

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2020

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

As of November 3, 2020, the registrant had 34,955,945 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, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 468,908	\$ 531,575
Restricted cash	4,767	4,737
Accounts receivable, net	80,927	68,642
Prepaid expenses	12,049	6,675
Deferred costs and other current assets	20,286	13,501
Total current assets	586,937	625,130
Property and equipment, net	7,254	6,284
Capitalized software development costs, net	15,952	14,287
Goodwill	183,548	91,421
Intangible assets, net	98,923	67,100
Restricted cash	3,558	3,350
Prepaid expenses	2,437	2,009
Deferred costs and other assets	31,944	27,715
Total assets	\$ 930,553	\$ 837,296
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,232	\$ 7,808
Accrued payroll and employee related liabilities	28,140	22,248
Accrued expenses	6,188	4,496
Deferred revenue	144,341	129,995
Contingent consideration liabilities	7,996	—
Other current liabilities	10,366	4,819
Total current liabilities	207,263	169,366
Long-term liabilities:		
Deferred revenue, noncurrent	4,789	3,471
Convertible senior notes	445,915	430,282
Deferred tax liabilities	10,343	2,002
Other long-term liabilities	16,266	11,863
Total liabilities	684,576	616,984
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, 2020 and December 31, 2019, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 34,946,958 and 33,848,627 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	35	34
Additional paid-in capital	521,141	425,945
Accumulated deficit	(268,730)	(199,920)
Accumulated other comprehensive loss	(6,469)	(5,747)
Total stockholders' equity	245,977	220,312
Total liabilities and stockholders' equity	\$ 930,553	\$ 837,296

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,	
	2020	2019	2020	2019
Revenue	\$ 71,256	\$ 52,547	\$ 195,533	\$ 143,771
Cost of revenue	20,885	16,454	61,197	45,174
Gross profit	<u>50,371</u>	<u>36,093</u>	<u>134,336</u>	<u>98,597</u>
Operating expenses:				
Sales and marketing	31,395	21,903	89,724	63,989
Research and development	16,948	12,877	46,057	37,164
General and administrative	19,766	13,435	52,476	34,457
Total operating expenses	<u>68,109</u>	<u>48,215</u>	<u>188,257</u>	<u>135,610</u>
Operating loss	<u>(17,738)</u>	<u>(12,122)</u>	<u>(53,921)</u>	<u>(37,013)</u>
Other expense, net:				
Interest and investment income	107	1,032	1,915	3,541
Interest expense	(6,062)	(1,697)	(17,982)	(4,986)
Other expense, net	(239)	(35)	(754)	(129)
Total other expense, net	<u>(6,194)</u>	<u>(700)</u>	<u>(16,821)</u>	<u>(1,574)</u>
Loss before income taxes	(23,932)	(12,822)	(70,742)	(38,587)
Benefit from (provision for) income taxes	(273)	(99)	1,932	(531)
Net loss	<u>\$ (24,205)</u>	<u>\$ (12,921)</u>	<u>\$ (68,810)</u>	<u>\$ (39,118)</u>
Net loss per share attributable to common stockholders:				
Basic	<u>\$ (0.70)</u>	<u>\$ (0.39)</u>	<u>\$ (2.00)</u>	<u>\$ (1.19)</u>
Diluted	<u>\$ (0.70)</u>	<u>\$ (0.39)</u>	<u>\$ (2.00)</u>	<u>\$ (1.19)</u>
Weighted-average common shares outstanding:				
Basic	34,738,572	33,524,771	34,406,665	32,941,826
Diluted	34,738,572	33,524,771	34,406,665	32,941,826

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,	
	2020	2019	2020	2019
Net loss	\$ (24,205)	\$ (12,921)	\$ (68,810)	\$ (39,118)
Other comprehensive loss:				
Foreign currency translation adjustment, net of taxes	3,455	(2,049)	(722)	(1,756)
Total comprehensive loss	<u>\$ (20,750)</u>	<u>\$ (14,970)</u>	<u>\$ (69,532)</u>	<u>\$ (40,874)</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, 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	34,946,958	\$ 35	\$ 521,141	\$ (268,730)	\$ (6,469)	\$ 245,977

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated- other comprehensive income (loss)	Total
	Shares	Par value				
Balance at December 31, 2018	29,700,192	\$ 30	\$ 194,866	\$ (147,670)	\$ (5,068)	\$ 42,158
Issuance of common stock, net of cost	2,645,000	3	138,836	—	—	138,839
Stock-based compensation	—	—	7,849	—	—	7,849
Vesting of restricted stock units	16,849	—	—	—	—	—
Restricted stock units withheld to settle employee tax withholding liability	(5,301)	—	(333)	—	—	(333)
Exercise of stock options	501,083	—	8,746	—	—	8,746
Issuance of shares under employee stock purchase plan	24,266	—	1,283	—	—	1,283
Other comprehensive income	—	—	—	—	22	22
Net loss	—	—	—	(14,134)	—	(14,134)
Balance at March 31, 2019	32,882,089	33	351,247	(161,804)	(5,046)	184,430
Issuance of common stock, net of cost	—	—	(5)	—	—	(5)
Stock-based compensation	—	—	8,282	—	—	8,282
Vesting of restricted stock units	25,720	—	—	—	—	—
Restricted stock units withheld to settle employee tax withholding liability	(1,410)	—	(116)	—	—	(116)
Exercise of stock options	243,920	—	4,741	—	—	4,741
Other comprehensive income	—	—	—	—	271	271
Net loss	—	—	—	(12,063)	—	(12,063)
Balance at June 30, 2019	33,150,319	33	364,149	(173,867)	(4,775)	185,540
Issuance of common stock in connection with acquisition	320,998	—	32,838	—	—	32,838
Stock-based compensation	—	—	8,383	—	—	8,383
Vesting of restricted stock units	229,284	—	—	—	—	—
Restricted stock units withheld to settle employee tax withholding liability	(46,664)	—	(4,082)	—	—	(4,082)
Exercise of stock options	106,464	1	2,334	—	—	2,335
Issuance of shares under employee stock purchase plan	18,215	—	1,054	—	—	1,054
Other comprehensive loss	—	—	—	—	(2,049)	(2,049)
Net loss	—	—	—	(12,921)	—	(12,921)
Balance at September 30, 2019	33,778,616	\$ 34	\$ 404,676	\$ (186,788)	\$ (6,824)	\$ 211,098

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,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (68,810)	\$ (39,118)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,116	13,192
Amortization of deferred costs	9,152	5,486
Deferred income taxes	(2,310)	201
Accretion of interest on convertible senior notes	16,527	3,667
Provision for credit losses and sales reserve	1,442	642
Stock-based compensation	34,939	24,094
Change in fair value of contingent consideration obligation	1,500	—
Other non-cash adjustments	(37)	(248)
Changes in operating assets and liabilities:		
Accounts receivable	(7,929)	(8,405)
Prepaid expenses	(4,752)	(5,144)
Deferred costs	(12,000)	(8,438)
Other assets	(3,248)	924
Accounts payable	2,286	7,318
Accrued payroll and employee related liabilities	3,965	1,974
Accrued expenses	(1)	(296)
Deferred revenue	1,107	12,373
Other liabilities	2,457	632
Net cash provided by (used in) operating activities	<u>(3,596)</u>	<u>8,854</u>
Cash flows from investing activities:		
Capital expenditures	(2,122)	(4,417)
Proceeds from landlord reimbursement	—	1,143
Payments for acquisition of business, net of acquired cash	(54,757)	(58,419)
Additions to capitalized software development costs	(7,296)	(5,867)
Purchase of short-term investments	—	(1,975)
Maturities of short-term investments	—	47,765
Net cash used in investing activities	<u>(64,175)</u>	<u>(21,770)</u>
Cash flows from financing activities:		
Proceeds from public offering, net of costs	—	139,110
Restricted stock units withheld to settle employee tax withholding liability	(4,269)	(4,531)
Proceeds from employee stock purchase plan	3,389	2,337
Proceeds from stock option exercises	6,764	15,822
Other	(131)	(548)
Net cash provided by financing activities	<u>5,753</u>	<u>152,190</u>
Effect of exchange rates on cash, cash equivalents and restricted cash	(411)	(227)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>(62,429)</u>	<u>139,047</u>
Cash, cash equivalents and restricted cash—beginning of period	539,662	60,068
Cash, cash equivalents and restricted cash—end of period	<u>\$ 477,233</u>	<u>\$ 199,115</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 974	\$ 863
Taxes, net of refunds received	577	—
Supplemental disclosure of non-cash activities:		
Common stock issued in connection with acquisitions	53,193	32,838
Acquisition-related deferred consideration	4,044	—
Contingent consideration in connection with acquisitions	6,267	550
Common stock issued in connection with settlement of convertible notes	938	—
Capitalized assets included in accounts payable and accrued expenses	86	122
Capitalized development costs included in accounts payable and accrued expenses	—	7
Purchase accounting payable, net	(15)	—
Stock-based compensation capitalized for software development costs	243	420

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 businesses running. The Company’s SaaS-based platform enables the Company’s customers to manage and mitigate any type of critical event. The Company’s enterprise applications, such as Mass Notification, Incident Management, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Crisis Management, Community Engagement, Risk Intelligence and Secure Messaging, automate numerous critical event management 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, 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, 2019.

The condensed consolidated balance sheet as of December 31, 2019, 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 2020 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. The global outbreak continues to cause instability and volatility in multiple 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, 2020 and 2019. No single customer comprised more than 10% of the Company’s total accounts receivable as of September 30, 2020 and December 31, 2019.

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.

Short-Term Investments

Short-term investments consist of highly liquid investments, primarily commercial paper, U.S. Treasury and U.S. agency securities, with maturities over three months from the date of purchase and less than 12 months from the date of the balance sheet. Debt securities, money market funds and U.S. agency bonds that the Company has the ability and positive intent to hold to maturity are carried at amortized cost, which approximates fair value. All held-to-maturity securities have maturity dates within one year.

Significant Accounting Policies

Except for the accounting policies for credit losses that were updated, as set forth below, as a result of adopting Accounting Standards Update (“ASU”) No. 2016-13 (as amended through November 2019), *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and the accounting policies for the implementation, set-up, and other upfront costs incurred in a cloud computing arrangement, as set forth below, as a result of adopting ASU 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, 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, 2019 filed with the SEC on February 28, 2020, 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 premise usage as well as professional services which is outside of the Company's core business. The Company's on premise license transactions are perpetual in nature and are recognized at a point in time when made available to the customer.

