

**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 March 31, 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 per share	EVBG	The Nasdaq Stock 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 May 4, 2020, the registrant had 34,358,105 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)

	March 31, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 498,387	\$ 531,575
Restricted cash	4,756	4,737
Accounts receivable, net	70,760	68,642
Prepaid expenses	9,949	6,675
Deferred costs and other current assets	18,468	13,501
Total current assets	602,320	625,130
Property and equipment, net	7,107	6,284
Capitalized software development costs, net	14,394	14,287
Goodwill	141,727	91,421
Intangible assets, net	83,869	67,100
Restricted cash	3,353	3,350
Prepaid expenses	2,707	2,009
Deferred costs and other assets	31,602	27,715
Total assets	\$ 887,079	\$ 837,296
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 6,971	\$ 7,808
Accrued payroll and employee related liabilities	26,884	22,248
Accrued expenses	7,648	4,496
Deferred revenue	141,858	129,995
Contingent liabilities	2,530	—
Other current liabilities	6,667	4,819
Total current liabilities	192,558	169,366
Long-term liabilities:		
Deferred revenue, noncurrent	3,673	3,471
Convertible senior notes	435,718	430,282
Deferred tax liabilities	5,472	2,002
Other long-term liabilities	16,150	11,863
Total liabilities	653,571	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 March 31, 2020 and December 31, 2019, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 34,348,008 and 33,848,627 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	34	34
Additional paid-in capital	471,046	425,945
Accumulated deficit	(225,305)	(199,920)
Accumulated other comprehensive loss	(12,267)	(5,747)
Total stockholders' equity	233,508	220,312
Total liabilities and stockholders' equity	\$ 887,079	\$ 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 March 31,	
	2020	2019
Revenue	\$ 58,900	\$ 42,819
Cost of revenue	20,889	13,981
Gross profit	<u>38,011</u>	<u>28,838</u>
Operating expenses:		
Sales and marketing	29,588	20,071
Research and development	14,172	11,485
General and administrative	15,911	10,558
Total operating expenses	<u>59,671</u>	<u>42,114</u>
Operating loss	<u>(21,660)</u>	<u>(13,276)</u>
Other income (expense), net:		
Interest and investment income	1,573	1,177
Interest expense	(5,922)	(1,635)
Other expense, net	(77)	(106)
Total other income (expense), net	<u>(4,426)</u>	<u>(564)</u>
Loss before income taxes	(26,086)	(13,840)
Benefit from (provision for) income taxes	701	(294)
Net loss	<u>\$ (25,385)</u>	<u>\$ (14,134)</u>
Net loss per share attributable to common stockholders:		
Basic	<u>\$ (0.74)</u>	<u>\$ (0.44)</u>
Diluted	<u>\$ (0.74)</u>	<u>\$ (0.44)</u>
Weighted-average common shares outstanding:		
Basic	34,075,071	32,271,067
Diluted	34,075,071	32,271,067

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2020	2019
Net loss	\$ (25,385)	\$ (14,134)
Other comprehensive income (loss):		
Foreign currency translation adjustment, net of taxes	(6,520)	22
Total comprehensive loss	<u>\$ (31,905)</u>	<u>\$ (14,112)</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	<u>34,348,008</u>	<u>\$ 34</u>	<u>\$ 471,046</u>	<u>\$ (225,305)</u>	<u>\$ (12,267)</u>	<u>\$ 233,508</u>
	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	<u>32,882,089</u>	<u>\$ 33</u>	<u>\$ 351,247</u>	<u>\$ (161,804)</u>	<u>\$ (5,046)</u>	<u>\$ 184,430</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (25,385)	\$ (14,134)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,656	3,705
Amortization of deferred costs	2,922	1,598
Deferred income taxes	(1,246)	41
Accretion of interest on convertible senior notes	5,436	1,201
Provision for credit losses and sales reserve	925	148
Stock-based compensation	10,310	7,785
Other non-cash adjustments	—	(189)
Changes in operating assets and liabilities:		
Accounts receivable	445	5,543
Prepaid expenses	(3,057)	(4,233)
Deferred costs	(4,720)	(2,227)
Other assets	(4,069)	2,153
Accounts payable	(1,072)	4,112
Accrued payroll and employee related liabilities	3,221	1,205
Accrued expenses	1,732	(1,065)
Deferred revenue	5,118	2,767
Other liabilities	3,585	277
Net cash provided by operating activities	<u>801</u>	<u>8,687</u>
Cash flows from investing activities:		
Capital expenditures	(524)	(2,773)
Payments for acquisition of business, net of acquired cash	(34,941)	—
Additions to capitalized software development costs	(2,004)	(2,018)
Purchase of short-term investments	—	(1,975)
Maturities of short-term investments	—	24,750
Net cash provided by (used in) investing activities	<u>(37,469)</u>	<u>17,984</u>
Cash flows from financing activities:		
Proceeds from public offering, net of costs	—	139,115
Proceeds from employee stock purchase plan	1,710	1,283
Proceeds from stock option exercises	2,989	8,746
Other	(531)	(506)
Net cash provided by financing activities	<u>4,168</u>	<u>148,638</u>
Effect of exchange rates on cash, cash equivalents and restricted cash	(666)	(28)
Net increase (decrease) in cash, cash equivalents and restricted cash	(33,166)	175,281
Cash, cash equivalents and restricted cash—beginning of period	539,662	60,068
Cash, cash equivalents and restricted cash—end of period	<u>\$ 506,496</u>	<u>\$ 235,349</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Taxes, net of refunds received	\$ 184	\$ —
Supplemental disclosure of non-cash activities:		
Capitalized assets included in accounts payable and accrued expenses	226	689
Capitalized development costs included in accounts payable and accrued expenses	13	16
Common stock issued in connection with acquisitions	30,434	—
Contingent consideration in connection with acquisitions	2,530	—
Purchase accounting payable, net	464	—
Stock-based compensation capitalized for software development	58	64

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 quickly and reliably deliver messaging to a large group of people during critical situations. The Company’s enterprise applications, such as Mass Notification, Incident Management, 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, Norway, India, Netherlands, Sweden, England, Germany and China.

**(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 has caused 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 months ended March 31, 2020 and 2019. No single customer comprised more than 10% of the Company’s total accounts receivable as of March 31, 2020 and 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 Company's net loss for the quarter ended March 31, 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.

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 March 31, 2020	As of December 31, 2019
Accounts receivable amortized cost	\$ 72,513	\$ 69,767
Allowance for credit losses	(1,753)	(1,125)
Net accounts receivable	<u>\$ 70,760</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 March 31,	
	2020	2019
Balance, beginning of period	\$ (1,125)	\$ (711)
Provision for expected credit losses	(743)	(148)
Write-offs	115	49
Balance, end of period	<u>\$ (1,753)</u>	<u>\$ (810)</u>

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

	As of March 31, 2020	As of December 31, 2019
Contract asset amortized cost	\$ 3,585	\$ 1,959
Allowance for credit losses	(25)	—
Net contract asset	<u>\$ 3,560</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 March 31, 2020
Balance, beginning of period	\$ —
Provision for expected credit losses	(25)
Write-offs	—
Balance, end of period	<u>\$ (25)</u>

Credit loss expense was \$0.7 million and \$0.1 million for the three months ended March 31, 2020 and 2019, respectively.

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

	Three Months Ended March 31,	
	2020	2019
Balance, beginning of period	\$ (175)	\$ (200)
Additions	(200)	—
Write-offs	—	—
Balance, end of period	\$ (375)	\$ (200)

#### (4) Property and Equipment, Net

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

	Useful life in years	As of March 31, 2020	As of December 31, 2019
Furniture and equipment	5	\$ 2,107	\$ 1,785
Leasehold improvements (1)	5	4,672	4,074
System hardware	5	1,589	1,596
Office computers	3	5,803	5,309
Computer and system software	3	1,451	1,451
		15,622	14,215
Less accumulated depreciation and amortization		(8,515)	(7,931)
Property and equipment, net		\$ 7,107	\$ 6,284

(1) Lesser of the lease term or the estimated useful lives of the improvements, which may be up to 5 years.

Depreciation and amortization expense for property and equipment was \$0.6 million and \$0.5 million for the three months ended March 31, 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 March 31, 2020	
			Accumulated amortization	Net carrying amount
Capitalized software development costs	\$ 51,867	3 years	\$ (37,473)	\$ 14,394
Total capitalized software development costs	\$ 51,867		\$ (37,473)	\$ 14,394

  

	Gross carrying amount	Amortization period	As of December 31, 2019	
			Accumulated amortization	Net carrying amount
Capitalized software development costs	\$ 49,909	3 years	\$ (35,622)	\$ 14,287
Total capitalized software development costs	\$ 49,909		\$ (35,622)	\$ 14,287

The Company capitalized software development costs of \$2.0 million and \$2.1 million for the three months ended March 31, 2020 and 2019, respectively.

Amortization expense for capitalized software development costs was \$1.9 million and \$1.5 million for the three months ended March 31, 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 March 31, 2020, for each of the following years is as follows (in thousands):

2020 (for the remaining nine months)	\$	5,770
2021		5,198
2022		3,270
2023		156
	<u>\$</u>	<u>14,394</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 three months ended March 31, 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 at March 31, 2020 and December 31, 2019 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 March 31, 2020			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>				
Cash equivalents:				
Money market funds	\$ 473,254	\$ —	\$ —	\$ 473,254
Total financial assets	<u>\$ 473,254</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 473,254</u>
<b>Liabilities:</b>				
Contingent consideration	\$ —	\$ —	\$ 2,530	\$ 2,530
Total financial liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,530</u>	<u>\$ 2,530</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
<b>Assets:</b>				
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 three months ended March 31, 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. There were no Level 2 securities at March 31, 2020 and December 31, 2019.

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

Fair Value at December 31, 2019	\$	—
Addition from Connexient acquisition		340
Addition from one2many acquisition		2,190
Fair value at March 31, 2020	\$	<u>2,530</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.

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 March 31, 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 \$518.8 million and \$450.4 million, respectively, and the carrying value of the notes was \$355.5 million and \$351.1 million, respectively. As of March 31, 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 \$306.4 million and \$215.8 million, respectively, and the carrying value of the notes was \$80.3 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		(3,863)
Increase due to acquisitions		54,169
Balance at March 31, 2020	\$	<u>141,727</u>

There were no impairments recorded against goodwill during the three months ended March 31, 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 March 31, 2020	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 13,588	3.00	\$ (4,858)	\$ 8,730
Tradenames	13,692	3.54	(3,651)	10,041
Customer relationships	77,433	7.00	(12,335)	65,098
Total intangible assets	<u>\$ 104,713</u>		<u>\$ (20,844)</u>	<u>\$ 83,869</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 \$4.1 million and \$1.6 million for the three months ended March 31, 2020 and 2019, respectively. The Company recorded amortization expense attributed to developed technology within cost of revenue of \$0.7 million and \$0.3 million for the three months ended March 31, 2020 and 2019, respectively.

