



April 13, 2023

Dear Fellow Shareholders:

As a mission-driven company and the category leader of critical event management (CEM) technology, Everbridge empowers enterprises and government organizations to anticipate, mitigate, respond to, and recover stronger from critical events. In today's unpredictable world, resilient organizations minimize impact to people and operations, absorb stress, and return to productivity faster when deploying our leading resilience platform.

This year, Everbridge is celebrating its 20th anniversary since our founding. Two decades ago, our founders pioneered a new form of critical communications technology. They envisioned a means for quickly and reliably reaching employees or residents across a range of communications devices, relaying life-saving information, and confirming their safety.

From that initial vision, we have since built the world's most powerful platform for keeping people safe and organizations running. Now, 20 years later, we've grown from our incident mass alerting roots to empowering resilience across the entire incident management life cycle.

It was this unique lifesaving and business-critical mission that attracted me to Everbridge. In 2022, I was honored to take on the role of CEO, coming from a background of leading and growing business-to-business software-as-a-service (SaaS) companies.

Today, our CEM platform comprises a comprehensive set of software applications to safeguard: Business Operations, People Resilience, Digital Operations, Smart Security, and Public Safety. These solutions help enterprises, organizations, and societies manage a wide range of critical threats including global conflict, cybersecurity breaches, supply chain disruptions, and environmental disasters.

I am pleased to report a year of strong financial and operating performance for Everbridge. In 2022, we grew revenue to \$431.9 million, up 17% from 2021. We also increased our focus on profitability, substantially improving adjusted EBITDA to \$42.1 million in 2022, from \$11.2 million in 2021. In 2022, we took meaningful steps forward to strengthening the company's focus on recurring revenue by introducing Annual Recurring Revenue as a key performance metric, on our way to our goal of \$1 billion in ARR.

During 2022, we improved our capital structure by repurchasing approximately \$316 million principal amount of our 0.125% convertible senior notes due December 15, 2024, using cash on hand of approximately \$289 million. We ended the fiscal year with \$198.7 million in cash and cash equivalents.

Following strong execution in 2022, we are implementing the strategy outlined during our December 2022 Investor Day: aligning the right go-to-market with the right products at the right time to deliver even more customer value. The Board and our management team have taken a number of strategic steps as of the end of 2022 to improve our profitability and build our leadership team for the future. Those steps include:

- Reducing our net debt obligation while substantially completing our workforce restructuring;
- Strengthening our executive team with the additions during the year of Sheila Carpenter as Chief Information Officer, David Alexander as Chief Marketing Officer, Bryan Barney as Chief Product Officer, John Di Leo as Chief Revenue Officer, and Noah Webster as our Chief Legal and Compliance Officer;
- Adding two new Board members: Rohit Ghai, CEO of RSA who comes with a deep security background; and David Benjamin, EVP at Blackbaud, who brings expertise in high-velocity SaaS selling in both the North American, European and Asian Pacific markets.

In March 2023, Everbridge introduced an evolution to our brand including an updated logo that serves as an elegant, simple representation of the resilience curve we provide our customers – depicting the upward strength and trajectory of an organization’s recovery process to critical events – and helping businesses and governments thrive in an unpredictable world.

The focus on technology integration and the simplification of our product portfolio during the year enabled us to better serve our customers with innovative new solutions. We introduced new product offerings for enterprises to accelerate and automate their IT incident response; for organizations to protect traveling employees, remote workers, field service workers and those who have returned to the office; and for public safety and government officials to leverage the most advanced, real-time situational awareness for emergency response across populations.

Our CEM platform enables us to deliver greater strategic value to our customers, as evidenced by larger deal sizes, while further differentiating ourselves from the competition. In 2022, we grew our global enterprise customer base to 6,513, up from 6,135 at the end of 2021. In the fourth quarter of 2022, we signed a record 80 deals over \$100K and added a record 50 CEM customers, now at 307 cumulative.

We serve customers of all sizes, but our focus for the next five years will be on larger global enterprises and governments with the resources to fully leverage our CEM platform.

Our critical event management platform rapidly correlates curated threat data with the location of the people and assets they care about; enabling organizations to be more proactive and therefore resilient when faced with potential disruptions from critical events. We do this with enterprise-class reliability and scale, and by flexibly integrating with their existing applications.