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. On January 1, 2020, the Company adopted ASU 2016-13 (as amended through March 2020), *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. See Recently Adopted Accounting Pronouncements below.

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 2016-13

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 (as amended through March 2020), *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 introduced a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables, contract assets and held-to-maturity debt securities, which requires the Company to incorporate considerations of historical information, current information and reasonable and supportable forecasts. ASU 2016-13 also expands disclosure requirements.

The Company adopted the standard on January 1, 2020 using the modified retrospective approach. Adoption of ASU 2016-13 resulted in changes to the Company's accounting policies for trade and other receivables and contract assets. Upon adoption of ASU 2016-13 the Company evaluates trade receivables and contract assets on a collective (i.e., pool) basis if they share similar risk characteristics.

Based on the results of the Company's evaluation, the adoption of ASU 2016-13 did not have a material impact on the reserve for credit losses as of January 1, 2020. Adoption of the standard had no impact on total cash provided from or used in operating, financing, or investing activities in the Company's condensed consolidated statements of cash flows.

Accounts receivable includes trade accounts receivables from the Company's customers, net of an allowance for credit risk. Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company's contract assets relate to services performed which were not billed, net of an allowance for credit risk. Allowance for credit risk for accounts receivables and contract assets is established based on various factors including credit profiles of the Company's customers, historical payments and current economic trends. The Company reviews its allowance for accounts receivables and contract assets by assessing individual accounts receivable or unbilled contract assets over a specific aging and amount. All other balances are pooled based on historical collection experience. The estimate of expected credit losses is based on information about past events, current economic conditions, and forecasts of future economic conditions that affect the collectability. Accounts receivable and contract assets are written-off on a case by case basis, net of any amounts that may be collected. See Note 3.

ASU 2018-13

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. The guidance includes retrospective and prospective basis application dependent on the requirements of specific amendments. The Company adopted ASU 2018-13 on January 1, 2020 on a prospective basis. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

ASU 2018-15

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, related to a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement ("CCA"). Under the new guidance, implementation costs associated with a CCA for a hosting arrangement that is a service contract are accounted for consistent with existing internal-use software implementation guidance. ASU 2018-15 also provides classification guidance on these implementation costs as well as additional quantitative and qualitative disclosures. The Company adopted ASU 2018-15 on January 1, 2020 on a prospective basis. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Guidance Not Yet Adopted

ASU 2020-01

In January 2020, the FASB issued 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 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 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, 2019 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

On January 1, 2020, the Company adopted ASU 2016-13 using the modified retrospective approach. See Note 2. The cumulative effect of initially applying ASU 2016-13 had an immaterial impact on the Company's opening balance of accumulated deficit.

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

	As of September 30, 2020	As of December 31, 2019
Accounts receivable amortized cost	\$ 83,524	\$ 69,767
Allowance for credit losses	(2,597)	(1,125)
Net accounts receivable	<u>\$ 80,927</u>	<u>\$ 68,642</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,	
	2020	2019	2020	2019
Balance, beginning of period	\$ (2,257)	\$ (1,051)	\$ (1,125)	\$ (711)
Provision for expected credit losses	(372)	(253)	(1,700)	(642)
Write-offs	32	148	228	197
Balance, end of period	<u>\$ (2,597)</u>	<u>\$ (1,156)</u>	<u>\$ (2,597)</u>	<u>\$ (1,156)</u>

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

	As of September 30, 2020	As of December 31, 2019
Contract asset amortized cost	\$ 3,514	\$ 1,959
Allowance for credit losses	(20)	—
Net contract asset	<u>\$ 3,494</u>	<u>\$ 1,959</u>

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

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Balance, beginning of period	\$ (28)	\$ —
Recovery (provision) for expected credit losses	8	(20)
Write-offs	—	—
Balance, end of period	<u>\$ (20)</u>	<u>\$ (20)</u>

Credit loss expense was \$0.2 million and \$0.3 million for the three months ended September 30, 2020 and 2019, respectively. Credit loss expense was \$1.3 million and \$0.6 million for the nine months ended September 30, 2020 and 2019, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Balance, beginning of period	\$ (375)	\$ (195)	\$ (175)	\$ (200)
Reductions	225	—	25	—
Write-offs	—	4	—	9
Balance, end of period	<u>\$ (150)</u>	<u>\$ (191)</u>	<u>\$ (150)</u>	<u>\$ (191)</u>

(4) Property and Equipment, Net

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

	Useful life in years	As of September 30, 2020	As of December 31, 2019
Furniture and equipment	5	\$ 1,999	\$ 1,785
Leasehold improvements (1)	9	4,864	4,074
System hardware	5	533	1,596
Office computers	3	5,794	5,309
Computer and system software	3	667	1,451
		13,857	14,215
Less accumulated depreciation and amortization		(6,603)	(7,931)
Property and equipment, net		<u>\$ 7,254</u>	<u>\$ 6,284</u>

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

Depreciation and amortization expense for property and equipment was \$0.7 million and \$0.6 million for the three months ended September 30, 2020 and 2019, respectively. Depreciation and amortization expense for property and equipment was \$2.0 million and \$1.7 million for the nine months ended September 30, 2020 and 2019, respectively.

(5) Capitalized Software Development Costs, Net

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

	Gross carrying amount	Amortization period	As of September 30, 2020	
			Accumulated amortization	Net carrying amount
Capitalized software development costs	\$ 57,320	3 years	\$ (41,368)	\$ 15,952
Total capitalized software development costs	<u>\$ 57,320</u>		<u>\$ (41,368)</u>	<u>\$ 15,952</u>
As of December 31, 2019				
	Gross carrying amount	Amortization period	Accumulated amortization	Net carrying amount
Capitalized software development costs	\$ 49,909	3 years	\$ (35,622)	\$ 14,287
Total capitalized software development costs	<u>\$ 49,909</u>		<u>\$ (35,622)</u>	<u>\$ 14,287</u>

The Company capitalized software development costs of \$7.4 million and \$6.3 million for the nine months ended September 30, 2020 and 2019, respectively.

Amortization expense for capitalized software development costs was \$2.0 million and \$1.8 million for the three months ended September 30, 2020 and 2019, respectively. Amortization expense for capitalized software development costs was \$5.8 million and

\$5.1 million for the nine months ended September 30, 2020 and 2019, respectively. Amortization of capitalized software development costs is classified within cost of revenue in the consolidated statements of operations.

The expected amortization of capitalized software development costs, as of September 30, 2020, for each of the following years is as follows (in thousands):

2020 (for the remaining three months)	\$	2,348
2021		6,895
2022		4,967
2023		1,742
	<u>\$</u>	<u>15,952</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, 2020 and year ended December 31, 2019, 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, 2020			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	\$ 442,524	\$ —	\$ —	\$ 442,524
Total financial assets	<u>\$ 442,524</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 442,524</u>
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ 7,996	\$ 7,996
Derivative instruments - acquisition-related deferred common stock consideration	—	852	—	852
Total financial liabilities	<u>\$ —</u>	<u>\$ 852</u>	<u>\$ 7,996</u>	<u>\$ 8,848</u>
	As of December 31, 2019			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	\$ 511,436	\$ —	\$ —	\$ 511,436
Total financial assets	<u>\$ 511,436</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 511,436</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, 2020.

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 and changes 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, 2018	\$	—
Addition from MissionMode acquisition		550
Fair value at September 30, 2019	\$	<u>550</u>

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

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. 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 three months ended September 30, 2020, as a result of assessing the probabilities of one2many meeting revenue metrics during the period of March 1, 2020 through February 28, 2021, the Company recognized an increase in the fair value of one2many's contingent consideration obligation in the amount of \$1.4 million.

The Company estimates the fair value of the convertible senior notes based on their last actively traded prices (Level 1) or market-observable inputs (Level 2). As of September 30, 2020 and December 31, 2019, the fair value of the 0.125% convertible senior notes due December 15, 2024 (the "2024 Notes") was determined to be \$596.7 million and \$450.4 million, respectively, and the carrying value of the notes was \$364.5 million and \$351.1 million, respectively. As of September 30, 2020 and December 31, 2019, the fair value of the 1.50% convertible senior notes due November 1, 2022 (the "2022 Notes") was determined to be \$364.0 million and \$215.8 million, respectively, and the carrying value of the notes was \$81.5 million and \$79.2 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, 2019	\$	91,421
Foreign currency translation		94
Increase due to acquisitions		92,033
Balance at September 30, 2020	<u>\$</u>	<u>183,548</u>

There were no impairments recorded against goodwill during the nine months ended September 30, 2020 and for the year ended December 31, 2019.

Intangible assets consisted of the following (in thousands):

	Gross carrying amount	Weighted average life (years)	As of September 30, 2020	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 14,395	3.00	\$ (4,140)	\$ 10,255
Tradenames	15,136	3.52	(5,496)	9,640
Customer relationships	97,013	7.40	(17,985)	79,028
Total intangible assets	<u>\$ 126,544</u>		<u>\$ (27,621)</u>	<u>\$ 98,923</u>

	Gross carrying amount	Weighted average life (years)	As of December 31, 2019	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 9,485	3.00	\$ (4,232)	\$ 5,253
Tradenames	11,437	3.50	(2,724)	8,713
Customer relationships	63,667	6.84	(10,533)	53,134
Total intangible assets	<u>\$ 84,589</u>		<u>\$ (17,489)</u>	<u>\$ 67,100</u>

Amortization expense for intangible assets was \$5.4 million and \$3.1 million for the three months ended September 30, 2020 and 2019, respectively. Amortization expense for intangible assets was \$14.3 million and \$6.4 million for the nine months ended September 30, 2020 and 2019, respectively. The Company recorded amortization expense attributed to developed technology within cost of revenue of \$1.1 million and \$0.6 million for the three months ended September 30, 2020 and 2019, respectively. The Company recorded amortization expense attributed to developed technology within cost of revenue of \$2.8 million and \$1.3 million for the nine months ended September 30, 2020 and 2019, respectively. During the nine months ended September 30, 2020, the Company retired \$4.0 million of fully amortized intangible assets.

The expected amortization of the intangible assets, as of September 30, 2020, for each of the next five years and thereafter is as follows (in thousands):

2020 (for the remaining three months)	\$	5,681
2021		22,478
2022		19,255
2023		14,274
2024		12,670
Thereafter		24,565
	<u>\$</u>	<u>98,923</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 and technology-related intangible assets. The significant estimation was primarily due to the judgmental nature of the inputs to the valuation models used to measure the fair value of these intangible assets, 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 intangible assets. The significant assumptions used to estimate the fair value of the intangible assets included revenue growth rates, customer attrition rates, amount and expected period of cash flows and discount rates. 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. 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.

