 2024 Notes and 2022 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2026 Notes, 2024 Notes and 2022 Notes, as the case may be, with such reduction and/or offset subject to a cap. In connection with establishing their initial hedges of the capped call transactions, the option counterparties or their respective affiliates entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the 2026 Notes, 2024 Notes and 2022 Notes. The option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the 2026 Notes, 2024 Notes and 2022 Notes (and are likely to do so during any observation period related to a conversion of 2026 Notes, 2024 Notes and 2022 Notes). This activity could cause or avoid an increase or a decrease in the market price of our common stock.

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

In March 2021, we issued the 2026 Notes, which will mature on March 15, 2026, unless earlier redeemed or repurchased by us or converted by the holder pursuant to their terms. In December 2019, we issued the 2024 Notes, which will mature on December 15, 2024, unless earlier redeemed or repurchased by us or converted by the holder pursuant to their terms. In November 2017, we issued the 2022 Notes, which will mature on November 1, 2022, unless earlier redeemed or repurchased by us or converted by the holder pursuant to their terms. In connection with the issuance of the 2024 Notes, we paid \$57.8 million to repurchase \$23.0 million in aggregate principal amount of the 2022 Notes. During 2020, we issued 362,029 shares upon the conversion of approximately \$12.2 million in aggregate principal amount of the 2022 Notes. During the nine months ended September 30, 2021, we issued cash and 1,907,456 shares of our common stock to holders of our 2022 Notes upon settlement of conversion and repurchase of an aggregate principal amount of approximately \$79.5 million of such notes.

The 2026 Notes, 2024 Notes and 2022 Notes rank senior in right of payment to our common stock and any of our indebtedness that is expressly subordinated in right of payment to the 2026 Notes, 2024 Notes and 2022 Notes; equal in right of payment to any of our liabilities that are not so subordinated (including to the 2024 Notes and 2022 Notes, in the case of the 2026 Notes, to the 2026 Notes and 2022 Notes, in the case of the 2024 Notes, and to the 2026 Notes and 2024 Notes, in the case of the 2022 Notes); effectively junior in right of payment to any of our secured indebtedness, to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt ranking senior or equal in right of payment to the 2026 Notes, 2024 Notes and 2022 Notes will be available to pay obligations on the 2026 Notes, 2024 Notes and 2022 Notes only after the secured debt has been repaid in full from these assets, and our assets will be available to pay common stockholders only after all debt obligations have been repaid. There may not be sufficient assets remaining to pay amounts due on any or all of the 2026 Notes, 2024 Notes and 2022 Notes then outstanding or any or all shares of our common stock then outstanding.

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

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the 2026 Notes, 2024 Notes and 2022 Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

As of September 30, 2021, we had \$825 million (undiscounted) principal amount of indebtedness under the 2026 Notes, 2024 Notes and 2022 Notes. Our indebtedness may:

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

In addition, any future indebtedness that we may incur may contain financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full.

The accounting method for convertible debt securities that may be settled in cash, such as the 2026 Notes, 2024 Notes and 2022 Notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)*, which has subsequently been codified as Accounting Standards Codification (“ASC”) 470-20, *Debt with Conversion and Other Options*. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the 2026 Notes, 2024 Notes and 2022 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the 2026 Notes, 2024 Notes and 2022 Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet, and the value of the equity component was treated as original issue discount for purposes of accounting for the debt component of the 2026 Notes, 2024 Notes and 2022 Notes. As a result, we recorded a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the 2026 Notes, 2024 Notes and 2022 Notes to their face amount over the term of the 2026 Notes, 2024 Notes and 2022 Notes. We reported lower net income in our financial results because ASC 470-20 requires interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the 2026 Notes, 2024 Notes and 2022 Notes. In August 2020, the FASB issued Accounting Standards Update 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*. See Note 2 of the notes to condensed consolidated financial statements for more information.

The conditional conversion feature of the 2026 Notes, 2024 Notes and 2022 Notes, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the 2026 Notes, 2024 Notes or the 2022 Notes is triggered, holders of the 2026 Notes, 2024 Notes or the 2022 Notes, as the case may be, will be entitled to convert the 2026 Notes, 2024 Notes or the 2022 Notes at any time during specified periods at their option. Based on the market price of our common stock during the 30 trading days preceding June 30, 2018, the 2022 Notes were convertible at the option of the debt holder as of September 30, 2018 and continue to be convertible at the option of the debt holder as of September 30, 2021. Based on the market price of our common stock during the 30 trading days preceding September 30, 2021, the 2024 Notes are convertible at the option of the debt holder during the calendar quarter beginning on October 1, 2021. The 2026 Notes were not convertible during the nine months ended September 30, 2021, but will be convertible under certain circumstances. If one or more holders elect to convert their 2022 Notes, 2024 Notes or 2026 Notes, as the case may be, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their 2026 Notes, 2024 Notes or 2022 Notes, as the case may be, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the 2026 Notes, 2024 Notes or 2022 Notes, as applicable, as a current rather than long-term liability, which would result in a material reduction of our net working capital. On November 1, 2021, as the 2022 Notes mature in 12 months, the Company reclassified the 2022 Notes to current liabilities on the consolidated balance sheet.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**(a) Recent Sales of Unregistered Equity Securities**

On July 8, 2021, we issued 41,668 shares of our common stock to various persons and entities as consideration for One2Many Group B.V.'s contingent consideration liability. The offer, sale and issuance of these shares was deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering. The recipients of the shares acquired them for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to these shares. The recipients were all accredited investors within the meaning of Rule 501 of Regulation D under the Securities Act and had adequate access to information about us. No underwriters or placement agents were involved in this transaction.

On August 4, 2021, we issued 12,390 shares of our common stock to various persons for SnapComms Limited's deferred purchase price consideration. The offer, sale and issuance of these shares was deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering. The recipients of the shares acquired them for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to these shares. The recipients were all accredited investors within the meaning of Rule 501 of Regulation D under the Securities Act and had adequate access to information about us. No underwriters or placement agents were involved in this transaction.

On September 30, 2021, we issued 4,058 shares of our common stock to various persons and entities as consideration for Red Sky Technologies Inc.'s contingent consideration liability. The offer, sale and issuance of these shares was deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering. The recipients of the shares acquired them for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to these shares. The recipients were all accredited investors within the meaning of Rule 501 of Regulation D under the Securities Act and had adequate access to information about us. No underwriters or placement agents were involved in this transaction.

(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.

None

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
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File - the cover page interactive data is embedded within the Inline XBRL document or included within the Exhibit 101 attachments.	X				

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

SIGNATURES

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

Everbridge, Inc.

Date: November 9, 2021

By: /s/ David Meredith
David Meredith
Chief Executive Officer

Date: November 9, 2021

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

CERTIFICATIONS

I, David Meredith, 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 9, 2021

By: /s/ David Meredith

Name: David Meredith

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 9, 2021

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 Meredith, 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, 2021 (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 9, 2021

By: /s/ David Meredith

Name: David Meredith

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, 2021 (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 9, 2021

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.