Our leading CEM platform also provides a foundation for Everbridge to deliver the world’s most widely-used population alerting solution, Public Warning. At present, our Public Warning solution serves the entire populations of over 20 countries in Europe, Asia, Oceania, the Middle East, Africa, and the Americas. In 2022, Everbridge officially deployed the national alerting system for the countries of Germany, Spain, UK, Norway, Estonia, and Mauritius, among others.

Our product offerings facilitate the efficient and effective management of environmental, social, and corporate governance (ESG) risks by our clients. Our robust CEM solutions have helped identify risks and enable better employee health and safety outcomes, mitigate risks related to the impact of climate-related events, and enabled rapid responses to cybersecurity and other security threats. In 2022, the Everbridge resilience platform, purpose-built for identifying risk and automating the response required to help keep people safe, delivered billions of critical and often life-saving interactions to people around the world.

At Everbridge, we are equally focused on ensuring our ESG approach facilitates outcomes for our employees, shareholders and other key stakeholders. While our approximately 1,700 safety, security and operational experts globally remain dedicated to our customers’ success, we seek to deploy an approach to human capital management that maximizes their success. We are proud that this approach continued to be recognized in 2022 through our designation as a “Great Place to Work.” Further, under the oversight of our Board of Directors, we are taking important steps to refine our internal approach to ESG, determining key ESG objectives and measuring progress against these goals, enhancing disclosure pertaining to ESG, and developing new policies and processes to align our strategy and operations with key ESG principles.

In summary, 2022 was a strong year for Everbridge and we are prepared to meet the challenges ahead. With the best and most scalable enterprise-class CEM platform, our strategic focus for the coming year includes expanding market share in helping organizations digitally transform their ability to automate their response to and mitigation of critical events. This endeavor spans from supporting governments with population-wide resilience, to helping organizations execute on their Future of Work strategies, to optimizing supply chains and supply routes, while mitigating the impacts of IT outages or cyber-attacks stemming from an ever-expanding threat landscape.

Thank you for your confidence in our global vision and our dedicated team. We continue to focus on scaling Everbridge globally and delivering exceptional value to our customers. We take great pride in executing our mission of helping to keep people safe and organizations running.

With warmest regards,

A handwritten signature in black ink, appearing to read 'D. Wagner', with a long horizontal stroke extending to the right.

David Wagner
Chief Executive Officer Everbridge, Inc.

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

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2022**

or

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

For the transition period from _____ to _____

Commission file number: **001-37874**

Everbridge, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**25 Corporate Drive, Suite 400
Burlington, Massachusetts**

(Address of principal executive offices)

26-2919312

(I.R.S. Employer
Identification No.)

01803

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the 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 Global Market

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

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

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

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

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

Indicate by check mark 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



Accelerated filer



Non-accelerated filer



Smaller reporting company



Emerging growth company



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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on June 30, 2022 (the last business day of the registrant's most recently completed second fiscal quarter), as reported on the Nasdaq Global Market on such date, was approximately \$1.1 billion. Shares of the registrant's common stock held by each executive officer, director and holder of 10% or more of the registrant's outstanding common stock have been excluded from this calculation as such persons may be deemed to be affiliates. This calculation does not reflect a determination that these persons are affiliates of the registrant for any other purpose.

The number of shares of registrant's Common Stock outstanding as of February 21, 2023 was 40,263,148.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2023 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Annual Report on Form 10-K.