2020 Acquisitions

During the nine months ended September 30, 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 is also a potential contingent payment of up to \$6.0 million that can be earned by the sellers based on fiscal year 2020 revenue metrics. During the three months ended June 30, 2020, the Company finalized Connexient's contingent consideration attainment forecast. As a result, the fair value of the Contingent consideration was reduced to zero with a corresponding decrease to goodwill. The Company acquired Connexient to expand the Company's customer base and for its strategic technology assets to enhance the Company's Critical Event Management ("CEM") suite of solutions to broaden support for Internet of Things ("IoT") applications.

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 Connexient made by the Company (in thousands):

	<u>Connexient</u>
Assets acquired	
Accounts receivable	\$ 849
Prepaid expenses and other current assets	518
Property and equipment	9
Acquired technology	1,220
Trade names	630
Customer relationships	7,800
Goodwill	14,343
Other assets	238
Total assets acquired	<u>25,607</u>
Liabilities assumed	
Accounts payable	751
Accrued expenses	208
Deferred revenue	2,420
Deferred tax liabilities	2,011
Other liabilities	211
Net assets acquired	<u>\$ 20,006</u>
Consideration paid	
Cash consideration, net of cash acquired	\$ 10,991
Fair value of common stock issued	9,015
Total	<u>\$ 20,006</u>

The weighted average useful life of all identified acquired intangible assets is 7.92 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 Connexient's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of Connexient 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 Connexient acquisition is not deductible for income tax purposes.

For the nine months ended September 30, 2020, the Company incurred transaction costs of \$0.1 million in connection with the Connexient acquisition, which were expensed as incurred and included in general and administrative expenses.

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. During the three months ended September 30, 2020, the Company revised the fair value of CNL Software's deferred revenue and recognized an increase of \$2.6 million in deferred revenue and goodwill. These adjustments did not have an impact on the Company's condensed consolidated statement of operations during the nine months ended September 30, 2020. The Company acquired CNL Software to expand the Company's customer base and for its strategic technology assets to enhance the Company's CEM suite of solutions to broaden support for IoT applications.

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, 2020 for the acquired assets and liabilities as the Company is currently in the process of completing the assessment of valuation inputs and assumptions for deferred revenue as well as 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 revenue and 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 CNL Software made by the Company (in thousands):

	<u>CNL Software</u>	
Assets acquired		
Accounts receivable	\$	1,979
Prepaid expenses and other current assets		1,095
Property and equipment		731
Acquired technology		2,150
Trade names		1,080
Customer relationships		5,500
Goodwill		30,734
Other assets		1,314
Total assets acquired		44,583
Liabilities assumed		
Accounts payable		315
Accrued expenses		1,653
Deferred revenue		5,700
Deferred tax liabilities		1,659
Other liabilities		1,276
Net assets acquired	\$	33,980
Consideration paid		
Cash paid, net of cash acquired	\$	18,030
Fair value of common stock issued		15,950
Total	\$	33,980

The weighted average useful life of all identified acquired intangible assets is 5.01 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 6.0 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 CNL Software's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of CNL Software 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 CNL Software acquisition is not deductible for income tax purposes.

For the nine months ended September 30, 2020, the Company incurred transaction costs of \$0.1 million in connection with the CNL Software acquisition, which were expensed as incurred and included in general and administrative expenses.

One2Many Group B.V.

On March 19, 2020, the Company entered into a Stock Purchase Agreement with One2Many Group B.V. ("one2many") 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 is also a potential contingent payment of up to approximately \$15.0 million that can be earned by the sellers based on revenue metrics during the period of March 1, 2020 through February 28, 2021. The potential contingent payment includes 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 preliminary fair value of contingent consideration as part of the purchase price allocation. During the three months ended September 30, 2020, the Company recognized an increase in the fair value of one2many's contingent consideration obligation in the amount of \$1.4 million. The Company acquired one2many to expand the Company's customer base and for its cell broadcast technology to enhance the Company's public warning applications.

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 one2many made by the Company (in thousands):

	<u>one2many</u>
Assets acquired	
Accounts receivable	\$ 521
Other current assets	1,441
Property and equipment	19
Acquired technology	970
Trade names	580
Customer relationships	3,100
Goodwill	10,704
Other assets	176
Total assets acquired	<u>17,511</u>
Liabilities assumed	
Accounts payable	72
Accrued expenses	636
Deferred revenue	1,460
Deferred tax liabilities	985
Other current liabilities	136
Net assets acquired	<u>\$ 14,222</u>
Consideration paid	
Cash consideration, net of cash acquired	\$ 6,563
Fair value of common stock issued	5,469
Contingent consideration	2,190
Total	<u>\$ 14,222</u>

The weighted average useful life of all identified acquired intangible assets is 5.67 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 7.0 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 one2many's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of one2many 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 one2many acquisition is not deductible for income tax purposes.

For the nine months ended September 30, 2020, the Company incurred transaction costs of \$0.1 million in connection with the one2many acquisition, which were expensed as incurred and included in general and administrative expenses.

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 is also a potential contingent payment of up to approximately \$7.0 million that can 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 preliminary fair value of contingent consideration as part of the purchase price allocation. During the three months ended September 30, 2020, the Company recognized an increase in the fair value of Techwan's contingent consideration obligation in the amount of \$0.1 million. The Company acquired Techwan to expand the Company's customer base and for its strategic technology assets to enhance the Company's CEM suite of solutions.

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, 2020 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 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	12,797
Other assets	254
Total assets acquired	<u>21,047</u>
Liabilities assumed	
Accrued expenses	673
Deferred revenue	1,190
Deferred tax liabilities	957
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.

For the nine months ended September 30, 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 ("SnapComms") pursuant to which the Company purchased all of the issued and outstanding shares of stock of SnapComms for a base consideration of \$34.2 million. The Company paid \$13.2 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. On the first anniversary of the acquisition date, the Company expects to pay deferred consideration of approximately \$3.3 million in cash and shares of the Company's common stock subject to the provisions in the Stock Purchase Agreement. In addition to the base purchase price, there is also a potential contingent payment of up to approximately \$5.0 million that can 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 preliminary fair value of contingent consideration as part of the purchase price allocation. The Company acquired SnapComms to expand the Company's customer base and for its internal communications software to enhance the Company's CEM suite of solutions.

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, 2020 for the acquired assets and liabilities as the Company is currently in the process of completing the assessment of valuation inputs and assumptions as well as 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, deferred revenue, contingent consideration and intangible assets, along with the opening working capital accounts, 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 SnapComms made by the Company (in thousands):

	<u>SnapComms</u>
Assets acquired	
Accounts receivable	\$ 1,808
Other current assets	280
Property and equipment	118
Acquired technology	2,230
Trade names	960
Customer relationships	13,200
Goodwill	23,455
Other assets	943
Total assets acquired	<u>42,994</u>
Liabilities assumed	
Accrued expenses	503
Deferred revenue	4,040
Deferred tax liabilities	4,970
Other liabilities	742
Net assets acquired	<u>\$ 32,739</u>
Consideration paid	
Cash consideration, net of cash acquired	\$ 9,858
Fair value of common stock issued	17,685
Acquisition-related deferred consideration	3,149
Contingent consideration	2,047
Total	<u>\$ 32,739</u>

The weighted average useful life of all identified acquired intangible assets is 7.83 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.

For the nine months ended September 30, 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.

2019 Acquisitions

MissionMode Solutions, Inc.

On April 1, 2019, the Company entered into a Stock Purchase Agreement with MissionMode Solutions, Inc. (“MissionMode”) pursuant to which the Company purchased all of the issued and outstanding shares of stock of MissionMode for base consideration of \$6.8 million. There was also a potential contingent payment of up to \$1.0 million that could have been earned in addition to the base consideration by the sellers based on successfully converting MissionMode’s customers to the Company’s products. At the date of the acquisition, the Company assessed the probabilities of MissionMode meeting the threshold to convert MissionMode’s customers to the Company’s products required for the seller to earn the contingent payment. Therefore, contingent consideration was recorded as part of the purchase price allocation and the fair value of the contingent consideration was determined to be \$0.6 million. At December 31, 2019, it was determined to not be probable that MissionMode would meet the threshold to convert MissionMode’s customers to the Company’s products which resulted in a decrease of the contingent consideration obligation in the amount of \$0.6 million. The Company’s acquisition of MissionMode was made primarily to expand the Company’s customer base and to a lesser extent to complement some of the existing facets of MissionMode’s business with the Company’s existing products.

Neither the investment in the assets nor the results of operations of the acquisition of MissionMode was significant to the Company’s consolidated financial position or results of operations, and thus pro forma information is not presented.

NC4 Inc. and NC4 Public Sector

On July 29, 2019, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with NC4 Inc., NC4 Public Sector LLC, and Celerium Group Inc., pursuant to which the Company purchased all of the outstanding membership interest of NC4 Inc. and NC4 Public Sector LLC (collectively, “NC4”) for total consideration of approximately \$84.5 million. The Company paid approximately \$51.7 million in cash at closing from the Company’s cash and cash equivalents. The remaining purchase price was paid with 320,998 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 \$102.18 per share. On August 1, 2019, the Acquisition was consummated pursuant to the Purchase Agreement, except for the transfer of the NC4 Public Sector business which was consummated on September 30, 2019. The Company determined that the two transactions should be accounted for as a single transaction in accordance with ASC 810-10-40-6, *Consolidation*, as the transactions were entered in contemplation of one another and were essentially a single transaction designed to achieve an overall commercial effect. The Company’s acquisition of NC4 was made primarily to expand the Company’s customer base and to a lesser extent to complement some of the existing facets of NC4’s business with the Company’s existing products.

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 NC4 made by the Company (in thousands):

	<u>NC4</u>
Assets acquired	
Accounts receivable	\$ 2,611
Other current assets	530
Property and equipment	75
Acquired technology	5,210
Trade names	8,610
Customer relationships	35,490
Goodwill	40,384
Total assets acquired	<u>92,910</u>
Liabilities assumed	
Deferred revenue	7,540
Other current liabilities	917
Net assets acquired	<u>\$ 84,453</u>
Consideration paid	
Cash paid	\$ 51,655
Fair value of common stock issued	32,798
Total	<u>\$ 84,453</u>

The weighted average useful life of all identified acquired intangible assets is 5.88 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 7.0 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.