The expected amortization of the intangible assets, as of March 31, 2020, for each of the next five years and thereafter is as follows (in thousands):

2020 (for the remaining nine months)	\$	13,951
2021		18,376
2022		15,178
2023		11,017
2024		10,294
Thereafter		15,053
	<u>\$</u>	<u>83,869</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 three months ended March 31, 2020, the Company acquired Connexient, Inc., CNL Software Limited and One2Many Group B.V. 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. At the date of the acquisition, the Company preliminarily assessed the probabilities of Connexient meeting the fiscal year 2020 revenue metrics and determined them to be probable. Therefore, contingent consideration was recorded as part of the purchase price allocation and the preliminary fair value of the contingent consideration was determined to be \$0.3 million. The Company acquired Connexient 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 Internet of Things ("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 March 31, 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 during the three months ended March 31, 2020 for the acquisition of Connexient made by the Company (in thousands):

	<u>Connexient</u>
<b>Assets acquired</b>	
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	14,634
Other assets	238
<b>Total assets acquired</b>	<u>25,898</u>
<b>Liabilities assumed</b>	
Accounts payable	727
Accrued expenses	208
Deferred revenue	2,420
Deferred tax liabilities	1,986
Other liabilities	211
<b>Net assets acquired</b>	<u>\$ 20,346</u>
<b>Consideration paid</b>	
Cash consideration, net of cash acquired	\$ 10,991
Fair value of common stock issued	9,015
Contingent consideration	340
Total	<u>\$ 20,346</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 three months ended March 31, 2020, the Company incurred transaction costs of less than \$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 \$35.6 million. The Company paid approximately \$19.6 million in cash at closing and paid the remaining purchase price with 153,217 newly issued shares of the Company’s common stock. On the date of this acquisition, the average price of the Company’s common stock on the Nasdaq Global Market was \$104.10 per share. The Company acquired CNL Software 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 March 31, 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, 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 during the three months ended March 31, 2020 for the acquisition of CNL Software made by the Company (in thousands):

	<b>CNL Software</b>
<b>Assets acquired</b>	
Accounts receivable	\$ 1,926
Prepaid expenses and other current assets	640
Property and equipment	731
Acquired technology	2,150
Trade names	1,080
Customer relationships	5,500
Goodwill	28,811
Other assets	1,313
<b>Total assets acquired</b>	<b>42,151</b>
<b>Liabilities assumed</b>	
Accounts payable	419
Accrued expenses	1,875
Deferred revenue	3,110
Deferred tax liabilities	1,614
Other liabilities	1,276
<b>Net assets acquired</b>	<b>\$ 33,857</b>
<b>Consideration paid</b>	
Cash paid, net of cash acquired	\$ 17,907
Fair value of common stock issued	15,950
<b>Total</b>	<b>\$ 33,857</b>

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 three months ended March 31, 2020, the Company incurred transaction costs of less than \$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 \$13.0 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 determined them to be probable. Therefore, contingent consideration was recorded as part of the purchase price allocation and the preliminary fair value of the contingent consideration was determined to be \$2.2 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.

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 March 31, 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 during the three months ended March 31, 2020 for the acquisition of one2many made by the Company (in thousands):

	<u>one2many</u>
<b>Assets acquired</b>	
Accounts receivable	\$ 521
Other current assets	1,575
Property and equipment	19
Acquired technology	970
Trade names	580
Customer relationships	3,100
Goodwill	10,724
Other assets	176
<b>Total assets acquired</b>	<u>17,665</u>
<b>Liabilities assumed</b>	
Accounts payable	72
Accrued expenses	668
Deferred revenue	1,460
Deferred tax liabilities	1,163
Other current liabilities	136
<b>Net assets acquired</b>	<u>\$ 14,166</u>
<b>Consideration paid</b>	
Cash consideration, net of cash acquired	\$ 6,507
Fair value of common stock issued	5,469
Contingent consideration	2,190
Total	<u>\$ 14,166</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 three months ended March 31, 2020, the Company incurred transaction costs of less than \$0.1 million in connection with the one2many 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 during the year ended December 31, 2019 for the acquisition of NC4 made by the Company (in thousands):

	NC4
<b>Assets acquired</b>	
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
<b>Total assets acquired</b>	<b>92,910</b>
<b>Liabilities assumed</b>	
Deferred revenue	7,540
Other current liabilities	917
<b>Net assets acquired</b>	<b>\$ 84,453</b>
<b>Consideration paid</b>	
Cash paid	\$ 51,655
Fair value of common stock issued	32,798
<b>Total</b>	<b>\$ 84,453</b>

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 for the three months ended March 31, 2019 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 amount):

	Revenue	Net loss	Basic and Diluted Loss Per Share
For the three months ended March 31, 2019 pro forma	\$ 47,373	\$ (16,020)	\$ (0.49)

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 March 31, 2020, the 2024 Notes are not yet convertible. The 2024 Notes are classified as long-term on the condensed consolidated balance sheet as of March 31, 2020 as it is the Company's intent to settle all of the debt at maturity or to settle in shares if exercised by the debt holder prior to maturity.

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

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

Significant judgment is required in determining the liability component of the related convertible senior notes as well as the balance sheet classification of the elements of the convertible senior notes. The Company accounted for the convertible senior notes and the partial repurchase 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 March 31, 2020	As of December 31, 2019
Liability component:		
Principal	\$ 450,000	\$ 450,000
Less: debt discount, net of amortization	(94,535)	(98,942)
Net carrying amount	\$ 355,465	\$ 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):

	<b>Three Months Ended March 31, 2020</b>	
0.125% coupon	\$	141
Amortization of debt discount and transaction costs		4,406
	<b>\$</b>	<b>4,547</b>

As of March 31, 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):

	<u>As of March 31, 2020</u>		<u>As of December 31, 2019</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
2024 Notes	\$ 518,787	\$ 355,465	\$ 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 \$106.36 on March 31, 2020, the if-converted value of the 2024 Notes was less than their respective principal amounts.

#### **1.50% Convertible Senior Notes Due 2022**

In November 2017, the Company issued \$115.0 million aggregate principal amount of 1.50% convertible senior notes due 2022 (the "2022 Notes") 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.

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 March 31, 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. No debt holders have exercised their right for conversion as of March 31, 2020. The 2022 Notes are classified as long-term on the consolidated balance sheet as of March 31, 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 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 March 31, 2020	As of December 31, 2019
<b>Liability component:</b>		
Principal	\$ 92,000	\$ 92,000
Less: debt discount, net of amortization	(11,747)	(12,776)
Net carrying amount	\$ 80,253	\$ 79,224
<b>Equity component (1)</b>	<b>(14,555)</b>	<b>(14,555)</b>

(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 repurchase of the 2022 Notes.

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

	Three Months Ended March 31,	
	2020	2019
1.50% coupon	\$ 345	\$ 432
Amortization of debt discount and transaction costs	1,030	1,201
	<u>\$ 1,375</u>	<u>\$ 1,633</u>

As of March 31, 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 March 31, 2020		As of December 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2022 Notes	\$ 306,360	\$ 80,253	\$ 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 \$106.36 on March 31, 2020, the if-converted value of the 2022 Notes was more than their respective principal amounts.

## (10) Stockholders' Equity

### Preferred Stock

As of March 31, 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 March 31, 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 March 31, 2020 and December 31, 2019, there were 34,348,008 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 three months ended March 31, 2020 and 2019, 30,943 and 24,266 shares of common stock were purchased under the 2016 ESPP, respectively. The Company recorded stock-based compensation expense of \$0.3 million and \$0.3 million for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020, unrecognized compensation cost related to the 2016 ESPP was \$0.5 million which will be amortized over a weighted-average period of 0.46 years.

### 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 three months ended March 31, 2020 and 2019. The Company recorded stock-based compensation expense of \$0.9 million and \$1.9 million for the three months ended March 31, 2020 and 2019, respectively, attributed to stock options.

The total intrinsic value of options exercised for the three months ended March 31, 2020 and 2019 was \$9.2 million and \$22.2 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each option. Based on the fair market value of the Company's common stock at March 31, 2020 and 2019, the total intrinsic value of all outstanding options was \$47.1 million and \$62.2 million, respectively.

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 March 31,	
	2020	2019
<b>Employee Stock Purchase Plan:</b>		
Expected term (in years) (1)	0.50	0.50
Expected volatility (2)	55%	45%
Risk-free interest rate (3)	0.29%	2.52%
Dividend rate (4)	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.

Total unrecognized compensation cost related to nonvested stock options was approximately \$5.7 million as of March 31, 2020 and is expected to be recognized over a weighted average period of 1.7 years. The amount of cash received from the exercise of stock options during the three months ended March 31, 2020 and 2019 was \$3.0 million and \$8.7 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
Granted	—	—
Exercised	(126,374)	23.80
Forfeited	(2,248)	31.95
Outstanding at March 30, 2020	594,761	27.13

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

	As of March 31, 2020		
	Number of shares	Remaining contractual life (years)	Weighted- average exercise price
Outstanding	594,761	7.26	\$ 27.13
Vested and expected to vest	582,485	7.25	27.02
Exercisable	176,160	6.30	19.21

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 March 31, 2020	176,160	\$ 19.21	418,601	\$ 30.46

### **Restricted Stock Units**

During the three months ended March 31, 2020, the Company granted 81,845 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 three months ended March 31, 2020 and 2019 were \$96.85 and \$57.81, respectively. The fair values of RSUs that vested during the three months ended March 31, 2020 and 2019, were \$2.2 million and \$0.6 million, respectively. During the three months ended March 31, 2020 and 2019, the Company recorded \$4.5 million and \$3.8 million, respectively, of stock-based compensation related to the RSUs. There were 44,606 RSUs that vested during the three months ended March 31, 2020.

As of March 31, 2020, there was \$37.3 million of unrecognized compensation expense related to unvested RSUs which is expected to be recognized over a weighted-average period of approximately 2.57 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 three months ended March 31, 2020, the Company granted 76,845 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 three months ended March 31, 2020, the share price of the Company's common stock on the date of issuance of the PSUs ranged from \$82.23 to \$108.95 per share. During the three months ended March 31, 2019, the share price of the Company's common stock on the date of issuance of the PSUs ranged from \$54.83 to \$64.86 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 three months ended March 31, 2020 and 2019 were \$97.23 and \$57.18, respectively. No PSUs vested during the three months ended March 31, 2020 and 2019. During the three months ended March 31, 2020 and 2019, the Company recognized \$4.6 million and \$1.9 million, respectively, of stock compensation expense in connection with the PSU awards.

As of March 31, 2020, there was \$32.0 million of unrecognized compensation expense related to unvested PSUs which is expected to be recognized over a weighted-average period of approximately 1.90 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 for the three months ended March 31, 2020:

	<u>Number of Shares</u>
Outstanding at December 31, 2019	1,314,791
Granted	158,690
Vested	(44,606)
Forfeited	(3,176)
Outstanding at March 31, 2020	<u>1,425,699</u>

### **Stock-Based Compensation Expense**

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

	<u>Three Months Ended</u>	
	<u>2020</u>	<u>2019</u>
Cost of revenue	\$ 608	\$ 435
Sales and marketing	3,608	2,368
Research and development	1,874	1,410
General and administrative	4,220	3,572
Total	<u>\$ 10,310</u>	<u>\$ 7,785</u>

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

### **(12) Basic and Diluted Net Loss per Share**

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

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

	<u>As of March 31,</u>	
	<u>2020</u>	<u>2019</u>
Convertible senior notes	6,733,914	3,411,199
Stock-based compensation grants	2,020,460	2,281,105
Total	<u>8,754,374</u>	<u>5,692,304</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 Plan, 2016 Plan and 2016 ESPP. The amount of such shares of the Company's common stock reserved for these purposes at March 31, 2020 was 5.4 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 March 31, 2020 and 2019, the Company recorded a benefit from income taxes of \$0.7 million and a provision for income taxes of \$0.3 million, respectively, resulting in an effective tax rate of (2.69)% and 2.12%, respectively. During the first quarter of 2020 there were deferred tax liabilities recorded in connection with the preliminary purchase price accounting for the Company's completed first quarter acquisitions and 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 \$1.0 million being recorded in the quarter. This benefit was offset by foreign income taxes and state taxes of \$0.3 million.