EVERBRIDGE, INC. AND SUBSIDIARIES
FORM 10-K
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PART I

Forward-Looking Statements

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

- our ability to continue to add new customers, maintain existing customers and sell new products and professional services to new and existing customers;
- the impact that global economic conditions may have on our business, strategy, operating results, financial condition and cash flows, as well as changes in overall level of software spending and volatility in the global economy;
- the potential impact of macroeconomic events such as the COVID-19 pandemic or the war in Ukraine;
- the success of the 2022 Strategic Realignment (as defined below);
- the effects of increased competition as well as innovations by new and existing competitors in our market;
- our ability to adapt to technological change and effectively enhance, innovate and scale our solutions;
- our ability to effectively manage or sustain our growth and to attain and sustain profitability;
- our ability to diversify our sources of revenue;
- our ability to integrate acquired companies, to complete potential acquisitions, and to integrate complementary businesses and technologies;
- our ability to maintain, or strengthen awareness of our brand;
- perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to security breaches in our customers' systems, unscheduled downtime or outages;
- statements regarding future revenue, hiring plans, expenses, capital expenditures, capital requirements and stock performance;
- our ability to attract and retain qualified employees and key personnel and further expand our overall headcount;
- our ability to grow, both domestically and internationally;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally, including laws and regulations related to export compliance and climate change;
- our ability to maintain, protect and enhance our intellectual property;
- costs associated with defending intellectual property infringement and other claims; and
- the future trading prices of our common stock and the impact of securities analysts’ reports on these prices.

These statements represent the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified above, and those discussed in the section titled “Risk Factors” included under Part I, Item 1A. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

Item 1. Business.

Unless otherwise stated in this Annual Report on Form 10-K, references to "Everbridge," "we," "us," and "our" refer to Everbridge, Inc. and its consolidated subsidiaries.

Overview

Everbridge is a global software company that empowers resilience by leveraging intelligent automation technology to enable customers to anticipate, mitigate, respond to, and recover from critical events to keep people safe and organizations running. Boston Consulting Group defines resilience as ‘a company’s capacity to absorb stress, recover critical functionality, and thrive in altered circumstances.’ During public safety threats including severe weather conditions, active shooter situations, terrorist attacks or a pandemic, as well as critical business events such as Information Technology (“IT”) outages, cyber-attacks, product recalls or supply-chain interruptions, over 6,500 global customers rely on our Critical Event Management platform to empower their resilience and 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 through the secure delivery to a comprehensive range of different communication channels and devices, 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 automate and 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 several languages and dialects – all simultaneously. Our Critical Event Management platform is comprised of a comprehensive set of software applications packaged for organizations to address five core use cases, safeguarding: Business Operations, People Resilience, Digital Operations, Smart Security, and Public Safety. Everbridge’s individual products address the full spectrum of tasks an organization requires to manage a critical event, including Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911. Everbridge applications leverage our Critical Event Management platform, permitting customers to use a single contacts database, rules engine of algorithms and hierarchies, and user interface to accomplish multiple objectives. We believe that our broad suite of integrated applications delivered via a single global Critical Event Management ("CEM") platform is a significant competitive advantage in the Resilience market.

In critical situations, the speed at which threats are assessed and information is transmitted and accessed is essential. For example, United States Department of Homeland Security research indicates that the average duration of an active shooter event at a school is approximately 12.5 minutes, while the average police response time to such events is 18 minutes. Accordingly, organizations must be able to aggregate multiple types of threat and incident data and determine whether their people, assets, or suppliers could be impacted, rapidly deliver messages that are tailored to multiple, specific audiences, in precise locations and be assured of delivery. Further, the proliferation of mobile and digital communications, and the effects of the global pandemic, have resulted in individuals spending less time in a fixed office location, and this trend makes it more complicated for organizations to protect their employees. These developments have made it imperative that organizations be able to locate travelling or remote workers to determine who might be impacted by a critical event, and that critical communications be delivered via voice, SMS, and email, as well as to social media, outdoor signage and personal computers. During public safety threats and critical business events, the ability to gather, organize and analyze data in real time, and to enable secure, scalable, reliable and automated communications to people can be essential to saving lives, protecting assets and maintaining businesses. Further, the ability to rapidly organize a response by locating available responders and using automation to reduce the time required to initiate action can also result in significant economic savings, as, for example, each minute of unplanned IT downtime costs organizations an average of approximately \$9,000, according to the Ponemon Institute. According to Boston Consulting Group, in critical situations resilient organizations produce better outcomes by lowering impact, enabling higher recovery speed, and greater recovery extent.