As a result of the acquisition, the Company recorded \$40.4 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of NC4's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of NC4 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 NC4 acquisition is deductible for income tax purposes.

For the year ended December 31, 2019, the Company incurred transaction costs of \$0.2 million in connection with the NC4 acquisition, which were expensed as incurred and included in general and administrative expenses.

Unaudited Pro Forma Financial Information

The following tables reflect the unaudited pro forma combined results of operations as if the acquisition of NC4 had taken place on January 1, 2018. The unaudited pro forma financial information includes the effects of certain adjustments, including the amortization of acquired intangible assets and the associated tax effect and the elimination of the Company's and the acquiree's non-recurring acquisition related expenses (in thousands, except per share amounts):

	<u>Revenue</u>	<u>Net loss</u>	<u>Basic and Diluted Loss Per Share</u>	
From the acquisition date to September 30, 2019	\$ 2,040	\$ (1,465)		*
For the three months ended September 30, 2019 pro forma	54,352	(13,387)	\$	(0.40)
For the nine months ended September 30, 2019 pro forma	154,719	(45,875)		(1.38)

* Not applicable.

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated at January 1, 2018 nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable.

(9) Convertible Senior Notes

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 holder 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 1.50% convertible senior notes due 2022 (see 1.50% Convertible Senior Notes Due 2022 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 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 below have been met.

As of September 30, 2020, the 2024 Notes are not yet convertible. The 2024 Notes are classified as long-term on the condensed consolidated balance sheet as of September 30, 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, and were netted with the equity component in shareholders' equity.

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

	As of September 30, 2020	As of December 31, 2019
Liability component:		
Principal	\$ 450,000	\$ 450,000
Less: debt discount, net of amortization	(85,549)	(98,942)
Net carrying amount	\$ 364,451	\$ 351,058
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, 2020	Nine Months Ended September 30, 2020
0.125% coupon	\$ 141	\$ 422
Amortization of debt discount and transaction costs	4,521	13,393
	<u>\$ 4,662</u>	<u>\$ 13,815</u>

As of September 30, 2020 and December 31, 2019, 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, 2020		As of December 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2024 Notes	\$ 596,709	\$ 364,451	\$ 450,414	\$ 351,058

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 \$125.73 on September 30, 2020, 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 holder pursuant to their terms. Interest is payable semiannually in arrears on May 1 and November 1 of each year, commencing on May 1, 2018.

The 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 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 below have been met.

The 2022 Notes are 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, 2020.

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, were 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 three months ended September 30, 2020, the Company issued 29,898 shares upon the conversion of approximately \$1.0 million in aggregate principal amount of the 2022 Notes and recognized \$0.9 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 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. The Company recognized an immaterial amount of extinguishment loss during the three months ended September 30, 2020.

The 2022 Notes are classified as long-term on the consolidated balance sheet as of September 30, 2020 and December 31, 2019. 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, totaling \$2.5 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, and were netted with the equity component in shareholders' equity.

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

	As of September 30, 2020	As of December 31, 2019
Liability component:		
Principal	\$ 90,992	\$ 92,000
Less: debt discount, net of amortization	(9,528)	(12,776)
Net carrying amount	\$ 81,464	\$ 79,224
Equity component (1)	(19,167)	(14,555)

(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 \$36.7 million market premium representing the excess of the total consideration delivered over the fair value of the liability recognized related to the \$23.0 million principal balance extinguishment of the 2022 Notes.

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,	
	2020	2019	2020	2019
1.50% coupon	\$ 342	\$ 429	\$ 1,032	\$ 1,294
Amortization of debt discount and transaction costs	1,057	1,243	3,134	3,667
	<u>\$ 1,399</u>	<u>\$ 1,672</u>	<u>\$ 4,166</u>	<u>\$ 4,961</u>

As of September 30, 2020 and December 31, 2019, 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, 2020		As of December 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2022 Notes	\$ 363,974	\$ 81,464	\$ 215,801	\$ 79,224

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.

Based on the closing price of the Company's common stock of \$125.73 on September 30, 2020, the if-converted value of the 2022 Notes was more than their respective principal amounts.

(10) Stockholders' Equity

Preferred Stock

As of September 30, 2020, 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, 2020, 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, 2020 and December 31, 2019, there were 34,946,958 and 33,848,627 shares of common stock issued and outstanding, respectively.

(11) Stock Plans and Stock-Based Compensation

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

2016 Employee Stock Purchase Plan

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

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

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

For the nine months ended September 30, 2020 and 2019, 49,319 and 42,481 shares of common stock were purchased under the 2016 ESPP, respectively. The Company recorded stock-based compensation expense of \$0.3 million and \$0.2 million for the three months ended September 30, 2020 and 2019, respectively. The Company recorded stock-based compensation expense of \$0.9 million and \$0.7 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, unrecognized compensation cost related to the 2016 ESPP was \$0.8 million which will be amortized over a weighted-average period of 0.45 years.

The fair value of shares issuable under the 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,	
	2020	2019	2020	2019
Employee Stock Purchase Plan:				
Expected term (in years) (1)	0.50	0.50	0.50	0.50
Expected volatility (2)	55% - 65%	45%	55% - 65%	45%
Risk-free interest rate (3)	0.12% - 0.29%	1.93% - 2.52%	0.12% - 0.29%	1.93% - 2.52%
Dividend rate (4)	0%	0%	0%	0%

(1) The expected term represents the contractual term of the 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, 2020 and 2019. The Company recorded stock-based compensation expense of \$0.9 million and \$1.3 million for the three months ended September 30, 2020 and 2019, respectively, attributed to stock options. The Company recorded stock-based compensation expense of \$2.8 million and \$4.7 million for the nine months ended September 30, 2020 and 2019, respectively, attributed to stock options.

The total intrinsic value of options exercised for the nine months ended September 30, 2020 and 2019 was \$26.1 million and \$44.5 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, 2020 and 2019, the total intrinsic value of all outstanding options was \$42.8 million and \$28.2 million, respectively.

Total unrecognized compensation cost related to nonvested stock options was approximately \$3.7 million as of September 30, 2020 and is expected to be recognized over a weighted average period of 1.2 years. The amount of cash received from the exercise of stock options during the nine months ended September 30, 2020 and 2019 was \$6.8 million and \$15.8 million, respectively.

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

	Stock options outstanding	Weighted average exercise price
Outstanding at December 31, 2019	723,383	\$ 26.56
Exercised	(275,309)	24.57
Forfeited	(10,930)	27.98
Outstanding at September 30, 2020	437,144	27.78

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

	As of September 30, 2020		
	Number of shares	Remaining contractual life (years)	Weighted- average exercise price
Outstanding	437,144	6.81	\$ 27.78
Vested and expected to vest	430,921	6.81	27.71
Exercisable	155,028	6.07	21.06

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, 2020	155,028	\$ 21.06	282,116	\$ 31.47

Restricted Stock Units

During the nine months ended September 30, 2020, the Company granted 251,439 restricted stock units (“RSUs”) to members of its senior management and certain other employees pursuant to the 2016 Plan. 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, 2020 and 2019 were \$120.09 and \$81.65, respectively. The fair values of RSUs that vested during the nine months ended September 30, 2020 and 2019, were \$17.8 million and \$11.6 million, respectively. During the three months ended September 30, 2020 and 2019, the Company recorded \$5.8 million and \$3.7 million, respectively, of stock-based compensation related to the RSUs. During the nine months ended September 30, 2020 and 2019, the Company recorded \$15.1 million and \$12.0 million, respectively, of stock-based compensation related to the RSUs. There were 309,282 RSUs that vested during the nine months ended September 30, 2020.

As of September 30, 2020, there was \$47.0 million of unrecognized compensation expense related to unvested RSUs which is expected to be recognized over a weighted-average period of approximately 2.47 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, 2020, the Company granted 242,827 Performance-based restricted stock units (“PSUs”) to members of its management pursuant to the 2016 Plan. The PSUs generally vest based on the Company achieving certain revenue growth thresholds which range from 20% to 40% compounded annual growth over a measurement period of two years for the first 50% of 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, 2020, the share price of the Company’s common stock on the date of issuance of the PSUs ranged from \$82.23 to \$158.95 per share. During the nine months ended September 30, 2019, the share price of the Company’s common stock on the date of issuance of the PSUs ranged from \$54.83 to \$98.92 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, 2020 and 2019 were \$120.11 and \$82.63, respectively. 4,500 PSUs vested during the nine months ended September 30, 2020. No PSUs vested during the nine months ended September 30, 2019. During the three months ended September 30, 2020 and 2019, the Company recognized \$6.4 million and \$3.1 million, respectively, of stock compensation expense in connection with the PSU awards. During the nine months ended September 30, 2020 and 2019, the Company recognized \$16.1 million and \$6.7 million, respectively, of stock compensation expense in connection with the PSU awards.

As of September 30, 2020, there was \$39.6 million of unrecognized compensation expense related to unvested PSUs which is expected to be recognized over a weighted-average period of approximately 1.88 years. Compensation cost is recognized under the accelerated method and is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions.

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

	Number of Shares
Outstanding at December 31, 2019	1,314,791
Granted	494,266
Vested	(313,782)
Forfeited	(19,101)
Outstanding at September 30, 2020	1,476,174

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 842	\$ 509	\$ 2,153	\$ 1,356
Sales and marketing	4,395	2,423	11,920	7,338
Research and development	2,571	1,732	6,743	5,560
General and administrative	5,543	3,637	14,123	9,840
Total	<u>\$ 13,351</u>	<u>\$ 8,301</u>	<u>\$ 34,939</u>	<u>\$ 24,094</u>

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

(12) Basic and Diluted Net Loss per Share

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

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

	As of September 30,	
	2020	2019
Convertible senior notes	6,704,014	3,411,199
Stock-based compensation grants	1,913,318	2,042,664
Total	<u>8,617,332</u>	<u>5,453,863</u>

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 December 2019, the Company partially terminated capped call options related to the 2022 Notes and received \$5.8 million. 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, 2020 was 5.0 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 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, 2020 and 2019, the Company recorded a provision for income taxes of \$0.3 million and \$0.1 million, respectively, resulting in an effective tax rate of (1.14)% and (0.77)%, respectively. For the nine months ended September 30, 2020 and 2019, the Company recorded a benefit from income taxes of \$1.9 million and a provision for income taxes of \$0.5 million, respectively, resulting in an effective tax rate of 2.73% and (1.38)%, respectively. During the nine months ended September 30, 2020, 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 \$0.9 million related to U.S. acquired entities and a discrete tax benefit of approximately \$0.6 million related to non-U.S. acquisitions being recognized during the nine months ended September 30, 2020. Due to the enactment of California law during the nine months ended September 30, 2020 which suspends the utilization of net operating losses, a discrete expense of \$0.5 million was recognized during the nine months ended September 30, 2020.