As of March 31, 2020, the Company had gross tax-effected unrecognized tax provision of \$0.6 million, of which \$0.6 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 months ended March 31, 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 March 31,	
	2020	2019
United States	\$ 46,949	\$ 34,084
International	11,951	8,735
Total	<u>\$ 58,900</u>	<u>\$ 42,819</u>

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

	Three Months Ended March 31,	
	2020	2019
Subscription services	\$ 53,811	\$ 39,861
Professional services	4,481	2,958
Other	608	—
Total revenues	\$ 58,900	\$ 42,819

### 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 March 31, 2020 and December 31, 2019, respectively. Noncurrent deferred costs, which primarily consist of deferred sales commissions, were \$14.5 million and \$14.2 million as of March 31, 2020 and December 31, 2019, respectively. During the three months ended March 31, 2020 and 2019, amortization expense for the deferred costs was \$2.9 million and \$1.6 million, respectively. There was no impairment loss in relation to the costs capitalized for the three months ended March 31, 2020 and the year ended December 31, 2019, respectively.

### Deferred Revenue

\$46.4 million and \$31.7 million of subscription services revenue was recognized during the three months ended March 31, 2020 and 2019, respectively, and was included in the deferred revenue balances at the beginning of the respective period. \$3.5 million of professional services revenue was recognized during the three months ended March 31, 2020 and was included in the deferred revenue balance at the beginning of the period. Professional services revenue recognized during the three months ended March 31, 2019 from deferred revenue balances at the beginning of the respective period was not material.

As of March 31, 2020, approximately \$298.1 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 \$167.0 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

As of March 31, 2020, approximately \$5.7 million of revenue is expected to be recognized from remaining performance obligations for professional services contracts. The Company expects to recognize revenue on approximately \$4.9 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 \$1.4 million and \$1.1 million for the three months ended March 31, 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 March 31, 2020	As of December 31, 2019
<b>Balance sheet information</b>		
ROU assets	\$ 16,457	\$ 13,071
Lease liabilities, current	\$ 3,858	\$ 3,567
Lease liabilities, non-current	16,109	11,823
Total lease liabilities	\$ 19,967	\$ 15,390
<b>Supplemental data</b>		
Weighted average remaining lease term	4.28 years	4.11 years
Weighted average discount rate	7.00%	7.00%
ROU assets obtained in exchange for new lease obligations during the respective period	\$ 5,055	\$ 17,724

Cash paid for amounts included in lease liabilities during the three months ended March 31, 2020 and 2019 was \$1.2 million and \$0.4 million, respectively.

Maturities of lease liabilities as of March 31, 2020 were as follows (in thousands):

<b>Year ending December 31,</b>	
2020 (for the remaining nine months)	\$ 3,875
2021	5,278
2022	4,861
2023	4,787
2024	2,384
Thereafter	3,733
<b>Total undiscounted lease payments</b>	<b>24,918</b>
Less: imputed interest	(4,951)
<b>Total lease liabilities</b>	<b>\$ 19,967</b>

The following table presents components of lease expense for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Operating lease expense	\$ 1,149	\$ 742
Short-term lease expense <sup>(1)</sup>	215	401
	1,364	1,143
Less: Sublease income	(46)	(3)
<b>Total lease expense</b>	<b>\$ 1,318</b>	<b>\$ 1,140</b>

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

As of March 31, 2020, we do not have any leases that have not yet commenced that create significant rights and obligations.



## **(17) Commitments and Contingencies**

### ***Litigation***

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

### ***Employee Contracts***

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

## **(18) Subsequent Events**

The Company evaluated subsequent events and concluded that no subsequent events have occurred that would require recognition in the unaudited Condensed Consolidated Financial Statements or disclosure in the notes thereto.

## **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 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 as active shooter situations, terrorist attacks or severe weather conditions, as well as critical business events such as IT outages, cyber-attacks or other incidents such as product recalls or supply-chain interruptions, 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 5,200 customers as of March 31, 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, seven of the 10 largest global automakers, all four of the largest global accounting firms, nine of the 10 largest U.S.-based health care providers and six of the 10 largest U.S.-based health insurers. We provide our applications to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education and professional services.

We sell all of our critical 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 March 31, 2020, and generally bill and collect payment annually in advance. We derive most of our revenue from subscriptions to applications. Over 91% of the revenue that we recognized in each of the eight most recently completed quarters was generated from contracts entered into in prior quarters or renewals of those contracts; the balance of the revenue that we recognized in each such quarter was generated from contracts entered into with new customers or new contracts, other than renewals, entered into with existing customers in such quarter. Historically, we derived more than 61% of our revenue in each of the last three fiscal years from sales of our Mass Notification application. Our pricing model is based on the number of applications subscribed to and, per application, the number of people, locations and things connected to our platform as well as the volume of communications. We also offer premium services including data feeds for social media, threat intelligence and weather. We generate additional revenue by expanding the number of applications that our customers subscribe to and the number of contacts and devices connected to our platform.

We generated revenue of \$58.9 million and \$42.8 million for the three months ended March 31, 2020 and 2019, respectively, representing a period-over-period increase of 38%. We had net losses of \$25.4 million and \$14.1 million for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020 and 2019, 24% and 29% of our customers, respectively, were located outside of the United States and these customers generated 20% of our total revenue for both the three months ended March 31, 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 February 7, 2020, we entered into a Stock Purchase Agreement with Connexient, Inc. (“Connexient”) pursuant to which we purchased all of the issued and outstanding shares of stock of Connexient for a base consideration of \$20.2 million. We paid \$11.5 million in cash at closing and paid the remaining purchase price with 96,611 newly issued shares of our common stock. On the date of this acquisition, the average price of our 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. At the date of the acquisition, we preliminarily assessed the probabilities of Connexient meeting the fiscal year 2020 revenue metrics and determined them to be probable. Therefore, contingent consideration was recorded as part of the purchase price allocation and the preliminary fair value of the contingent consideration was determined to be \$0.3 million. We acquired Connexient to expand our customer base and for its strategic technology assets to enhance our CEM suite of solutions to broaden support for Internet of Things (“IoT”) applications.

On February 25, 2020, we entered into a Stock Purchase Agreement with CNL Software Limited (“CNL Software”) for a base consideration of approximately \$35.6 million. We paid approximately \$19.6 million in cash at closing and paid the remaining purchase price with 153,217 newly issued shares of our common stock. On the date of this acquisition, the average price of our common stock on the Nasdaq Global Market was \$104.10 per share. We acquired CNL Software to expand our customer base and for its strategic technology assets to enhance our CEM suite of solutions to broaden support for IoT applications.

On March 19, 2020, we entered into a Stock Purchase Agreement with One2Many Group B.V. (“one2many”) pursuant to which we purchased all of the issued and outstanding shares of stock of one2many for a base consideration of \$13.0 million. We 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 our common stock. On the date of this acquisition, the average price of our 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 us 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, we preliminarily assessed the probabilities of one2many meeting the revenue metrics during the period of March 1, 2020 through February 28, 2021 and determined them to be probable. Therefore, contingent consideration was recorded as part of the purchase price allocation and the preliminary fair value of the contingent consideration was determined to be \$2.2 million. We acquired one2many to expand our customer base and for its cell broadcast technology to enhance our public warning applications.

### ***Impacts of COVID-19 to Our Business***

In March 2020, the World Health Organization declared COVID-19 a pandemic. At this time, the extent to which the coronavirus may impact our financial condition or results of operations is uncertain. During the first quarter of 2020, financial results and operations for our Americas and international geographies were not significantly impacted by the COVID-19 outbreak that occurred in many countries beginning in early 2020. 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 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 could 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 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 impact of COVID-19 on our operational and financial performance will depend on certain developments, including new information which may emerge concerning the severity of the outbreak, international actions being taken 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.

### **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 March 31,	
	2020	2019
Revenue	\$ 58,900	\$ 42,819
Cost of revenue <sup>(1)</sup>	20,889	13,981
Gross profit	38,011	28,838
Operating expenses:		
Sales and marketing <sup>(1)</sup>	29,588	20,071
Research and development <sup>(1)</sup>	14,172	11,485
General and administrative <sup>(1)</sup>	15,911	10,558
Total operating expenses	59,671	42,114
Operating loss	(21,660)	(13,276)
Other income (expense), net	(4,426)	(564)
Loss before income taxes	(26,086)	(13,840)
Benefit from (provision for) income taxes	701	(294)
Net loss	\$ (25,385)	\$ (14,134)

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

	Three Months Ended March 31,	
	2020	2019
<b>Stock-based compensation expense</b>		
Cost of revenue	\$ 608	\$ 435
Sales and marketing	3,608	2,368
Research and development	1,874	1,410
General and administrative	4,220	3,572
Total	\$ 10,310	\$ 7,785

	Three Months Ended March 31,	
	2020	2019
<b>Depreciation and amortization expense:</b>		
Cost of revenue	\$ 2,665	\$ 2,013
Sales and marketing	233	147
Research and development	131	108
General and administrative	3,627	1,437
Total	\$ 6,656	\$ 3,705

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

	Three Months Ended March 31,	
	2020	2019
Revenue	100%	100%
Cost of revenue	35%	33%
Gross profit	65%	67%
Operating expenses:		
Sales and marketing	50%	47%
Research and development	24%	27%
General and administrative	27%	25%
Total operating expenses	101%	98%
Operating loss	(37)%	(31)%
Other income (expense), net	(8)%	(1)%
Loss before income taxes	(44)%	(32)%
Benefit from (provision for) income taxes	1%	(1)%
Net loss	(43)%	(33)%

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

### Comparison of the Three Months Ended March 31, 2020 and 2019

#### Revenue

	Three Months Ended March 31,		Change	
	2020	2019	\$	%
(dollars in thousands)				
Revenue	\$ 58,900	\$ 42,819	\$ 16,081	37.6%

Revenue increased by \$16.1 million for the three months ended March 31, 2020 compared to the same period in 2019. The increase was due to a \$16.1 million increase in sales of our products driven by expansion of our customer base from 4,532 customers as of March 31, 2019 to 5,218 customers as of March 31, 2020, including increased sales to larger organizations with greater numbers of contacts and locations.

#### Cost of Revenue

	Three Months Ended March 31,		Change	
	2020	2019	\$	%
(dollars in thousands)				
Cost of revenue	\$ 20,889	\$ 13,981	\$ 6,908	49.4%
Gross margin %	65%	67%		

Cost of revenue increased by \$6.9 million for the three months ended March 31, 2020 compared to the same period in 2019. The increase was due to a \$3.5 million increase in hosting, software and messaging costs, a \$2.6 million increase in employee-related costs associated with our increased headcount from 174 employees as of March 31, 2019 to 248 employees as of March 31, 2020, a \$0.7 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software and a \$0.1 million increase in office related expenses.

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

#### Operating Expenses

##### Sales and Marketing Expense

	Three Months Ended March 31,		Change	
	2020	2019	\$	%
(dollars in thousands)				
Sales and marketing	\$ 29,588	\$ 20,071	\$ 9,517	47.4%
% of revenue	50%	47%		

Sales and marketing expense increased by \$9.5 million for the three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily due to an \$8.6 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 290 employees as of March 31, 2019 to 399 employees as of March 31, 2020. The remaining increase was principally the result of a \$0.4 million increase in office related expenses to support the sales team, a \$0.4 million increase in advertising related cost and trade show expense, and a \$0.1 million increase in software expenses to support the sales team.