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

- When an active shooter situation or terrorist attack occurs, organizations can quickly identify employees in the affected area, including employees not at their usual business location, in order to confirm that they are safe and provide tailored instructions. For example, shelter-in-place instructions may be provided to people in an impacted building while evacuation instructions are provided to those in an adjacent building. At the same time, first responders and hospitals can use multiple modes of alerting to mobilize resources and call in staff to provide emergency care.
- When a pandemic such as COVID-19 is underway, corporate, government and healthcare organizations can navigate the complexity of operating during the shutdown phases, supplement or complement existing manual contact tracing efforts and prepare to bring back the workforce and reopen society.
- When a hurricane is imminent, local emergency management departments can alert affected communities with relevant safety and evacuation instructions while companies can put in place emergency plans to notify employees of office closures while coordinating work assignments to maintain the continuity of core operations.
- When emergency operations are required or supply chain events occur, companies can consolidate separate command centers using one common data set to aggregate and assess data on severe weather, political unrest and other types of threats to their own and suppliers' operations, thereby reducing costs while gaining efficiencies.
- When IT systems fail, IT administrators can shorten the time required to alert cross-department responders, use scheduling information to determine availability and quickly assemble appropriate personnel on a conference bridge, thereby reducing the costs incurred from downtime.
- When a patient is suspected of having a stroke, an on-call specialist can provide a patient assessment via video communications during the ambulance trip and the emergency room can be readied for an immediate stroke treatment, accelerating critical time to treatment.
- When a cyber incident shuts down an IT network, management can alert employees of the network shutdown via a secure, alternate communication path.
- When a power line is down, utility workers can utilize pre-configured incident management templates to alert affected customers and responders and provide service updates.
- When engine readings in critical equipment detect a malfunction, technicians with the appropriate skills can be automatically alerted and quickly deployed to minimize downtime and avoid revenue loss or service interruption.

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

Our customer base has grown from 867 customers at the end of 2011 to more than 6,500 customers as of December 31, 2022. As of December 31, 2022, our customers were based in over 82 countries and included the majority of FORTUNE 50 businesses, and many of the largest cities, airports, health systems, manufacturers, and universities around the world. We provide our applications to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education and professional services.

We derive most of our revenue from subscriptions to our critical communications applications. Subscription services revenue represented 89% of our total revenue in each of 2022, 2021 and 2020. We derived 35% of our revenue in 2022 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.

Recent Developments

On May 3, 2022, our Board of Directors approved a program (the "2022 Strategic Realignment") to strategically realign our resources in order to accelerate and grow our investments in our largest growth opportunities while streamlining our operations. This program is in support of the 2022 strategic initiatives to simplify our business and accelerate the integration of recent acquisitions, and will help to drive the financial outcomes of sustainable growth and improved profitability and cash flow. The 2022 Strategic Realignment program includes a targeted realignment and reduction of headcount, facilities and other third-party spend, including brand refresh initiatives. On November 2, 2022, our Board of Directors approved an amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of headcount and other third-party spend. The 2022 Strategic Realignment is expected to be substantially completed by the end of fiscal 2023.

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

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

During the three months ended December 31, 2022, we paid approximately \$288.8 million in cash to repurchase approximately \$316.4 million principal amount of our 0.125% convertible senior notes due December 15, 2024 (the “2024 Notes”).

Industry Background

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

Evolution of Critical Event Management Solutions

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

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

Key Benefits of Our Solutions and Competitive Strengths

Everbridge was founded with a vision to help organizations keep their people (employees, contractors, customers, residents, visitors) safe and operations running amid the many types of public safety and critical business events that pose threats. Our CEM solutions enable organizations to anticipate, mitigate, respond to, and recover from critical events, on a single platform. Key benefits of our solutions and competitive strengths include the following:

- ***Comprehensive, Enterprise-Scale Platform.*** The core of our solutions is our Critical Event Management platform, which provides multiple layers of redundancy to assure uptime and delivery of communications regardless of volume or throughput requirements. The platform is secure, scalable and reliable, enabling the delivery and verification of communications virtually anywhere, in any volume, in near real-time. In 2022, we delivered billions of interactions through our globally distributed data centers.