As of September 30, 2020, the Company had gross tax-effected unrecognized tax provision of \$0.8 million, of which \$0.8 million 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 income tax expense. During the three and nine months ended September 30, 2020 and 2019, 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. The CARES Act includes various income and payroll tax measures. The income tax measures are not expected to materially impact 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, all of the Company's applications operate on and leverage a single technology platform and are deployed and sold in an identical way. In addition, the Company'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,	
	2020	2019	2020	2019
United States	\$ 52,127	\$ 41,827	\$ 150,093	\$ 112,483
International	19,129	10,720	45,440	31,288
Total	<u>\$ 71,256</u>	<u>\$ 52,547</u>	<u>\$ 195,533</u>	<u>\$ 143,771</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,	
	2020	2019	2020	2019
Subscription services	\$ 63,627	\$ 45,616	\$ 176,944	\$ 128,422
Professional services	4,543	6,162	13,677	11,728
Software licenses and other	3,086	769	4,912	3,621
Total revenues	<u>\$ 71,256</u>	<u>\$ 52,547</u>	<u>\$ 195,533</u>	<u>\$ 143,771</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 consolidated balance sheet net of an allowance for credit losses, which is not material.

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 consolidated balance sheet. The noncurrent portion of deferred revenue is included and separately disclosed in the Company's consolidated balance sheet.

Deferred Costs

Current deferred costs, which primarily consist of deferred sales commissions, were \$11.4 million and \$9.9 million as of September 30, 2020 and December 31, 2019, respectively. Noncurrent deferred costs, which primarily consist of deferred sales commissions, were \$15.5 million and \$14.2 million as of September 30, 2020 and December 31, 2019, respectively. During the three months ended September 30, 2020 and 2019, amortization expense for the deferred costs was \$3.5 million and \$1.9 million, respectively. During the nine months ended September 30, 2020 and 2019, amortization expense for the deferred costs was \$9.2 million and \$5.5 million, respectively. There was no impairment loss in relation to the costs capitalized for the nine months ended September 30, 2020 and the year ended December 31, 2019, respectively.

Deferred Revenue

\$54.3 million and \$36.9 million of subscription services and license revenue was recognized during the three months ended September 30, 2020 and 2019, respectively, and was included in the deferred revenue balances at the beginning of the respective period. \$110.7 million and \$77.0 million of subscription services and license revenue was recognized during the nine months ended September 30, 2020 and 2019, respectively, and was included in the deferred revenue balances at the beginning of the respective period.

\$5.1 million and \$4.1 million of professional services revenue was recognized during the three months ended September 30, 2020 and 2019, respectively, and was included in the deferred revenue balances at the beginning of the respective period. \$6.0 million and \$5.2 million of professional services revenue was recognized during the nine months ended September 30, 2020 and 2019, respectively, and was included in the deferred revenue balances at the beginning of the respective period.

As of September 30, 2020, approximately \$322.6 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 \$189.0 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

As of September 30, 2020, approximately \$8.7 million of revenue is expected to be recognized from remaining performance obligations for professional services contracts. The Company expects to recognize revenue on approximately \$7.3 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 2020 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. Operating lease expense, including expenses related to short-term leases, were \$1.5 million and \$1.2 million for the three months ended September 30, 2020 and 2019, respectively. Operating lease expense, including expenses related to short-term leases, were \$4.5 million and \$3.5 million for the nine months ended September 30, 2020 and 2019, respectively.

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, 2020	As of December 31, 2019
Balance sheet information		
ROU assets	\$ 15,940	\$ 13,071
Lease liabilities, current	\$ 4,354	\$ 3,567
Lease liabilities, non-current	15,209	11,823
Total lease liabilities	\$ 19,563	\$ 15,390
Supplemental data		
Weighted average remaining lease term	4.72 years	4.11 years
Weighted average discount rate	7.00%	7.00%
	Nine Months Ended September 30,	
	2020	2019
Cash paid for amounts included in lease liabilities	\$ 3,615	\$ 2,648
ROU assets obtained in exchange for new lease obligations	5,648	17,726

Maturities of lease liabilities as of September 30, 2020 were as follows (in thousands):

Year ending December 31,		
2020 (for the remaining three months)	\$	1,349
2021		5,410
2022		5,129
2023		5,010
2024		2,563
Thereafter		3,661
Total undiscounted lease payments		23,122
Less: imputed interest		(3,559)
Total lease liabilities	\$	19,563

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease expense	\$ 1,273	\$ 1,069	\$ 3,698	\$ 2,802
Short-term lease expense ⁽¹⁾	266	138	818	690
	1,539	1,207	4,516	3,492
Less: Sublease income	(98)	(33)	(236)	(45)
Total lease expense	\$ 1,441	\$ 1,174	\$ 4,280	\$ 3,447

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

As of September 30, 2020, 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.

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, 2019 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 28, 2020. 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,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “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 recent COVID-19 outbreak 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 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 businesses running. During public safety threats such 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 22 languages and dialects – all simultaneously. Our Critical Event Management platform is comprised of a comprehensive set of software applications that address the full spectrum of tasks an organization has to perform to manage a critical event, including Mass Notification, Incident Management, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Crisis Management, Community Engagement, Risk Intelligence and Secure Messaging. We believe that our broad suite of integrated, enterprise applications delivered via a single global platform is a significant competitive advantage in the market for Critical Event Management solutions, which we refer to generally as CEM.

Our customer base has grown from 867 customers at the end of 2011 to more than 5,400 customers as of September 30, 2020. Our customers are based in 50 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 1.9 years as of September 30, 2020, and generally bill and collect payment annually in advance. We derive most of our revenue from subscriptions to applications. Over 90% of the revenue that we recognized in each of the eight most recently completed quarters was generated from contracts entered into in prior quarters or renewals of those contracts; the balance of the revenue that we recognized in each such quarter was generated from contracts entered into with new customers or new contracts, other than renewals, entered into with existing customers in such quarter. Historically, we derived more than 52% of our revenue in each of the last three years from sales of our Mass Notification application. Our pricing model is based on the number of applications subscribed to and, per application, the number of people, locations and things connected to our platform as well as the volume of communications. We also offer premium services including data feeds for social media, threat intelligence and weather. We generate additional revenue by expanding the number of applications that our customers subscribe to and the number of contacts and devices connected to our platform.

We generated revenue of \$71.3 million and \$52.5 million for the three months ended September 30, 2020 and 2019, respectively, representing a period-over-period increase of 36%. We generated revenue of \$195.5 million and \$143.8 million for the nine months ended September 30, 2020 and 2019, respectively, representing a period-over-period increase of 36%. We had net losses of \$24.2 million and \$12.9 million for the three months ended September 30, 2020 and 2019, respectively. We had net losses of \$68.8 million and \$39.1 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and 2019, 23% and 28% of our customers, respectively, were located outside of the United States. These customers generated 27% and 20% of our total revenue for the three months ended September 30, 2020 and 2019, respectively and 23% and 22% of our total revenue for the nine months ended September 30, 2020 and 2019, 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

Business Combinations

On August 4, 2020, we entered into a Stock Purchase Agreement with SnapComms Limited (“SnapComms”) pursuant to which we purchased all of the issued and outstanding shares of stock of SnapComms for a base consideration of \$34.2 million. We paid \$13.2 million in cash and issued 121,858 newly issued shares of our common stock at closing. On the date of this acquisition, the average price of our common stock on the Nasdaq Global Market was \$145.13 per share. On the first anniversary of the acquisition date, we expect to pay deferred consideration of approximately \$3.3 million in cash and shares of our common stock subject to the provisions in the Stock Purchase Agreement. In addition to the base purchase price, there is also a potential contingent payment of up to approximately \$5.0 million that can 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, we 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 preliminary fair value of contingent consideration as part of the purchase price allocation. We acquired SnapComms to expand our customer base and for its internal communications software to enhance our CEM suite of solutions.

Impacts of COVID-19 to Our Business

During the nine months ended September 30, 2020, 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 speed with which the situation is developing, we are not able at this time to estimate the future impact of COVID-19 on our financial results and operations, but the impact could be material for the remainder of fiscal year 2020 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 II—Item 1A, “Risk Factors,” included herein for an update that we made to the risk factors presented in our Annual Report on Form 10-K for the year ended December 31, 2019 to include 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, 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.

In the first quarter of 2020, 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. In the second quarter of 2020, we launched several additional software solutions, including (1) 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; (2) COVID-19 Shield: Contact Tracing, a solution for corporate, government and healthcare organizations to supplement or complement existing manual contact tracing efforts; and (3) Everbridge Control Center, a physical security information management software platform 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. 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 premise usage which is outside of our core business. These sales have been to a limited number of customers 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 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.

Other Income and Expense, Net

Other income and 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,	
	2020	2019	2020	2019
Revenue	\$ 71,256	\$ 52,547	\$ 195,533	\$ 143,771
Cost of revenue ⁽¹⁾	20,885	16,454	61,197	45,174
Gross profit	50,371	36,093	134,336	98,597
Operating expenses:				
Sales and marketing ⁽¹⁾	31,395	21,903	89,724	63,989
Research and development ⁽¹⁾	16,948	12,877	46,057	37,164
General and administrative ⁽¹⁾	19,766	13,435	52,476	34,457
Total operating expenses	68,109	48,215	188,257	135,610
Operating loss	(17,738)	(12,122)	(53,921)	(37,013)
Other expense, net	(6,194)	(700)	(16,821)	(1,574)
Loss before income taxes	(23,932)	(12,822)	(70,742)	(38,587)
Benefit from (provision for) income taxes	(273)	(99)	1,932	(531)
Net loss	\$ (24,205)	\$ (12,921)	\$ (68,810)	\$ (39,118)

(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,	
	2020	2019	2020	2019
Stock-based compensation expense				
Cost of revenue	\$ 842	\$ 509	\$ 2,153	\$ 1,356
Sales and marketing	4,395	2,423	11,920	7,338
Research and development	2,571	1,732	6,743	5,560
General and administrative	5,543	3,637	14,123	9,840
Total	\$ 13,351	\$ 8,301	\$ 34,939	\$ 24,094
Depreciation and amortization expense:				
Cost of revenue	\$ 3,165	\$ 2,451	\$ 8,696	\$ 6,712
Sales and marketing	240	203	707	544
Research and development	152	130	432	371
General and administrative	4,583	2,708	12,281	5,565
Total	\$ 8,140	\$ 5,492	\$ 22,116	\$ 13,192

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,	
	2020	2019	2020	2019
Revenue	100%	100%	100%	100%
Cost of revenue	29%	31%	31%	31%
Gross profit	71%	69%	69%	69%
Operating expenses:				
Sales and marketing	44%	42%	46%	45%
Research and development	24%	25%	24%	26%
General and administrative	28%	26%	27%	24%
Total operating expenses	96%	92%	96%	94%
Operating loss	(25)%	(23)%	(28)%	(26)%
Other expense, net	(9)%	(1)%	(9)%	(1)%
Loss before income taxes	(34)%	(24)%	(36)%	(27)%
Benefit from (provision for) income taxes	*	*	1%	*
Net loss	(34)%	(24)%	(35)%	(27)%

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

* Represents less than 0.5% of revenue.