#### *Research and Development Expense*

(dollars in thousands)	Three Months Ended March 31,		Change	
	2020	2019	\$	%
Research and development	\$ 14,172	\$ 11,485	\$ 2,687	23.4%
% of revenue	24%	27%		

Research and development expense increased by \$2.7 million for the three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily due to a \$1.8 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 232 employees as of March 31, 2019 to 260 employees as of March 31, 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 March 31, 2019 and \$1.9 million of internally developed software costs during the three months ended March 31, 2020 were capitalized, resulting in a \$0.3 million offset to the increase in the first quarter of 2020.

#### *General and Administrative Expense*

(dollars in thousands)	Three Months Ended March 31,		Change	
	2020	2019	\$	%
General and administrative	\$ 15,911	\$ 10,558	\$ 5,353	50.7%
% of revenue	27%	25%		

General and administrative expense increased by \$5.4 million for the three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily due to a \$2.2 million increase in depreciation and amortization and a \$2.0 million increase in employee-related costs, which includes stock-based compensation, associated with our increased headcount from 91 employees as of March 31, 2019 to 124 employees as of March 31, 2020. The remaining increase was due to a \$0.4 million in software costs to support the administrative team and a \$0.3 million increase in office related expenses to support the administrative team.

#### *Other Income (Expense), Net*

(dollars in thousands)	Three Months Ended March 31,		Change	
	2020	2019	\$	%
Other income (expense), net	\$ (4,426)	\$ (564)	\$ (3,862)	(684.8)%
% of revenue	(8)%	(1)%		



Other expense increased by \$3.9 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to a \$4.3 million increase in interest expense related to our convertible senior notes offset by \$0.6 million of interest income earned on our investments as a result of proceeds invested from our convertible note and common stock offerings.

## 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 March 31,	
	2020	2019
Adjusted EBITDA	\$ (4,771)	\$ (1,892)
Adjusted gross margin	39,358	29,606
Free cash flow	(1,727)	3,896

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

	Three Months Ended March 31,	
	2020	2019
Net loss	\$ (25,385)	\$ (14,134)
Interest and investment (income) expense, net	4,349	458
(Benefit from) provision for income taxes	(701)	294
Depreciation and amortization	6,656	3,705
Stock-based compensation	10,310	7,785
Adjusted EBITDA	\$ (4,771)	\$ (1,892)

- 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 March 31,	
	2020	2019
Gross profit	\$ 38,011	\$ 28,838
Amortization of acquired intangibles	739	333
Stock-based compensation	608	435
Adjusted gross margin	<u>\$ 39,358</u>	<u>\$ 29,606</u>

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

	Three Months Ended March 31,	
	2020	2019
Net cash provided by operating activities	\$ 801	\$ 8,687
Capital expenditures	(524)	(2,773)
Capitalized software development costs	(2,004)	(2,018)
Free cash flow	<u>\$ (1,727)</u>	<u>\$ 3,896</u>

### **Additional Supplemental Non-GAAP Financial Measures**

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain additional supplemental non-GAAP financial measures, including non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP sales and marketing expense, non-GAAP research and development expense, non-GAAP general and administrative expense, non-GAAP total operating expenses, non-GAAP operating loss and non-GAAP net loss, which we collectively refer to as non-GAAP financial measures. These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense, amortization of acquired intangibles and accretion of interest on convertible senior 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 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. Accordingly, we believe that excluding these expenses provides investors and management with greater visibility of the underlying performance of our business operations, facilitates comparison of our results with other periods and may also facilitate comparison with the results of other companies in our industry.

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

The following table reconciles our GAAP to non-GAAP financial measures for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	\$ 20,889	\$ 13,981
Amortization of acquired intangibles	(739)	(333)
Stock-based compensation expense	(608)	(435)
Non-GAAP cost of revenue	<u>\$ 19,542</u>	<u>\$ 13,213</u>
Gross profit	\$ 38,011	\$ 28,838
Amortization of acquired intangibles	739	333
Stock-based compensation expense	608	435
Non-GAAP gross profit	<u>\$ 39,358</u>	<u>\$ 29,606</u>
Non-GAAP gross margin	66.8%	69.1%
Sales and marketing expense	\$ 29,588	\$ 20,071
Stock-based compensation expense	(3,608)	(2,368)
Non-GAAP sales and marketing	<u>\$ 25,980</u>	<u>\$ 17,703</u>
Research and development expense	\$ 14,172	\$ 11,485
Stock-based compensation expense	(1,874)	(1,410)
Non-GAAP research and development	<u>\$ 12,298</u>	<u>\$ 10,075</u>
General and administrative expense	\$ 15,911	\$ 10,558
Amortization of acquired intangibles	(3,407)	(1,297)
Stock-based compensation expense	(4,220)	(3,572)
Non-GAAP general and administrative	<u>\$ 8,284</u>	<u>\$ 5,689</u>
Total operating expenses	\$ 59,671	\$ 42,114
Amortization of acquired intangibles	(3,407)	(1,297)
Stock-based compensation expense	(9,702)	(7,350)
Non-GAAP total operating expenses	<u>\$ 46,562</u>	<u>\$ 33,467</u>
Operating loss	\$ (21,660)	\$ (13,276)
Amortization of acquired intangibles	4,146	1,630
Stock-based compensation expense	10,310	7,785
Non-GAAP operating loss	<u>\$ (7,204)</u>	<u>\$ (3,861)</u>
Net loss	\$ (25,385)	\$ (14,134)
Amortization of acquired intangibles	4,146	1,630
Stock-based compensation expense	10,310	7,785
Accretion of interest on convertible senior notes	5,436	1,201
Non-GAAP net loss	<u>\$ (5,493)</u>	<u>\$ (3,518)</u>

### 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 \$498.4 million as of March 31, 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. As a result, we did not apply for, nor receive, a loan under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. 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 are expected to 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 for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2020	2019
Cash, cash equivalents and restricted cash at beginning of period	\$ 539,662	\$ 60,068
Cash provided by operating activities	801	8,687
Cash provided by (used in) investing activities	(37,469)	17,984
Cash provided by financing activities	4,168	148,638
Effects of exchange rates on cash	(666)	(28)
Cash, cash equivalents and restricted cash at end of period	\$ 506,496	\$ 235,349

## 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 provided \$0.8 million in cash in the three months ended March 31, 2020, primarily from an increase in non-cash operating expenses of \$25.0 million and \$1.2 million in cash provided by operating assets and liabilities, which was offset by our net loss of \$25.4 million. Specifically, we recognized non-cash charges aggregating to \$10.3 million for stock-based compensation, \$6.7 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$5.4 million related to the accretion of interest on our convertible senior notes, \$2.9 million for amortization of deferred commissions, and \$0.9 million for provision for credit losses, offset by \$1.2 million decrease in deferred income taxes. The net change in operating assets and liabilities of \$1.2 million reflected a \$5.1 million increase in deferred revenue, a \$3.6 million increase in other liabilities, a \$3.2 million increase in accrued employee related expenses due to timing of payments to employees, a \$1.7 million increase in accrued expenses as a result of timing of payments made to vendors, and a \$0.4 million decrease in accounts receivable. These amounts were offset by a \$4.7 million increase in deferred cost, a \$4.1 million increase in other assets, a \$3.1 million increase in prepaid expenses for upfront payments made for prepaid software and insurance, and a \$1.1 million net decrease in accounts payable.

Operating activities provided \$8.7 million in cash in the three months ended March 31, 2019, primarily from \$8.5 million in cash provided by operations as a result of changes in operating assets and liabilities, which was increased by \$14.3 million of non-cash operating expenses and partially offset by our net loss of \$14.1 million. Specifically, we recognized non-cash charges aggregating to \$3.7 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$7.8 million for stock-based compensation, \$1.6 million for amortization of deferred costs, \$1.2 million related to the accretion of interest on our convertible senior notes, and \$0.2 million for our bad debt provision which was offset by \$0.2 million of investment income. The change in operating assets and liabilities reflected a \$5.5 million decrease in accounts receivable, a \$2.1 million decrease in other assets, a \$3.1 million increase in accounts payable and accrued expenses as a result of timing of payments made to vendors, a \$1.2 million increase in accrued employee related expenses due to timing of payments to employees, a \$2.8 million increase in deferred revenue and a \$0.3 million increase in other liabilities. These increases were partially offset by a \$4.2 million increase in prepaid expenses for upfront payments made for prepaid software and insurance and a \$2.3 million decrease in deferred costs.

### 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 \$37.5 million in cash in the three months ended March 31, 2020, due to \$34.9 million of cash paid for the acquisitions of Connexient, CNL Software and one2many, a \$2.0 million investment in software development, and \$0.5 million in purchases of property and equipment.

Investing activities provided \$18.0 million in cash in the three months ended March 31, 2019, primarily as a result of cash provided of \$24.8 million in maturities of our short-term investments, which was offset by our purchase of short-term investments of \$2.0 million, investment in software development of \$2.0 million and our purchase of property and equipment of \$2.8 million.

### *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”), 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 \$4.2 million of cash in the three months ended March 31, 2020, which reflects proceeds of \$3.0 million from the exercise of stock options and \$1.7 million from the issuance of stock under our employee stock purchase plan. These amounts were offset by cash payments of \$0.5 million for other financing activities.

Financing activities provided \$148.6 million of cash in the three months ended March 31, 2019, which reflects proceeds of \$139.1 million from our common stock offering, \$1.3 million from the issuance of stock under our employee stock purchase plan and proceeds of \$8.7 million from the exercise of stock options. This amount was offset by a \$0.3 million payment for employee withholding taxes, \$0.1 million in payments on capital leases and a \$0.1 million payment on a note payable.

### **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 March 31, 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 March 31, 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. 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 March 31, 2020. No 2022 Notes holders have exercised their right for conversion as of March 31, 2020. The 2024 Notes were not convertible at March 31, 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 \$498.4 million as of March 31, 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 and Swedish Kronor. Movements in foreign currencies in which we transact business could significantly affect future net earnings. We do not currently engage in any hedging activity to reduce our potential exposure to currency fluctuations, although we may choose to do so in the future. A hypothetical 10% change in foreign exchange rates during any of the periods presented would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rate.

#### ***Inflation Risk***

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

**Item 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.

***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 continues to spread throughout the United States and the world and has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. 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, a vast majority of our employees began working remotely in March 2020. 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. To the extent that disruptions occur, 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 first quarter of fiscal year 2020, there can be no assurance that these events will not have a material adverse impact on our financial results in subsequent quarters or the full fiscal year.

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 is contained and the shelter-in-place orders 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 and any new information that may emerge concerning the severity of the virus, its spread to other regions as well as 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 current 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 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, and one2many, 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, and one2many 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 February 7, 2020, we issued 96,611 shares of our common stock to various persons and entities as partial consideration for our purchase of Connexient, Inc. The offer, sale and issuance of these shares was deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D. The recipients of the shares acquired them for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to these shares. The recipients were all accredited investors within the meaning of Rule 501 of Regulation D under the Securities Act and had adequate access to information about us. No underwriters or placement agents were involved in this transaction.

On February 25, 2020, we issued 153,217 shares of our common stock to various persons as partial consideration for our purchase of CNL Software 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.