- ***Digital Transformation.*** Our solutions help enable our customers’ digital transformation efforts by digitizing organizational resilience and automating business continuity, risk reduction, and operational resilience. Customers can use our solutions’ situational awareness capabilities to know where their people are, how to reach them and how to ensure that they are protected, while also remaining updated on the status of their facilities, customers, inventory, and goods in transit. As part of digital transformation initiatives, our solutions support operational risk reduction for better operational resiliency.
- ***Out-of-the-Box, Scalable and Mobile Applications.*** Our SaaS-based applications are out-of-the box, enterprise-ready and can be utilized without customer development, testing or ongoing maintenance. Regardless of a customer's or prospect's size or needs, our applications are built to scale to its largest and most complex critical communications requirements.
- ***Aggregated Threat Data and Analysis.*** Our software gathers and analyzes information from weather data feeds, public safety and threat data feeds, social media, IT ticketing systems and monitoring systems, as well as inputs and feedback from two-way and polling messages. Data can be geo-mapped and threat and incident data can be used to automatically trigger simple or complex workflows that are tied to standard operating procedures or run-books.
- ***Contextual Communications.*** We enable intelligence and personalization in the critical communications process by delivering contextual communications. Our customers can deliver and escalate critical communications broadly to a mass population or to a targeted subset of individuals based on geographic location, skill level, role and communication modality preferences for rich, two-way collaboration.
- ***Dynamic Location Awareness.*** Our platform can provide organizations with the ability to send and receive notifications based on the last known locations of people, not just based on a static office or home address. Our platform integrates with a variety of sources of location information, including building access control systems and corporate network access solutions. This location-specific approach enables organizations to quickly determine which individuals may be affected by a public safety threat or able to respond to a critical business event, and to provide targeted and relevant instructions and two-way communications.
- ***Large, Dynamic and Rich Communications Data Asset.*** As of December 31, 2022, our data asset consists of our contact databases with connections from more than 6,500 customers based in over 82 countries. Our contacts databases, which we refer to as contact stores, are initially created through an upload of contacts from the customer and are automatically updated with the most current contact information provided by the customer or by individuals who opt-in to receive notifications from our Community Engagement application. Our contact stores are repositories for contact details, attributes and business rules and preferences, such as a person's last-known location, language spoken, special needs, technical certifications and on-call status.
- ***Multi-channel Visualization.*** Our platform provides the ability to create an integrated view of threats, incidents and the status of response, within the context of the locations of an organization's people, assets and suppliers. Multiple channels of information can be displayed side-by-side so different facets of a critical event can be monitored simultaneously, and the same data can be displayed on personal computer screens and on a large command center wall to provide flexibility in deployment.

- ***Robust Security, Industry Certification and Compliance.*** Our platform is built on a secure and resilient infrastructure with multiple layers of redundancy. Many of our enterprise applications are designed to meet rigorous security and compliance requirements for financial services firms, healthcare institutions, the U.S. federal government and other regulated industries, including facilitating compliance with FINRA and HIPAA standards. Our solutions received designation under the Support Anti-terrorism by Fostering Effective Technology Act of 2002 (“SAFETY Act”), and certification by U.S. Department of Homeland Security that places us on the approved product list for homeland security. Our Everbridge Suite solution also achieved authorization under the Federal Risk and Authorization Management Program (“FedRAMP”) in 2018, that required satisfying a rigorous security and risk management review process and which we believe provides an advantage for selling into the U.S. federal sector. In 2019, our Critical Event Management platform received certification under International Organization for Standardization, or ISO, 27001 and also received Cloud Computing Compliance Controls Catalogue (“C5”) accreditation under the Federal Office for Information Security in Germany. In 2020, we received ISO 27701 compliance, the privacy extension to ISO 27001. In 2023, we are in the process of expanding our FedRAMP authorization more fully across the Critical Event Management platform.
- ***Automated Workflows.*** Our platform automates the workflows required to complete a critical notification, including establishing the individuals within an organization authorized to send messages, the groups of stakeholders to whom messages will be sent and the content of messages to be sent to different groups of relevant stakeholders, in each case based on incident type. We believe that this automation reduces the amount of time required to send critical notification as well as the associated cost. Our platform also enables customers to automatically establish procedures for improving the success of communication efforts.
- ***Globally Local.*** Our platform is designed to be utilized globally while accounting for local cultural, linguistic, regulatory and technological differences. We have relationships with suppliers and carriers in multiple countries to ensure delivery in compliance with local, technical and regulatory requirements. We have localized our user interface in several languages and dialects.
- ***Next-Generation, Open Architecture.*** We developed our platform to easily integrate our applications with other systems. Our solutions provide open Application Program Initiatives (“APIs”), and configurable integrations, enabling our platform to work with our customers’ and partners’ pre-existing processes and solutions, increasing the business value we deliver.
- ***Actionable Reporting and Analytics.*** Our platform provides real-time dashboards, advanced map-based visualization and ad-hoc reporting across notifications, incidents and contacts. This information is easily accessed for required after-event reviews, continuous process improvements and regulatory compliance.