Comparison of the Three Months Ended September 30, 2020 and 2019

Revenue

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Revenue	\$ 71,256	\$ 52,547	\$ 18,709	35.6%

Revenue increased by \$18.7 million for the three months ended September 30, 2020 compared to the same period in 2019. The increase was due to a \$18.7 million increase in sales of our products driven by expansion of our customer base from 4,851 customers as of September 30, 2019 to 5,467 customers as of September 30, 2020, 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	
	2020	2019	\$	%
Cost of revenue	\$ 20,885	\$ 16,454	\$ 4,431	26.9%
Gross margin %	71%	69%		

Cost of revenue increased by \$4.4 million for the three months ended September 30, 2020 compared to the same period in 2019. The increase was primarily due to a \$2.6 million increase in employee-related costs associated with our increased headcount from 228 employees as of September 30, 2019 to 311 employees as of September 30, 2020, a \$1.1 million increase in hosting, software and messaging costs and a \$0.7 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software.

Gross margin percentage increased due to revenue growth outpacing the increase in cost.

Operating Expenses

Sales and Marketing Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Sales and marketing	\$ 31,395	\$ 21,903	\$ 9,492	43.3%
% of revenue	44%	42%		

Sales and marketing expense increased by \$9.5 million for the three months ended September 30, 2020 compared to the same period in 2019. The increase was primarily due to a \$8.4 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 338 employees as of September 30, 2019 to 476 employees as of September 30, 2020. The remaining increase was principally the result of a \$0.6 million increase in advertising related costs and trade show expenses, as well as a \$0.3 million increase in office related expenses and a \$0.3 million increase in software expenses to support the sales team.

Research and Development Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Research and development	\$ 16,948	\$ 12,877	\$ 4,071	31.6%
% of revenue	24%	25%		

Research and development expense increased by \$4.1 million for the three months ended September 30, 2020 compared to the same period in 2019. The increase was primarily due to a \$3.4 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 251 employees as of September 30, 2019 to 360 employees as of September 30, 2020, a \$0.9 million increase in professional services, and a \$0.3 million increase in hosting and software related costs to support research and development activities. A total of \$1.6 million of internally developed software costs during the three months ended September 30, 2019 and \$2.2 million of internally developed software costs during the three months ended September 30, 2020 were capitalized, resulting in a \$0.6 million offset to the increase in the third quarter of 2020.

General and Administrative Expense

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
General and administrative	\$ 19,766	\$ 13,435	\$ 6,331	47.1%
% of revenue	28%	26%		

General and administrative expense increased by \$6.3 million for the three months ended September 30, 2020 compared to the same period in 2019. The increase was primarily due to a \$2.3 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 111 employees as of September 30, 2019 to 159 employees as of September 30, 2020, a \$1.9 million increase in depreciation and amortization and a \$1.5 million increase in the change in fair value of contingent consideration obligation. The remaining increase was principally due to a \$0.4 million increase in professional services and office related expenses and a \$0.3 million in software costs, both to support the administrative team.

Other Expense, Net

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Other expense, net	\$ (6,194)	\$ (700)	\$ (5,494)	(784.9)%
% of revenue	(9)%	(1)%		

Other expense, net increased by \$5.5 million for the three months ended September 30, 2020 compared to the same period in 2019 primarily due to a \$4.4 million increase in interest expense related to our convertible senior notes and a decrease of \$0.9 million of interest income due lower interest rates on our investment balances.

Income Taxes

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Provision for income taxes	\$ (273)	\$ (99)	\$ (174)	(175.8)%
% of revenue	(0)%	(0)%		

A portion of the losses incurred during the three months ended September 30, 2020 are expected to be realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2020. Losses incurred for other operating jurisdictions required a valuation allowance. An income tax expense of \$0.3 million was recorded during the three months ended September 30, 2020 attributed to changes in valuation allowance estimates against losses incurred. The change in income tax expense of \$0.2 million for the three months ended September 30, 2020 as compared to the same period in 2019 was related to the change in valuation allowance and the estimated annual effective tax rate recorded for year to date operations.

Comparison of the Nine Months Ended September 30, 2020 and 2019

Revenue

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Revenue	\$ 195,533	\$ 143,771	\$ 51,762	36.0%

Revenue increased by \$51.8 million for the nine months ended September 30, 2020 compared to the same period in 2019. The increase was due to a \$51.8 million increase in sales of our products driven by expansion of our customer base from 4,851 customers as of September 30, 2019 to 5,467 customers as of September 30, 2020, 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	
	2020	2019	\$	%
Cost of revenue	\$ 61,197	\$ 45,174	\$ 16,023	35.5%
Gross margin %	69%	69%		

Cost of revenue increased by \$16.0 million for the nine months ended September 30, 2020 compared to the same period in 2019. The increase was due to a \$8.3 million increase in employee-related costs associated with our increased headcount from 228 employees as of September 30, 2019 to 311 employees as of September 30, 2020, a \$5.3 million increase in hosting, software and messaging costs, a \$2.0 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software and a \$0.4 million increase in office related expenses.

Gross margin percentage remained flat during the nine months ended September 30, 2020 compared to the same period in 2019.

Operating Expenses

Sales and Marketing Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Sales and marketing	\$ 89,724	\$ 63,989	\$ 25,735	40.2%
% of revenue	46%	45%		

Sales and marketing expense increased by \$25.7 million for the nine months ended September 30, 2020 compared to the same period in 2019. The increase was primarily due to a \$23.1 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 338 employees as of September 30, 2019 to 476 employees as of September 30, 2020. The remaining increase was principally the result of a \$1.1 million increase in advertising related cost and trade show expense, as well as a \$0.9 million increase in office related expenses and a \$0.6 million increase in software expenses to support the sales team.

Research and Development Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Research and development	\$ 46,057	\$ 37,164	\$ 8,893	23.9%
% of revenue	24%	26%		

Research and development expense increased by \$8.9 million for the nine months ended September 30, 2020 compared to the same period in 2019. The increase was primarily due to a \$6.4 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 251 employees as of September 30, 2019 to 360 employees as of September 30, 2020, a \$2.9 million increase in professional services, and a \$0.9 million increase in hosting and software related costs to support research and development activities. A total of \$5.0 million of internally developed software costs during the nine months ended September 30, 2019 and \$6.5 million of internally developed software costs during the nine months ended September 30, 2020 were capitalized, resulting in a \$1.5 million offset to the increase during the nine months ended September 30, 2020.

General and Administrative Expense

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
General and administrative	\$ 52,476	\$ 34,457	\$ 18,019	52.3%
% of revenue	27%	24%		

General and administrative expense increased by \$18.0 million for the nine months ended September 30, 2020 compared to the same period in 2019. The increase was primarily due to a \$6.9 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 111 employees as of September 30, 2019 to 159 employees as of September 30, 2020 and a \$6.7 million increase in depreciation and amortization. The remaining increase was due to a \$1.5 million increase in the change in fair value of contingent consideration obligation, a \$1.4 million increase in professional services and office related expenses, a \$0.9 million in software costs both to support the administrative team and a \$0.6 million increase in other general and administrative expenses.

Other Expense, Net

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Other expense, net	\$ (16,821)	\$ (1,574)	\$ (15,247)	(968.7)%
% of revenue	(9)%	(1)%		

Other expense, net increased by \$15.2 million for the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to a \$13.0 million increase in interest expense related to our convertible senior notes and a decrease of \$1.6 million of interest income due lower interest rates on our investment balances.

Income Taxes

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Benefit from (provision for) income taxes	\$ 1,932	\$ (531)	\$ 2,463	463.8%
% of revenue	1%	(0)%		

A portion of the losses incurred during the nine months ended September 30, 2020 are expected to be realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2020. Losses incurred for other operating jurisdictions required a valuation allowance. An income tax benefit of \$0.9 million was recorded during the nine months ended September 30, 2020 attributed to losses that are expected to be realized. We also recorded a discrete tax benefit related to acquired deferred tax liabilities which provided support for releasing a U.S. valuation allowance of \$0.9 million and a non-U.S. valuation allowance of \$0.6 million for the nine months ended September 30, 2020. These discrete tax benefits were offset by a discrete tax expense for a change in U.S. valuation allowance of \$0.5 million relating to changes in California tax law related to suspended net operating losses.