On March 19, 2020, we issued 52,113 shares of our common stock to various persons and entities as partial consideration for our purchase of One2Many Group B.V. The offer, sale and issuance of these shares was deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering. The recipients of the shares acquired them for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to these shares. The recipients were all accredited investors within the meaning of Rule 501 of Regulation D under the Securities Act and had adequate access to information about us. No underwriters or placement agents were involved in this transaction.

**(b) Use of Proceeds**

None

**(c) Issuer Purchase of Equity Securities**

None

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Mine Safety Disclosures.**

Not applicable

**Item 5. Other Information.**

None

**Item 6. Exhibits.**

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Everbridge, Inc.</a>		8-K	001-37874	3.1	9/21/16
3.2	<a href="#">Amended and Restated Bylaws of Everbridge, Inc.</a>		8-K	001-37874	3.2	9/21/16
10.1+	<a href="#">Employment Agreement, dated as of October 8, 2019, by and between Everbridge, Inc. and Ajay Nigam.</a>	X				
10.2+	<a href="#">2020 Management Incentive Plan of Everbridge, Inc.</a>	X				
31.1	<a href="#">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.</a>	X				
31.2	<a href="#">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.</a>	X				
32.1*	<a href="#">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.</a>	X				
32.2*	<a href="#">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.</a>	X				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File - the cover page interactive data is embedded within the Inline XBRL document or included within the Exhibit 101 attachments.	X				

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

+ Indicates management contract or compensatory plan.

**SIGNATURES**

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

**Everbridge, Inc.**

Date: May 8, 2020

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

Date: May 8, 2020

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



October 8, 2019

Ajay Nigam  
Address  
Address

Re: Terms of Employment

Dear Ajay:

This letter agreement (this “**Agreement**”) will set forth the terms of your “at-will” term employment relationship with Everbridge, Inc., and/or any present or future parent, subsidiary or affiliate thereof (collectively, the “**Company**”). This Agreement hereby supersedes any and all previous agreements relating to your employment relationship with the Company. The terms of your position with the Company are as set forth below and will be effective only upon, and subject to, the signing of this Agreement and any other agreements or documentation required hereunder, by you and the Company as of the Commencement Date referenced below. Your new role shall commence on January 2, 2020 (the “**Commencement Date**”), unless you and the Company mutually agree on an alternative date.

1. Employment.

(a) Title and Duties. Subject to the terms and conditions of this Agreement, the Company will employ you, and you will be employed by the Company, on an “at-will” basis, as Senior Vice President and Chief Product Officer and such additional or different position or positions as the Board of Directors of the Company (the “**Board**”) may determine in its sole discretion, reporting to David Meredith, Chief Executive Officer or his direct designate. You shall do and perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with your position, including but not limited to those described in Schedule 1 attached hereto.

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(b) Full Time Best Efforts. For so long as you are employed hereunder, you will devote substantially all of your business time and energies to the business and affairs of the Company, and shall at all times faithfully, industriously and to the best of your ability, experience and talent, perform all of your duties and responsibilities hereunder. In furtherance of, and not in limitation of the foregoing, during the term of this Agreement, you further agree that you shall not render commercial or professional services of any nature, including as a founder, advisor, or a member of a board of directors, to any person or organization, whether or not for compensation, if such services would materially interfere with your duties under this Agreement, without the prior approval of the Chief Executive Officer in his sole discretion; provided, however, that nothing contained in this Section 1(c) will be deemed to prevent or limit your right to (i) manage your personal investments on your own personal time or (ii) participate in religious, charitable or civic organizations in any capacity on your own personal time. As set forth above, your employment with the Company is “at-will,” and, accordingly, either you or the Company may terminate your employment at any time, with or without cause, for any reason or no reason.

(c) Location. Unless the parties hereto otherwise agree in writing, during the term of this Agreement, you shall perform the services required to be performed pursuant to this Agreement from our Burlington office. In addition, the Company expects that you will travel to other locations to meet with customers, prospects, and partners in connection with the Company’s business.

2. Compensation. During the term of your employment with the Company, the Company will pay you the following compensation:

(a) Salary. As of the Commencement Date, you will be paid an annual salary of Three Hundred Thousand (\$300,000.00), as may be increased from time to time as part of the Company’s normal salary review process (the “**Salary**”). The Salary shall be prorated for any partial year of employment on the basis of a 365-day year. Your Salary will be subject to standard payroll deductions and withholdings, and payable in accordance with the Company’s standard payroll practice as it exists from time to time.

(b) Expenses. During the term of your employment, the Company shall reimburse you for all reasonable and documented expenses incurred by you in the performance of your duties, under this Agreement in accordance with Company policy.

(c) Annual Performance Bonus. You will be eligible to earn an annual performance bonus at the conclusion of each year of employment with the Company (the “Annual Bonus”). The amount, award and timing of the payment of the Annual Bonus shall be set forth in a Company Management Incentive Plan, established each year by the Board, in its discretion. The Company’s Management Incentive Plan for fiscal year 2019 is set forth on Schedule A attached hereto and for 2020, your target is 40% (\$120,000). Company Management Incentive Plans, if any, for subsequent years, shall be provided to you by the Chief Executive Officer.

(d) Signing Bonus. You will be paid a signing bonus (the “Signing Bonus”) of Fifty Thousand Dollars (\$50,000) within thirty (30) days of the execution of this Agreement. If you do not commence employment with the Company for any reason or you voluntarily terminate, which shall not include termination for Good Reason, your employment with the Company on or before twelve (12) months from the payment date, you will be responsible for promptly reimbursing the Company for the full amount of the Signing Bonus.



(e) Restricted Stock Units and Performance Stock Units. Upon approval by the Board of Directors of the Company, you will be granted 27,500 Restricted Stock Units (RSUs) and 27,500 Performance Stock Units (PSUs). The RSUs will vest over four years at 25% per year, starting on the first anniversary of the last day of the month in which the grant date occurs, provided that, there has not been a termination of Continuous Service (as defined in the Company's 2016 Equity Incentive Plan) as of each such date. The PSUs will vest according to the PSU vesting schedule included as Exhibit A to this Offer Letter. In the event of a Change in Control (as defined in the 2016 Equity Incentive Plan), then the vesting of your RSUs and PSUs shall accelerate as follows: i) for the percentage of shares equal to the number of months of full-time employment as of the date of a change of control divided by forty eight (i.e., number of months of employment divided by 48), as well as, ii) the additional amount of 50% of all of your unvested (as of the date of a Change of Control after the acceleration granted in (i) above) RSUs and PSUs shall vest in full. In the event the acquirer or successor party does not assume or convert 100% of your remaining unvested shares after accelerated vesting in (i) and (ii) above as part of the Change of Control or does not offer equivalently valued new equity incentives to you, then 100% of your remaining unvested RSUs and PSUs will vest in full immediately prior to consummation of the Change of Control.

(f) Employee Benefits. As an employee of the Company, you will be eligible to participate in such Company-sponsored benefits and programs as are made generally available to other employees of the Company. This includes paying for your portion of healthcare coverage and same 401(k) match as other Company employees. You will receive the same cell phone stipend as other Everbridge executives. In addition, you will be entitled to (i) annually accrue vacation and/or sick time in accordance with the Company's vacation policy as established by the Board and as in effect from time to time. The Company reserves the right to change or eliminate any benefit plans at any time, upon notice to you.

3. Separation Benefits. You shall be entitled to receive separation benefits upon termination of employment only as set forth in this Section 3; *provided, however*, that in the event you are entitled to any severance pay under a Company-sponsored severance pay plan, any such severance pay to which you are entitled under such severance pay plan shall reduce the amount of severance pay to which you are entitled pursuant to this Section 3. In all cases, upon termination of employment you will receive payment for all salary and unused vacation accrued as of the date of your termination of employment, and your benefits will be continued under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of termination and in accordance with applicable law. In furtherance of, and not in limitation of the foregoing, but without duplication, during the period wherein which you shall be receiving Separation Payments in accordance with the provisions of Section 3(d) hereof (the "**Severance Period**"), then the Company shall, at its election, either (i) continue to pay for your health benefits under the Company's sponsored health care program in which you were enrolled and eligible to receive benefits prior to your termination of employment, or (ii) pay for your health coverage under the Consolidated Omnibus Budget Reconciliation Act ("**COBRA**"), in each case, for the Severance Period, when such premiums are due and owing.

(a) Voluntary Resignation. If you voluntarily elect to terminate your employment with the Company (other than under the circumstances described in Section 3(c) below), you shall not be entitled to any separation benefits.

(b) Termination for Cause. If the Company or its successor terminates your employment for Cause (as defined below) then you shall not be entitled to receive any separation benefits.

(c) Termination for Death or Disability. If your employment with the Company is terminated by reason of death or disability, then, as a severance benefit, the Company shall continue to pay one-twelfth (1/12<sup>th</sup>) of your Salary for a period of three (3) months, in accordance with the Company's normal payroll schedule and policy in effect from time to time. For purposes of this section, "**Disability**" shall mean your inability to perform your duties under this Agreement because you have become permanently disabled within the meaning of any policy of disability income insurance covering employees of the Company then in force. In the event the Company has no policy of disability income insurance covering employees of the Company in force when you become disabled, the term "**Disability**" shall mean your inability to perform your duties under this Agreement by reason of any incapacity, physical or mental, which the Board, based upon medical advice or an opinion provided by a licensed physician acceptable to the Board, determines to have incapacitated you from satisfactorily performing all of your usual services for the Company for a period of at least ninety (90) days during any twelve (12) month period (whether or not consecutive) and is expected to continue to incapacitate you thereafter, not including any time during which you were on medical leave required by federal or state law. Based upon such medical advice or opinion, the determination of the Board shall be final and binding and the date such determination is made shall be the date of such Disability for purposes of this Agreement.

(d) Involuntary Termination. Subject to the provisions of Section 5 hereof, if your employment is terminated by the Company other than for Cause then, as a severance benefit, the Company shall continue to pay you an amount equal to one-twelfth (1/12<sup>th</sup>) of your Salary for six (6) months.

(e) Definition of "Cause". For purposes of this Agreement, "**Cause**" shall mean any of the following: (i) acts of moral turpitude, fraud or dishonesty that involve the assets of the Company, its customers, suppliers or affiliates; (ii) the conviction of, or a pleading of guilty or *nolo contendere* to, a felony other than involving a traffic related infraction; (iii) use of narcotics, liquor or illicit drugs in a manner that has had a detrimental effect on the performance of your duties; (iv) willfully and repeatedly neglecting your duties to the Company; (v) engaging in any conduct which, after an investigation by a neutral third party, is determined to be discriminatory or harassing toward other Company employees; or (vi) engaging in any conduct which breaches a material provision of this Agreement or the Inventions Agreement (as defined below).

(A) Cause shall only exist where the Company has provided you with written notice of the alleged problem or violation of this Agreement or the Inventions Agreement, and you shall have failed to cure such condition to the reasonable satisfaction of the Company within ten (10) business days. In making any determination that Cause exists, the Board shall act fairly and in good faith and shall give you an opportunity to appear and be heard at a meeting of the Board or any committee thereof and present evidence on your behalf. For any termination pursuant to (e)(i) or

(e)(vi) of Section 3, the Company must have reasonable, specific evidence to establish that such conduct has occurred or “Cause” shall not exist. For the avoidance of doubt, and notwithstanding anything herein contained to the contrary, in the event that (x) any of the conditions specified in Section (e)(i) through (e)(vi) of Section 3 shall have occurred, and (y) the Company has reasonable evidence to establish that such conduct has occurred, and (z) the occurrence of any such event shall not be capable of cure, then the Company shall not be required to provide you any notice and a cure period in respect thereof.