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,	
	2020	2019	2020	2019
Adjusted EBITDA	\$ 5,058	\$ 1,636	\$ 3,924	\$ 144
Adjusted gross margin	52,567	37,242	139,511	101,283
Free cash flow	(4,097)	9,883	(13,014)	(1,430)

- Adjusted EBITDA.** Adjusted EBITDA represents our net loss before interest and investment expense, net, (benefit from) provision for income taxes, depreciation and amortization expense, loss on extinguishment of convertible notes, 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 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,	
	2020	2019	2020	2019
Net loss	\$ (24,205)	\$ (12,921)	\$ (68,810)	\$ (39,118)
Interest and investment expense, net	5,955	665	16,067	1,445
(Benefit from) provision for income taxes	273	99	(1,932)	531
Depreciation and amortization	8,140	5,492	22,116	13,192
Loss on extinguishment of convertible notes	44	—	44	—
Change in fair value of contingent consideration	1,500	—	1,500	—
Stock-based compensation	13,351	8,301	34,939	24,094
Adjusted EBITDA	<u>\$ 5,058</u>	<u>\$ 1,636</u>	<u>\$ 3,924</u>	<u>\$ 144</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Gross profit	\$ 50,371	\$ 36,093	\$ 134,336	\$ 98,597
Amortization of acquired intangibles	1,354	640	3,022	1,330
Stock-based compensation	842	509	2,153	1,356
Adjusted gross margin	<u>\$ 52,567</u>	<u>\$ 37,242</u>	<u>\$ 139,511</u>	<u>\$ 101,283</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,	
	2020	2019	2020	2019
Net cash provided by (used in) operating activities	\$ (527)	\$ 12,343	\$ (3,596)	\$ 8,854
Capital expenditures	(947)	(542)	(2,122)	(4,417)
Capitalized software development costs	(2,623)	(1,918)	(7,296)	(5,867)
Free cash flow	\$ (4,097)	\$ 9,883	\$ (13,014)	\$ (1,430)

Additional Supplemental Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain additional supplemental non-GAAP financial measures, including non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP sales and marketing expense, non-GAAP research and development expense, non-GAAP general and administrative expense, non-GAAP total operating expenses, non-GAAP operating loss and non-GAAP net loss, which we collectively refer to as non-GAAP financial measures. These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense, 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. 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. 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. 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 allows for more meaningful comparisons between operating results from period to period as losses on the extinguishment of convertible notes 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,	
	2020	2019	2020	2019
Cost of revenue	\$ 20,885	\$ 16,454	\$ 61,197	\$ 45,174
Amortization of acquired intangibles	(1,354)	(640)	(3,022)	(1,330)
Stock-based compensation	(842)	(509)	(2,153)	(1,356)
Non-GAAP cost of revenue	\$ 18,689	\$ 15,305	\$ 56,022	\$ 42,488
Gross profit	\$ 50,371	\$ 36,093	\$ 134,336	\$ 98,597
Amortization of acquired intangibles	1,354	640	3,022	1,330
Stock-based compensation	842	509	2,153	1,356
Non-GAAP gross profit	\$ 52,567	\$ 37,242	\$ 139,511	\$ 101,283
Non-GAAP gross margin	73.8%	70.9%	71.3%	70.4%
Sales and marketing	\$ 31,395	\$ 21,903	\$ 89,724	\$ 63,989
Stock-based compensation	(4,395)	(2,423)	(11,920)	(7,338)
Non-GAAP sales and marketing	\$ 27,000	\$ 19,480	\$ 77,804	\$ 56,651
Research and development	\$ 16,948	\$ 12,877	\$ 46,057	\$ 37,164
Stock-based compensation	(2,571)	(1,732)	(6,743)	(5,560)
Non-GAAP research and development	\$ 14,377	\$ 11,145	\$ 39,314	\$ 31,604
General and administrative	\$ 19,766	\$ 13,435	\$ 52,476	\$ 34,457
Amortization of acquired intangibles	(4,296)	(2,530)	(11,501)	(5,082)
Change in fair value of contingent consideration	(1,500)	—	(1,500)	—
Stock-based compensation	(5,543)	(3,637)	(14,123)	(9,840)
Non-GAAP general and administrative	\$ 8,427	\$ 7,268	\$ 25,352	\$ 19,535
Total operating expenses	\$ 68,109	\$ 48,215	\$ 188,257	\$ 135,610
Amortization of acquired intangibles	(4,296)	(2,530)	(11,501)	(5,082)
Change in fair value of contingent consideration	(1,500)	—	(1,500)	—
Stock-based compensation	(12,509)	(7,792)	(32,786)	(22,738)
Non-GAAP operating expenses	\$ 49,804	\$ 37,893	\$ 142,470	\$ 107,790
Operating loss	\$ (17,738)	\$ (12,122)	\$ (53,921)	\$ (37,013)
Amortization of acquired intangibles	5,650	3,170	14,523	6,412
Change in fair value of contingent consideration	1,500	—	1,500	—
Stock-based compensation	13,351	8,301	34,939	24,094
Non-GAAP operating income (loss)	\$ 2,763	\$ (651)	\$ (2,959)	\$ (6,507)
Net loss	\$ (24,205)	\$ (12,921)	\$ (68,810)	\$ (39,118)
Amortization of acquired intangibles	5,650	3,170	14,523	6,412
Change in fair value of contingent consideration	1,500	—	1,500	—
Stock-based compensation	13,351	8,301	34,939	24,094
Accretion of interest on convertible senior notes	5,578	1,243	16,527	3,667
Loss on extinguishment of convertible notes	44	—	44	—
Non-GAAP net income (loss)	\$ 1,918	\$ (207)	\$ (1,277)	\$ (4,945)

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 \$468.9 million as of September 30, 2020. 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 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,	
	2020	2019	2020	2019
Cash, cash equivalents and restricted cash at beginning of period	\$ 491,298	\$ 238,255	\$ 539,662	\$ 60,068
Cash provided by (used in) operating activities	(527)	12,343	(3,596)	8,854
Cash used in investing activities	(14,062)	(50,615)	(64,175)	(21,770)
Cash provided by (used in) financing activities	516	(693)	5,753	152,190
Effects of exchange rates on cash	8	(175)	(411)	(227)
Cash, cash equivalents and restricted cash at end of period	\$ 477,233	\$ 199,115	\$ 477,233	\$ 199,115

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 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.

Operating activities generated \$8.9 million in cash in the nine months ended September 30, 2019, which includes an increase in non-cash operating expenses of \$47.0 million partially offset by our net loss of \$39.1 million. Specifically, we recognized non-cash charges aggregating to \$13.2 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$24.1 million for stock-based compensation, \$5.5 million for amortization of deferred commissions, \$3.7 million related to the accretion of interest on our convertible senior notes and \$0.6 million for provision for doubtful accounts. The net change in operating assets and liabilities of \$0.9 million reflected a \$12.4 million increase in deferred revenue, a \$7.0 million net increase in accounts payable and accrued expenses as a result of timing of payments made to vendors, a \$2.0 million increase in accrued employee related expenses due to timing of payments to employees, a \$0.9 million decrease in other assets and a \$0.6 million increase in other liabilities. These amounts were offset by an \$8.4 million increase in accounts receivable, an \$8.4 million increase in deferred cost and a \$5.1 million increase in prepaid expenses for upfront payments made for prepaid software and insurance.

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 \$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 Group B.V.

“one2many”), Techwan SA (“Techwan”) and SnapComms, a \$7.3 million investment in software development, and \$2.1 million in purchases of property and equipment.

Investing activities used \$21.8 million in cash in the nine months ended September 30, 2019, due to \$58.4 million cash paid for the acquisitions of NC4 Inc., NC4 Public Sector LLC and Mission Mode Solutions, Inc., \$5.9 million investment in software development, \$4.4 million purchase of property and equipment and \$2.0 million in purchases of short-term investments. These were offset by maturities of short-term investments of \$47.8 million and \$1.1 million attributed to a landlord reimbursement.

Financing Activities

Cash generated by financing activities includes proceeds from the issuance of common stock from our follow-on public offering, borrowings under the 0.125% convertible senior notes due December 15, 2024 (the “2024 Notes”) and 1.50% convertible senior notes due November 1, 2022 (the “2022 Notes”), 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, payment of contingent consideration and employee withholding liabilities from the exercise of market based restricted stock units.

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.

Financing activities provided \$152.2 million of cash in the nine months ended September 30, 2019, which reflects proceeds of \$139.1 million from our common stock offering, proceeds of \$15.8 million from the exercise of stock options and \$2.3 million from the issuance of stock under our employee stock purchase plan. These were offset by a \$4.5 million payment for restricted stock unit employee withholding taxes.

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 judgements 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.

Except for the accounting policies related to our accounts receivable and contract asset allowance for credit risk that were updated as set forth in Notes 2 and 3 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, as a result of adopting Accounting Standards Update 2016-13 (as amended through March 2020), *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, 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, 2019, filed with the SEC on February 28, 2020, 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, 2020, 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, 2019.

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 2020, 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, 2020.

Changes in interest rates may also impact gains or losses from the conversion of our outstanding convertible senior 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 \$91 million remain outstanding. The 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 each case under certain circumstances, including trading price conditions related to 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, 2020. During the three months ended September 30, 2020, we issued 29,898 shares upon the conversion of approximately \$1.0 million in aggregate principal amount of the 2022 Notes. The 2024 Notes were not convertible at September 30, 2020. 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 2024 Notes and 2022 Notes, we will record a gain or loss in our consolidated statement of operations during the period in which the 2024 Notes and 2022 Notes are converted. An incremental borrowing rate that is a hypothetical 100 basis points lower than the implicit interest rate upon conversion of the 2024 Notes and 2022 Notes would result in a loss of approximately \$5.4 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 \$468.9 million as of September 30, 2020, 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. The risk factors set forth below are new or contain changes to the similarly titled risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Except for the additions or updates to these risk factors set forth below, 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, 2019, as filed with the SEC on February 28, 2020.

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

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

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

In addition, governmental and other customers may require our applications to comply with certain privacy, security or other certifications and standards. For instance, with regard to transfers of personal data, on July 16, 2020, the Court of Justice of the European Union (“CJEU”) invalidated the U.S.-EU Privacy Shield framework that had been in place since 2016, which allowed companies like us to meet certain European legal requirements for the transfer of personal data from the European Economic Area (“EEA”) to the United States, and imposed additional obligations on companies when relying on the model clauses approved by the EU Commission. The invalidation of the U.S.-EU Privacy Shield framework will require us to take additional steps to legitimize any personal data transfers that are impacted by this decision. While we have other legally recognized mechanisms in place that we believe allow for the lawful transfer of EU customer and employee information to the United States, this invalidation decision could result in increased costs of compliance and limitations on our customers and us. Further, it is possible that these other transfer mechanisms may also be challenged or evolve to include new legal requirements that could have an impact on how we move this data. If our applications fail to maintain compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our applications to such customers, or may otherwise be at a competitive disadvantage, either of which would harm our business, results of operations and financial condition. If our policies and practices are, or are perceived to be, insufficient or if our customers have concerns regarding the transfer of data from the European Union to the United States, we could be subject to enforcement actions or investigations by EU Data Protection Authorities or lawsuits by private parties, and our business could be negatively impacted.

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

Our handling and storage of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the U.S. Federal Trade Commission (“FTC”), and various state, local and foreign agencies. We collect personally identifiable information and other data directly from our customers and through our channel partners. We also process or otherwise handle personally identifiable information about our customers’ employees, customers and constituents in certain circumstances. We

use this information to provide applications to our customers and to support, expand and improve our business. We may also share customers' personally identifiable information with third parties as described in our privacy policy and/or as otherwise authorized by our customers.

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

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

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

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

Further, Brexit could lead to additional legislative and regulatory changes. The United Kingdom Data Protection Act that substantially implements the GDPR became law in May 2018 and was subject to statutory amendments in 2019 that further align it with the GDPR. The development of United Kingdom data protection laws or regulations and regulation of data transfers to and from the United Kingdom in the medium to longer term, however, remain unclear and could impact our ability to sell our products and services to customers in the United Kingdom.

California enacted legislation in 2018, the California Consumer Privacy Act (the "CCPA"), that became operative on January 1, 2020. The CCPA requires covered companies to, among other things, provide new disclosures to California consumers, and affords such consumers new abilities to opt-out of certain sales of personal information. The CCPA is the subject of proposed regulations of the California Attorney General that were released on October 10, 2019 but have yet to be finalized. Aspects of the CCPA and its interpretation remain unclear at this time. We cannot fully predict the impact of the CCPA on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

While we have taken steps to mitigate the impact of the GDPR on us, such as implementing standard contractual clauses and self-certifying under the EU-US Privacy Shield, the efficacy and longevity of these mechanisms remains uncertain. For example, on July 16, 2020, the CJEU invalidated the U.S.-EU Privacy Shield framework that had been in place since 2016, which allowed companies like us to meet certain European legal requirements for the transfer of personal data from the EEA to the United States, and imposed additional obligations on companies when relying on the model clauses approved by the EU Commission. This CJEU decision may result in different EEA data protection regulators applying differing standards for the transfer of personal data from the EEA to the United States, and even require ad hoc verification of measures taken with respect to data flows. The invalidation of the U.S.-EU

Privacy Shield framework will require us to take additional steps to legitimize any personal data transfers that are impacted by this decision. This could result in increased costs of compliance and limitations on our customers and us. More generally, we find it necessary or desirable to modify our data handling practices, and this CJEU decision or other legal challenges relating to cross-border data transfer may serve as a basis for our personal data handling practices, or those of our customers and vendors, to be challenged and may otherwise adversely impact our business, financial condition and operating results. Potential or actual legal proceedings could lead to one or both of these mechanisms being declared invalid. Further, despite our ongoing efforts to maintain compliance with the GDPR, we may not be successful either due to various factors within our control (such as limited financial or human resources) or outside our control (such as a lack of vendor cooperation). It's also possible that local data protection authorities (DPAs) may have different interpretations of the GDPR, leading to potential inconsistencies amongst various EU states.

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

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

The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has spread throughout the United States and the world and has resulted in authorities implementing and re-implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. These measures are in place to varying degrees. We are unable to accurately predict the full impact that the COVID-19 pandemic will have on our results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. Our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our customers, partners, suppliers and others with whom we work, for an indefinite period of time. To support the health and well-being of our employees, customers, partners and communities, the vast majority of our employees are working remotely and are expected to continue to work remotely until the pandemic subsides. In addition, many of our customers and prospective customers are working remotely, which may delay the timing of their purchases of our products and services. The disruptions to our operations caused by the COVID-19 pandemic may result in inefficiencies, delays and additional costs in our sales and marketing, professional services and research and development efforts, which cannot be predicted or quantified at this time. We may not be able to fully mitigate any such inefficiencies, delays and additional costs through remote or other alternative work arrangements. In addition, given the economic uncertainty created by the COVID-19 pandemic, we have and may continue to see delays in our sales cycle, failures of customers to renew at all or to renew at the anticipated scope their subscriptions with us, requests from customers for payment term deferrals as well as pricing or bundling concessions, which, if significant, could materially and adversely affect our business, results of operations and financial condition. In addition, our third-party service providers may experience financial difficulties or business disruptions that could negatively affect their operations and their ability to supply us with services needed for our products and operations. Although such events did not have a material adverse impact on our financial results for the nine months ended September 30, 2020, there can be no assurance that these events will not have a material adverse impact on our financial results for the full fiscal year or future periods.

Negative conditions in the general economy both in the United States and abroad, including conditions resulting from the COVID-19 pandemic, changes in gross domestic product growth, financial and credit market fluctuations, energy costs, international trade relations and other geopolitical issues, the availability and cost of credit and the global housing and mortgage markets could cause a decrease in consumer discretionary spending and business investment and diminish growth expectations in the U.S. economy and abroad. More generally, the COVID-19 pandemic raises the possibility of an extended global economic downturn and has caused volatility in financial markets, which could materially and adversely affect demand for our products and services and could materially and adversely impact our results and financial condition even after the pandemic has subsided and the containment measures are lifted. For example, we may be unable to collect receivables from those customers significantly impacted by the COVID-19 pandemic, which may be more pronounced in industry verticals more directly impacted by the COVID-19 pandemic. Also, a decrease in subscriptions and/or renewals in a given period could negatively affect our revenues in future periods, particularly if experienced on a sustained basis, because a substantial proportion of our software subscriptions yield revenue recognized over time. The pandemic may also have the effect of heightening many of the other risks described herein and in the "Risk Factors" section of our Annual Report on

Form 10-K for the year ended December 31, 2019, including risks associated with our guidance, our customers, our potential customers, our market opportunity, renewals and sales cycles, among others. We will continue to evaluate the nature and extent of the impact of the COVID-19 pandemic on our business.

The full extent of the COVID-19 pandemic's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets, the timing of economic recovery, the spread of the virus to other regions, and the actions taken to contain it, among others. Any of these impacts could have a material adverse impact on our business, results of operations and financial condition and ability to execute and capitalize on our strategies. Due to the ongoing uncertainty regarding the severity and duration of the COVID-19 pandemic, we cannot predict whether our response to date or the actions we may take in the future will be effective in mitigating the effects of the COVID-19 pandemic on our business, results of operations or financial condition. Accordingly, we are unable at this time to predict the future impact of the COVID-19 pandemic on our operations, liquidity, and financial results, and, depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material.

Our quarterly operating results may vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.

Our operating results, including the levels of our revenue, renewal rates, cash flows, deferred revenue and gross margins, have historically varied from period to period, and we expect that these items will continue to do so as a result of a number of factors, many of which are outside of our control, including:

- the level of demand for our products and services;
- customer renewal rates and ability to attract new customers;
- the extent to which customers purchase additional products or services;
- the mix of our products and services sold during a period;
- network outages, security breaches, technical difficulties or interruptions with our products;
- changes in the growth rate of the markets in which we compete;
- sales of our products and services due to seasonality and customer demand;
- the timing and success of new product or service introductions by us or our competitors or any other changes in the competitive landscape of its industry, including consolidation among our competitors;
- the introduction or adoption of new technologies that compete with our offerings;
- decisions by potential customers to purchase critical event management products or services from other vendors;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- price competition;
- our ability to successfully manage and integrate our previous acquisitions and any future acquisitions of businesses, including the recent acquisitions of Connexient, CNL Software, one2many, and Techwan, SnapComms and including without limitation the amount and timing of expenses and potential future charges for impairment of goodwill from acquired companies;
- our ability to establish and grow relationships with partners to market and sell our products and services;
- our continued international expansion and associated exposure to changes in foreign currency exchange rates, including any fluctuations caused by uncertainties relating to the United Kingdom's exit from the European Union, commonly referred to as "Brexit";
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- the announcement or adoption of new regulations and policy mandates or changes to existing regulations and policy mandates;
- the cost or results of existing or unforeseen litigation and intellectual property infringement;
- the strength of regional, national and global economies;
- quarantine, private travel limitation, or business disruption in regions affecting our operations, stemming from actual, imminent or perceived outbreak of contagious disease, including the COVID-19 pandemic;
- the impact of natural disasters or manmade problems such as terrorism or war; and
- future accounting pronouncements or changes in our accounting policies.

Fluctuations in our quarterly operating results, key metrics, non-GAAP metrics and the price of our common stock may be particularly pronounced in the current economic environment due to the uncertainty caused by and the unprecedented nature of the current COVID-19 pandemic. Each factor above or discussed elsewhere herein or the cumulative effect of some of these factors may result in fluctuations in our operating results. This variability and unpredictability could result in our failure to meet expectations with respect to operating results, or those of securities analysts or investors, for a particular period. If we fail to meet or exceed expectations for our operating results for these or any other reasons, the market price of our stock could fall and we could face costly lawsuits, including securities class action suits.

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 Connexient, CNL Software, one2many, Techwan, and SnapComms, and the associated economic uncertainty on our business and the timing and scope of economic recovery 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 of the date hereof, and the other information contained in or referred to in the factors described above and our 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. There are no comparable recent events that provide guidance as to the probable effect of the COVID-19 pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change. We are relying on the reports and models of economic and medical experts in making assumptions relating to the duration of this crisis and predictions as to timing and pace of any future economic recovery. If these models are incorrect or incomplete, or if we fail to accurately predict the full impact that the COVID-19 pandemic will have on all aspects of our business, the guidance and other forward-looking statements we provide as of this date may also be incorrect or incomplete. Furthermore, 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.

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

(a) Recent Sales of Unregistered Equity Securities

On August 4, 2020, we issued 121,858 shares of our common stock to various persons and entities as partial consideration for our purchase of SnapComms Limited. 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.

During the three months ended September 30, 2020, we issued 29,898 shares of our common stock to holders of our 1.50% convertible senior notes due 2022 upon settlement of conversion of an aggregate principal amount of approximately \$1.0 million of such notes. For further information, see Note 9, Convertible Senior Notes, of the notes to condensed consolidated financial statements. These shares of our common stock were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

(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	Amended and Restated Certificate of Incorporation of Everbridge, Inc.		8-K	001-37874	3.1	9/21/16
3.2	Amended and Restated Bylaws of Everbridge, Inc.		8-K	001-37874	3.2	9/21/16
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 6, 2020

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

Date: November 6, 2020

By: /s/ Patrick Brickley
Patrick Brickley
Senior 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 6, 2020

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 6, 2020

By: /s/ Patrick Brickley

Name: Patrick Brickley

Title: Senior 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, 2020 (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 6, 2020

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, Senior 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, 2020 (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 6, 2020

By: /s/ Patrick Brickley

Name: Patrick Brickley

Title: Senior 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.