4. Mitigation. You shall not be required to mitigate the amount of any payment or benefits provided for in this Agreement by seeking other employment or otherwise. Further, the amount of any payment or benefits provided for in this Agreement shall not be reduced by any compensation earned by you as a result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by you to the Company or otherwise.

5. Conditions to Receipt of Severance or other Benefits Pursuant to this Agreement.

(a) Release of Claims Agreement. Notwithstanding anything herein contained to the contrary, the receipt of any severance or other benefits pursuant to Section 3(d) of this Agreement (the “**Separation Payments**”) is subject to your signing and not revoking a separation agreement and release of claims, based on the Company’s standard form release, of any and all claims you may have against the Company and its officers, employees, directors, parents and affiliates, in substantially the form attached hereto on **Exhibit A** (the “**Release**”), which must become effective and irrevocable no later than the sixtieth (60<sup>th</sup>) day following the termination of employment (the “**Release Deadline**”). If the Release does not become effective and irrevocable by the Release Deadline, you will forfeit any rights to Separation Payments or benefits under this Agreement. No Separation Payments and benefits under this Agreement will be paid or provided until the Release becomes effective and irrevocable, and any such Separation Payments and benefits otherwise payable between the date of your termination of employment and the date the Release becomes effective and irrevocable will be paid on the date the Release becomes effective and irrevocable.

(b) Continued Compliance with Agreements. Your receipt of any Separation Payments or other benefits pursuant to this Agreement will be subject to, and contingent upon, your not being in breach of this Agreement and / or the Inventions Agreement as of the date of your termination, and your continued compliance following the date of your termination with the terms of this Agreement, the Inventions Agreement and the Release, notwithstanding anything herein contained to the contrary.

6. Confidential and Proprietary Information.

(a) Confidential Information and Inventions Agreement. As a condition to the execution and effectiveness of this Agreement, you agree to abide by, the Company’s Confidential Information and Inventions Agreement which you previously executed (the “**Inventions Agreement**”). In furtherance, and not in limitation of the provisions thereof, you agree, during the term hereof and thereafter, that you shall take all steps reasonably necessary to hold the Company’s proprietary information in trust and confidence, will not use proprietary information in any manner or for any purpose except in connection with the performance of your services to the Company, and will not (other than in the performance of the services to the Company as herein contemplated) disclose any such proprietary information to any third party without first obtaining the Company’s express written consent on a case-by-case basis.

(b) Third Party Information. You understand that the Company has received, and will in the future receive, from third parties confidential or proprietary information (“**Third Party Information**”) subject to a duty on the Company’s part to maintain the confidentiality of such information and use it only for certain limited purposes. You agree to hold Third Party Information in confidence and not to disclose to anyone (other than the Company’s personnel who need to know such information in connection with their work for the Company) or to use, except in connection with the performance of your services to the Company, Third Party Information unless expressly authorized in writing by an officer of the Company.

(c) Whistleblower Exception. Notwithstanding any provision of this Agreement to the contrary, including but not limited to this Section 6, you may report possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, and any agency Inspector General, or make other disclosures that are protected under the whistleblower provisions of federal law or regulation. You do not need the prior authorization from the Company to make any such reports or disclosures and you are not required to notify the Company that you have made such reports or disclosures.

7. Covenant Not to Compete. During the longer of (a) a period of two years beginning on the Commencement Date, or (b) the duration of your employment with the Company plus two years following the termination thereof, you shall not, directly or indirectly (whether as an employer, operator, agent, independent contractor, consultant, owner, director, officer, shareholder, investor, partner (general or limited), joint venturer or any other relationship or relationships similar to any of the foregoing), anywhere in the world, except as specifically provided in this Section 7 below:

(a) Restriction on Competitive Activities. Engage in any activities, perform any services or conduct, have an interest in or participate in any businesses that are competitive with any part of the business of the Company as currently conducted or as currently contemplated to be conducted (the “Business”), including without limitation, develop, create, license, sell, distribute or otherwise commercially exploit any product, service or methodology that has the same principal function or features as the Company’s proprietary software products and related services that constitute the Business.

(b) No Solicitation of Customers. Solicit or divert away or attempt to solicit or divert away any customer of the Company in an effort to provide products or services to such customer which are competitive with the Business.

(c) Restrictions on Relationships Involving Competitive Activities. Be engaged by, employed by, consult with, own any capital stock of, or have any financial interest of any kind in, any individual, person or entity, which conducts a business that is competitive with any part of the Business. Notwithstanding the preceding sentence, you may own, for investment purposes only, up to 1% in the aggregate of the outstanding stock or other equity interest of any entity that is competitive with the Business.

8. Covenant Not to Solicit. During the longer of (a) a period of one year beginning on the Commencement Date, or (b) the duration of your employment with the Company plus one year following the termination thereof, you shall not, directly or indirectly (whether as an employer, operator, agent, independent contractor, consultant, owner, director, officer, shareholder, investor, partner (general or limited), joint venturer or any other relationship or relationships similar to any of the foregoing), anywhere in the world, except as specifically provided in this Section 8 below:

(a) Restrictions on Relationships Involving Solicitation. Cause, induce, solicit, recruit, hire or encourage or attempt to cause, induce, solicit, recruit, hire or encourage any person or entity that prior to the date hereof was an employee, subcontractor, contractor, agent, distributor, licensee, licensor or supplier of the Company to terminate, or otherwise change in any manner adverse to the Company or any of its affiliates, its relationship with the Company, or, hire or attempt to hire any person employed by the Company or any of its affiliates, provided that you may hire such employee if such employee's employment with the Company or any of its affiliates has been terminated involuntarily prior to date of hire by you.

9. Arbitration.

(a) Agreement to Arbitrate. Except as provided for any action arising out of any violation of the Inventions Agreement or as set forth in clause (b) below addressing excluded claims and remedies, you and the Company both agree that any disputes of any kind whatsoever arising out of or relating to the termination of your employment with the Company, including any breach of this Agreement, shall be subject to final and binding arbitration.

(b) Excluded Claims, Relief and Enforcement. You understand that this Agreement does not prohibit you from pursuing an administrative claim with a local, state, or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or the Workers' Compensation Board, or the Department of Unemployment Assistance for unemployment benefits. This Agreement does not preclude the Company from pursuing court action regarding any claims arising out of any breach of the Inventions Agreement or other claims not otherwise resulting from, or arising out of, the termination of your employment with the Company. Nothing in this Agreement prohibits either party from seeking injunctive or declaratory relief from a court of competent jurisdiction. Either the Company or you may bring an action in court to compel arbitration under this Agreement and to enforce an arbitration award. Otherwise, with the exception of claims set forth in this clause or arising out of the Inventions Agreement, neither party shall initiate or prosecute any lawsuit or claim in anyway related to any arbitrable claim, including without limitation any claims as to the making, existence, validity, or enforceability of the agreement to arbitrate.

(c) Procedure. You agree that any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. ("JAMS"), pursuant to its employment arbitration rules and procedures (the "JAMS Rules"), which are available at [www.jamsadr.com/rules-employment-arbitration](http://www.jamsadr.com/rules-employment-arbitration). A neutral and impartial arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication, motions to dismiss and demurrers, and motions related to discovery, prior to any arbitration hearing. You also agree that the arbitrator shall have the power to award any remedies available under applicable law. In the event that either party to this Agreement rejects a written offer to compromise from the other

party, and fails to obtain a more favorable judgment or award, the arbitrator may award attorneys' fees and costs to the party that made the offer to compromise in an amount that the arbitrator deems appropriate, taking into consideration the attorneys' fees and costs (including expert fees) actually incurred and reasonably necessary to defend or prosecute the action. The arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law. You understand that the Company will pay the costs and fees of the arbitration that you initiate, but only those fees over and above the costs you would have incurred had you filed a complaint in a court of law. You agree that the arbitrator shall prepare a written decision containing the essential findings and conclusions on which the award is based. You agree that any arbitration under this Agreement shall be conducted in Boston, Massachusetts.

(d) Exclusive and Final Remedy. Except as provided by the JAMS Rules and this Agreement, arbitration shall be the sole, exclusive and final remedy for any dispute between you and the Company. Accordingly, except as provided for by the JAMS Rules and this Agreement, neither you nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Nothing in this Agreement or in this provision is intended to waive the provisional relief remedies available under the JAMS Rules.

(e) Prohibition of Group Actions. Claims must be brought in your individual capacity, not as a representative or class member in any purported class or representative proceeding. The arbitrator shall not consolidate claims of different employees into one proceeding, nor shall the arbitrator have the power to hear arbitration as a class action.

(f) Voluntary Nature of Agreement. You acknowledge and agree that you are executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. You further acknowledge and agree that you have carefully read this Agreement and have asked any questions needed for you to understand the terms, consequences, and binding effect of this Agreement and fully understand it, including that ***you are waiving your right to a jury trial.*** Finally, you acknowledge that you have been advised by the Company to seek the advice of an attorney of your choice before signing this Agreement and you agree that you have been provided such an opportunity.

10. General.

(a) Entire Agreement, Amendment and Waiver. This Agreement, together with the other agreements specifically referred to herein, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof, including but not limited to the offer letter between you and the Company dated May 30, 2012. The terms and provisions of this Agreement may be modified or amended only by written agreement executed by the parties hereto. The terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. Each such waiver or consent will be effective only in the specific instance and for the purpose for which it was given, and will not constitute a continuing waiver or consent.

(b) Notices. Any notice, request, instruction or other document required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified; (b) three (3) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (c) one (1) business day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the following address of such party or at such other address as such party may designate by ten (10) days advance written notice to the other parties hereto in accordance with the provisions hereof:

If to the Company: Everbridge, Inc.  
25 Corporate Drive  
Burlington, MA 01803  
Attention: Chief Executive Officer

with a copy to: Everbridge, Inc.  
25 Corporate Drive  
Burlington, MA 01803  
Attention: General Counsel

If to you: Ajay Nigam  
Address  
Address

(c) Availability of Injunctive Relief. The parties hereto agree that, notwithstanding anything to the contrary herein contained, any party may petition a court for injunctive relief where either party alleges or claims a violation of this Agreement or the Inventions Agreement or any other agreement regarding trade secrets, confidential information, noncompetition, non-solicitation or assignment of inventions. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorney's fees.

(d) Assignment. The Company may assign its rights and obligations hereunder to any person or entity that succeeds to all or substantially all of the Company's business or that aspect of the Company's business in which you are principally involved. You may not assign your rights and obligations under this Agreement without the prior written consent of the Company.

(e) Governing Law. This Agreement, and the rights and obligations of the parties hereunder, will be construed in accordance with and governed by the law of the Commonwealth of Massachusetts, without giving effect to the conflict of law principles thereof.

(f) Taxes. All payments to you under this Agreement shall be subject to all applicable federal, state and local withholding, payroll and other taxes.

(g) Severability. The finding by an arbitrator or a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such arbitrator or court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the parties' intention with respect to the invalid or unenforceable term or provision. If moreover, any one or more of the provisions contained in this Agreement will for any reason be held to be excessively broad as to duration, geographic scope, activity or subject, it will be construed by limiting and reducing it, so as to be enforceable to the extent compatible with the applicable law as it will then appear.

(h) Interpretation; Construction. The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel to the Company, but you have been encouraged to consult with, and have consulted with, your own independent counsel and tax advisors with respect to the terms of this Agreement. The parties acknowledge that each party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

(i) Return of Company Property. Upon termination of this Agreement or earlier as requested by the Company, you shall deliver to the Company any and all equipment, and, at the election of the Company, either deliver or destroy, and certify thereto, any and all drawings, notes, memoranda, specifications, devices, formulas and documents, together with all copies, extracts and summaries thereof, and any other material containing or disclosing any Third Party Information or Proprietary Information (as defined in the Inventions Agreement) of the Company.

(j) Survival. The provisions of Sections 3, 5, 6, 7, 8 and 9, and the provisions of the Inventions Agreement, shall survive termination of this Agreement.

(k) Representations and Warranties. By signing this Agreement, you represent and warrant that (i) you are not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and (ii) your execution and performance of this Agreement shall not violate or breach any other agreements between you and any other person or entity, and (iii) you have provided the Company with copies of any written agreements presently in effect between you and any current or former employer. You further represent and warrant that you will not, during the term hereof, enter into any oral or written agreement in conflict with any of the provisions of this Agreement, the agreements referenced herein and the Company's policies.

(l) Confirmation of Employment Status. Prior to your first day of employment with the Company, and as a condition to such employment, you shall provide the Company with documentation of your eligibility to work in the United States, as required by the Immigration and Reform and Control Act of 1986.



(m) Trade Secrets of Others. It is the understanding of both the Company and you that you shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including your former employers, nor shall the Company seek to elicit from you any such information. Consistent with the foregoing, you shall not provide to the Company and/or its affiliates, and the Company and/or its affiliates shall not request, any documents or copies of documents containing such information.

(n) Telecopy Execution and Delivery. A facsimile, telecopy or other reproduction of this Agreement may be executed by one or more parties hereto and delivered by such party by facsimile or any similar electronic transmission device pursuant to which the signature of or on behalf of such party can be seen. Such execution and delivery shall be considered valid, binding and effective for all purposes. At the request of any party hereto, all parties hereto agree to execute and deliver an original of this Agreement as well as any facsimile, telecopy or other reproduction hereof.

(o) Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument.

EVERBRIDGE, INC.

Executive Employment Agreement -- Counterpart Signature Page

If the foregoing accurately sets forth our agreement, please so indicate by signing and returning to us the enclosed copy of this letter.

Very truly yours,

**EVERBRIDGE, INC.**

By: /s/ David Meredith  
Name: David Meredith  
Title: CEO  
Date: October 22, 2019

ACCEPTED AND AGREED TO BY:

/s/ Ajay Nigam  
Ajay Nigam

## Schedule 1

### **Duties and Responsibilities**

The Chief Product Officer will manage the evolution of EVBG's product portfolio, drive innovation and advance the organization's position as a leader in critical event management. This newly created role will design, implement and lead a product management organization and framework that will optimize our current product portfolio, grow adjacencies and rapidly develop and launch impactful new products and services.

The person will be an experienced product management leader with a background in managing a portfolio of products and an innovator with strong execution skills. This position requires an understanding of the industry and business acumen to include knowledge of marketing, research, product development, technology and finance.

#### **Responsibilities:**

Your primary responsibility will be the overall success of our product portfolio - defining, communicating, and executing its strategy to achieve our growth, margin and customer retention goals. As part of this broad purpose, you will:

- Drive business strategies that sustain our competitive advantage and expand our addressable market. Provide strategic leadership and direction to the organization to drive competitive advantage and enable significant growth.
- Develop business cases in conjunction with internal and external stakeholders for product evolution by understanding customer needs, competition, addressable market dynamics, key partners, technical feasibility, and LOE.
- Design, build and lead a product management organization and framework that will optimize our current product portfolio, grow adjacencies and rapidly develop and launch impactful new products and services.
- Through collaboration across the organization, lead the product management life cycle from concept to launch of the product(s), monitoring ongoing performance and retiring products when necessary.
- Incorporate best-in-class customer experience into our products
- Engage with and develop a deep understanding of customers, prospects, partners and the competitive landscape, their strategic direction, pain points, desired integrations, and culture to develop a thoughtful and informed perspective of product and market opportunities, including competition and differentiation.
- Collaborate effectively and frequently with engineering, marketing, sales and the market to scale the business.
- Research and recommend strategic partnerships for product integration, delivery, and/or distribution, actively participating in exploratory and confirmatory partnership discussions/meetings.
- Oversee product releases to ensure effective alignment between product and go-to-market teams (e.g. beta processes, handover to marketing, sales training and messaging, etc).
- Collaborate closely with sales and marketing to develop and deliver sales training, sales collateral, product collateral, and other product assets.

- Attend industry and partner conferences, and speak about/demo EVBG to customers, prospects, and influencers both informally and on panels, webinars, podcasts and other outlets.
- Create product packaging and packing strategy based on customer, competition, partner, and market dynamics.

**Required Experience, Knowledge and Skills:**

- 5+ years of executive management experience
- 15+ years of experience leading product across multiple lines of business
- Computer Science or Engineering degree required, MBA a plus
- Change management: Understanding the stresses and risks inherent in significant organizational change and how to mobilize the organization behind the change objectives
- Sophisticated communication (written and verbal), negotiation, problem-solving, collaboration, and cross-functional coordination skills to effectively work with other functional leaders, customers, and stakeholders
- Experience with key evaluation metrics that drive prioritization and continued investment decisions within the product life cycle
- Track record of success in defining and taking new innovative products to market
- Demonstrated capacity to manage and optimize existing product portfolios
- Knowledge of the critical event management industry, its trends and technologies
- Ability to develop and articulate a vision for the future of critical event management globally

**Equal Opportunity Employer/Protected Veterans/Individuals with Disabilities**

The contractor will not discharge or in any other manner discriminate against employees or applicants because they have inquired about, discussed, or disclosed their own pay or the pay of another employee or applicant. However, employees who have access to the compensation information of other employees or applicants as a part of their essential job functions cannot disclose the pay of other employees or applicants to individuals who do not otherwise have access to compensation information, unless the disclosure is (a) in response to a formal complaint or charge, (b) in furtherance of an investigation, proceeding, hearing, or action, including an investigation conducted by the employer, or (c) consistent with the contractor's legal duty to furnish information.

## Exhibit A

### Vesting Schedule

At the end of the fiscal quarter ended immediately after the second anniversary of the Grant Date (the “**First Measurement Date**”), up to sixty-two and one-half percent (62.5%) of the Shares subject to this Award will become eligible to vest based on the compound annual growth rate (the “**CAGR**”) achieved during the eight fiscal quarters preceding the most recent fiscal quarter. At the end of the fiscal quarter ended immediately after the third anniversary of the Grant Date (the “**Second Measurement Date**”), up to an additional sixty-two and one-half percent (62.5%) of the Shares subject to this Award will become eligible to vest based on the CAGR achieved during the twelve fiscal quarters preceding the most recent fiscal quarter. In each case, the CAGR shall be determined based on the Company’s consolidated revenue during each such quarter, as reported in the Company’s consolidated financial statements. Any such vesting will take place on the date that the Company files its Form 10-Q or Form 10-K for the applicable Measurement Date. The number of shares vested as of either measurement date shall be determined with reference to the following table:

REVENUE GROWTH	PSU VESTING	LINEAR INTERPOLATION VESTING
<20%	0%	No linear interpolation vesting
20% to 25%	5% to 12.5%	1.5% increased vesting for every 1% above 20%
25% to 30%	12.5% to 25%	2.5% increased vesting for every 1% above 25%
30% to 35%	25% to 50%	5% increased vesting for every 1% above 30%
40%	62.5%	Cliff vesting of added 12.5% of PSUs (no linear vesting)

For the avoidance of doubt, only up to 62.5% of the Shares may vest on either the First Measurement Date or the Second Measurement Date. The PSUs shall expire with respect to any Shares not vested as of the Second Measurement Date.

## Exhibit B

### Form of Release Agreement

This Release Agreement (“**Release**” or “**Agreement**”) is made by and between \_\_\_\_\_ (“you”) and **Everbridge, Inc.** (the “**Company**”). A copy of this Release is an attachment to the Employment Agreement between the Company and you dated \_\_\_\_\_, 20\_\_ (the “**Employment Agreement**”). Capitalized terms not defined in this Agreement carry the definition found in the Employment Agreement.

1. **Separation Payments.** In consideration for your execution, return and non-revocation of this Release on or after the date your employment is terminated (the “**Separation Date**”), the Company will provide you with the Separation Payments described in Section 3(d) of the Employment Agreement:

2. **Compliance with Section 409A.** The Separation Payments offered to you by the Company are payable in reliance on Treasury Regulation Section 1.409A-1(b)(9) and the short term deferral exemption in Treasury Regulation Section 1.409A-1(b)(4). For purposes of Code Section 409A, your right to receive any installment payments (whether pay in lieu of notice, Separation Payments, reimbursements or otherwise) shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment shall at all times be considered a separate and distinct payment. All payments and benefits are subject to applicable withholdings and deductions.

3. **Release.** In exchange for the Separation Payments and other consideration, to which you would not otherwise be entitled, and except as otherwise set forth in this Agreement, you, on behalf of yourself and, to the extent permitted by law, on behalf of your spouse, heirs, executors, administrators, assigns, insurers, attorneys and other persons or entities, acting or purporting to act on your behalf (collectively, the “**Employee Parties**”), hereby generally and completely release, acquit and forever discharge the Company, its parents and subsidiaries, and its and their officers, directors, managers, partners, agents, representatives, employees, attorneys, shareholders, predecessors, successors, assigns, insurers and affiliates (the “**Company Parties**”) of and from any and all claims, liabilities, demands, contentions, actions, causes of action, suits, costs, expenses, attorneys’ fees, damages, indemnities, debts, judgments, levies, executions and obligations of every kind and nature, in law, equity, or otherwise, both known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to and including the execution date of this Agreement, including but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with your employment with the Company or the termination of that employment; claims or demands related to salary, bonuses, commissions, stock, stock options, or any other ownership interests in the Company, vacation pay, fringe benefits, expense reimbursements, severance pay, or any other form of compensation; claims pursuant to any federal, state or local law, statute, or cause of action; tort law; or contract law (individually a “**Claim**” and collectively “**Claims**”). The Claims you are releasing and waiving in this Agreement include, but are not limited to, any and all Claims that any of the Company Parties:

- has violated its personnel policies, handbooks, contracts of employment, or covenants of good faith and fair dealing;

- has discriminated against you on the basis of age, race, color, sex (including sexual harassment), national origin, ancestry, disability, religion, sexual orientation, marital status, parental status, source of income, entitlement to benefits, any union activities or other protected category in violation of any local, state or federal law, constitution, ordinance, or regulation, including but not limited to: the Age Discrimination in Employment Act, as amended (“**ADEA**”); Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1991; 42 U.S.C. § 1981, as amended; the Equal Pay Act; the Americans With Disabilities Act; the Genetic Information Nondiscrimination Act; the Family and Medical Leave Act; the Massachusetts Wage Act and the Massachusetts Fair Employment Practice Act; the Employee Retirement Income Security Act; the Employee Polygraph Protection Act; the Worker Adjustment and Retraining Notification Act; the Older Workers Benefit Protection Act; the anti-retaliation provisions of the Sarbanes-Oxley Act, or any other federal or state law regarding whistleblower retaliation; the Lilly Ledbetter Fair Pay Act; the Uniformed Services Employment and Reemployment Rights Act; the Fair Credit Reporting Act; and the National Labor Relations Act; and
- has violated any statute, public policy or common law (including, but not limited to, Claims for retaliatory discharge; negligent hiring, retention or supervision; defamation; intentional or negligent infliction of emotional distress and/or mental anguish; intentional interference with contract; negligence; detrimental reliance; loss of consortium to you or any member of your family and/or promissory estoppel).

Notwithstanding the foregoing, other than events expressly contemplated by this Agreement you do not waive or release rights or Claims that may arise from events that occur after the date this Release is executed. Also excluded from this Agreement are any Claims which cannot be waived by law, including, without limitation, any rights you may have under applicable workers’ compensation laws. Nothing in this Agreement shall prevent you from filing, cooperating with, or participating in any proceeding or investigation before the Equal Employment Opportunity Commission, United States Department of Labor, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal government agency, or similar state or local agency (“**Government Agencies**”), or exercising any rights pursuant to Section 7 of the National Labor Relations Act. You further understand this Agreement does not limit your ability to voluntarily communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. While this Agreement does not limit your right to receive an award for information provided to the Securities and Exchange Commission, you understand and agree that, you are otherwise waiving, to the fullest extent permitted by law, any and all rights you may have to individual relief based on any Claims that you have released and any rights you have waived by signing this Agreement. If any Claim is not subject to release, to the extent permitted by law, you waive any right or ability to be a class or collective action representative or to otherwise participate in any putative or certified class, collective or multi-party action or proceeding based on such a Claim in which any of the Company Parties is a party. This Agreement does not abrogate your existing rights under any Company benefit plan or any plan or agreement related to equity ownership in the Company; however, it does waive, release and

forever discharge Claims existing as of the date you execute this Agreement pursuant to any such plan or agreement.

4. **Your Acknowledgments and Affirmations.** You also acknowledge and agree that (i) the consideration given to you in exchange for the waiver and release in this Agreement is in addition to anything of value to which you were already entitled, and (ii) that you have been paid for all time worked, have received all the leave, leaves of absence and leave benefits and protections for which you are eligible, and have not suffered any on-the-job injury for which you have not already filed a Claim. You affirm that all of the decisions of the Company Parties regarding your pay and benefits through the date of your execution of this Agreement were not discriminatory based on age, disability, race, color, sex, religion, national origin or any other classification protected by law. You affirm that you have not filed or caused to be filed, and are not presently a party to, a Claim against any of the Company Parties. You further affirm that you have no known workplace injuries or occupational diseases. You acknowledge and affirm that you have not been retaliated against for reporting any allegation of corporate fraud or other wrongdoing by any of the Company Parties, or for exercising any rights protected by law, including any rights protected by the Fair Labor Standards Act, the Family Medical Leave Act or any related statute or local leave or disability accommodation laws, or any applicable state workers' compensation law.

In addition, you acknowledge that you are knowingly and voluntarily waiving and releasing any rights you may have under the ADEA ("ADEA Waiver"). You also acknowledge that the consideration given for the ADEA Waiver is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised by this writing, as required by the ADEA, that: (a) your release and waiver herein does not apply to any rights or claims that arise after the date you sign this Agreement; (b) you should consult with an attorney prior to signing this Agreement; (c) you have twenty-one (21) days to consider this Agreement (although you may choose to voluntarily sign it sooner); (d) you have seven (7) days following the date you sign this Agreement to revoke it (by sending written revocation directly to the Company's [title]); and (e) the Agreement will not be effective until the date upon which the revocation period has expired unexercised, which will be the eighth day after you sign this Agreement.

5. **Return of Company Property.** By the Separation Date, you agree to return to the Company all Company documents (and all copies thereof) and other Company property that you have had in your possession at any time, including, but not limited to, Company files, notes, drawings, records, business plans and forecasts, financial information, specifications, computer-recorded information, tangible property (including, but not limited to, computers), credit cards, entry cards, identification badges and keys; and, any materials of any kind that contain or embody any proprietary or confidential information of the Company (and all reproductions thereof). Please coordinate return of Company property with [name/title]. **Receipt of the Separation Payments described in Section 1 of this Agreement is expressly conditioned upon return of all Company property.**



6. **Confidential Information, Non-Competition and Non-Solicitation Obligations.** Both during and after your employment you acknowledge your continuing obligations under your Confidential Information and Inventions Agreement not to use or disclose any confidential or proprietary information of the Company and comply with your post-employment non-competition and non-solicitation restrictions. The Company acknowledges that you will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition, in the event that you file a lawsuit for retaliation by the Company for reporting a suspected violation of law, you may disclose the trade secret to your attorney and use the trade secret information in the court proceeding, if you: (A) file any document containing the trade secret under seal; and (B) do not disclose the trade secret, except pursuant to court order.

7. **Confidentiality.** The provisions of this Agreement will be held in strictest confidence by you and will not be publicized or disclosed in any manner whatsoever; provided, however, that: (a) you may disclose this Agreement to your immediate family; (b) you may disclose this Agreement in confidence to your attorney, accountant, auditor, tax preparer, and financial advisor; and (c) you may disclose this Agreement insofar as such disclosure may be required by law. Notwithstanding the foregoing, nothing in this Agreement shall limit your right to discuss your employment with the Equal Employment Opportunity Commission, United States Department of Labor, the National Labor Relations Board, other federal government agency or similar state or local agency or to discuss the terms and conditions of your employment with others to the extent expressly permitted by Section 7 of the National Labor Relations Act.

8. **Non-Disparagement.** You agree not to disparage the Company, and the Company's attorneys, directors, managers, partners, employees, agents and affiliates, in any manner likely to be harmful to them or their business, business reputation or personal reputation; provided that you will respond accurately and fully to any question, inquiry or request for information when required by legal process. Notwithstanding the foregoing, nothing in this Agreement shall limit your right to voluntarily communicate with the Equal Employment Opportunity Commission, United States Department of Labor, the National Labor Relations Board, other federal government agency or similar state or local agency or to discuss the terms and conditions of your employment with others to the extent expressly permitted by Section 7 of the National Labor Relations Act.

9. **No Admission.** This Agreement does not constitute an admission by the Company of any wrongful action or violation of any federal, state, or local statute, or common law rights, including those relating to the provisions of any law or statute concerning employment actions, or of any other possible or claimed violation of law or rights.

10. **Breach.** You agree that upon any breach of this Agreement you will forfeit all amounts paid or owing to you under this Agreement. Further, you acknowledge that it may be impossible to assess the damages caused by your violation of the terms of Sections 5, 6, 7 and 8 of this Agreement and further agree that any threatened or actual violation or breach of those Sections of this Agreement will constitute immediate and irreparable injury to the Company. You therefore agree that any such breach of this Agreement is a material breach of this Agreement, and, in addition to any and all other damages and remedies available to the Company upon your breach of this Agreement, the Company shall be entitled to an injunction to prevent you from violating or breaching this Agreement. You agree that if the Company is successful in whole or part in any legal or equitable action against you under this Agreement, you agree to pay all of the costs, including reasonable attorneys' fees, incurred by the Company in enforcing the terms of this Agreement.

11. **Miscellaneous.** This Agreement constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to this subject matter. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of the Company. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the Commonwealth of Massachusetts as applied to contracts made and to be performed entirely within Massachusetts.

**EVERBRIDGE, INC.**

By: [insert]

[insert]



**Everbridge, Inc.  
2020 Management Incentive Plan**

**Introduction**

The 2020 Management Incentive Plan (“The Plan”) is designed as an incentive to participants to perform at their most effective level, as a reward for strong performance and as a way of sharing in the success of the Company. The Plan is designed to be self-funded and is incorporated in the business targets and budgets.

The Plan is one element of Everbridge’s total compensation package, inclusive of base salary, equity, benefits and other variable compensation plans. The Plan is designed to reward high performance – corporate, team and individual. Awards payable under the Plan will be determined through a combination of overall bonus pool funding, which will be based upon predefined corporate financial objectives, and achievement of specific team and individual/development goals.

This Plan is CONFIDENTIAL, and details may not be disclosed outside the Company by any participants.

**Eligibility for Participation**

Designated employees (“Participants”) are eligible for inclusion in The Plan for the calendar year January 1, 2020 to December 31, 2020. Participation in The Plan is at the discretion of the Company. Employees considered for participation include management level employees and individual contributors in functions who meet established criteria. Eligibility for participation is not automatic and will be reviewed annually.

Participation for new hires designated as eligible to participate will be pro-rated based on days in The Plan during the plan year.

There is no contractual commitment on the part of the Company in relation to future years of participation and in this respect the Plan does not confer on any employees any rights to future participation, future employment, or give rise to any cause of action against the Company.

**Operation of The Plan**

For each Participant, a fixed cash amount or fixed percentage of base salary will be specified for the purposes of participation in The Plan. The overall Plan funding will be based on the achievement of predefined corporate financial targets. Individual bonus achievement will be based upon achievement of business unit/departmental business plans and team, individual and development-based performance goals as agreed to by you and your manager and maintained within Reflektive. A copy of the business plan will be on file with the People Department and each participant will be provided a copy.

Each participant must sign a copy of The Plan document acknowledging that the document was reviewed.

Everbridge management reserves the right to modify the Plan at any time. Notification of changes to the Plan will be made in writing to affected participants. Changes may be made to the Plan periodically in order to revise goals, update strategies or correct errors.

Performance against predefined corporate financial targets will be assessed at the end of the fiscal year once all financial results of the Company have been prepared and approved. The CEO will have the discretion to adjust, up or down any department’s bonus funding based on department KBPI performance. Everbridge management will then have the discretion to adjust, up or down, any employee’s payout based on subjective assessment of the employee’s individual performance throughout the year.



## **Payment**

Bonus payments will be made annually after the official close of the operating year, estimated to occur no later than May of the year following. Payment will be made to each participant provided that the participant:

- Has not given notice to resign employment before any payment is made, and
- Remains an active employee at the time of payout.

Any payment to which participants in the following categories may be entitled will be pro-rated:

- Employees whose eligibility for participation in The Plan begins after January 1, 2020, or
- Employees who are transferred to another position, business unit, department or group within the Company during the plan year and their new position does not qualify them as eligible to participate in The Plan.
- Employees who transfer to a position and become eligible to participate in the Plan during the plan year.

Any payment in whole or in part shall be made through the Company's normal payroll process and will be net of any appropriate Income Tax, Social Security Contributions or other relevant deductions.

***The Chief Executive Officer and Board of Directors of Everbridge, Inc. reserves the right to amend the plan at any time based on business conditions.***

## **Contractual Status**

Payments under The Plan are not contractual. No legally enforceable right to payment will arise under The Plan, nor any right to compensation or damages for non-payment as a result of the termination of employment (however caused), or for any other reason.

The Plan is not a guarantee of employment for a definite period of time. The participant acknowledges and understands that she or he, or Everbridge, may terminate the employment relationship at any time with or without cause.

The Plan terminates, for the participant, on the date the participant's employment with Everbridge is terminated.

This Plan shall be construed and governed in accordance with the laws of the Commonwealth of Massachusetts.

## **Validity**

The Plan is valid only for the calendar year January 1, 2020 – December 31, 2020. At the expiration of this Plan, Everbridge will establish a new Plan for Participants.

## 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: May 8, 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: May 8, 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 March 31, 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: May 8, 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 March 31, 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: May 8, 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.