Our Growth Strategy

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

- ***Accelerate Our Acquisition of New Customers.*** We have multiple paths of entry into new customers with our portfolio of applications, which are used for a wide variety of use cases across a diverse set of verticals markets. We intend to capitalize on the breadth of our solutions and the technological advantages of our CEM platform to continue to attract new customers. In parallel, we plan to attract new customers by investing in sales and marketing and expanding our channel partner relationships.

- ***Further Penetrate Our Existing Customers.*** We believe that there is a significant opportunity within our existing customer base to expand their use of our platform, both by selling new applications and features to our existing customers and selling to additional departments in their organizations. Our dollar-based net retention rate, which we define as revenue generated from existing customers including recurring revenue, expansion revenue, downgrades, and cancels, compared on a trailing-twelve-month basis was over 110% for fiscal 2022. We also believe that we have a significant opportunity to increase the lifetime value of our customer relationships as we educate customers about the benefits of our current and future applications that they do not already utilize and of taking an integrated CEM approach. New applications added, which represent the total dollar value of new agreements entered into within the prior 12 months, exclusive of renewals, have grown from 6% of our sales in the first quarter of 2016 to 75% of our sales in the fourth quarter of 2022.
- ***Expand Our Partner Ecosystem:*** We continue to expand our strategic partnerships with our channel partners, technology partners, and system integrators. We intend to further expand our partner ecosystem to open up new channels to market and to enable our customers to succeed with our technology and platform in their operations and business processes.
- ***Develop New Applications to Target New Markets and Use Cases.*** Our platform is highly flexible and can support the development of new applications to meet evolving safety and operational challenges. For example, throughout 2022, we announced a number of applications to protect travelers and to provide enterprises and governments with comprehensive risk intelligence. Leveraging our global network of over 25,000 security threat data sources, Everbridge's situational awareness reports helped multi-national organizations around the world to navigate the ongoing crisis in the Ukraine. We introduced *Travel Protector™* complemented by *Everbridge Assist, Powered by Anvil*, to provide organizations with an end-to-end, full-lifecycle solution to fulfill duty of care responsibilities for traveling employees, remote workers, field service workers and those who have returned to the office. In addition, as part of Everbridge's Digital Operations solutions bundle, our introduction of Service Intelligence minimizes digital disruptions and customer impact and ensures smooth-running IT services by combining unique visualizations for mapping service graphs with dependency mapping, root cause identification, service ownership, change intelligence and automation – all in one, purpose-built resolver console. Also, we introduced *Everbridge PSInsights™*, as part of our Public Safety solution, providing the information and visualization necessary for public safety professionals to properly communicate important life safety information to residents, tourists, or visitors in hazardous situations. We intend to continue to develop new applications for use cases in a variety of new markets and to leverage our platform and our existing customer relationships as a source of new applications, industry use cases, features and solutions.
- ***Expand Our International Footprint.*** We intend to continue to expand our local presence in regions such as Europe, the Middle East and Asia to leverage our relationships with local carriers and our ability to reach residents and visitors in almost all of the world's countries and territories in several languages and dialects as well as expand our channel partnerships and also to opportunistically consider expanding in other regions.
- ***Maintain Our Technology and Thought Leadership.*** We will continue to invest in our core CEM platform and our applications to maintain our technology leadership position. For example, we believe that we are the only company today that provides a full, integrated CEM solution and that we provide the first solution to offer dynamic versus static location awareness integrated with analysis and communications for the employee safety and security marketplace. Further, we believe we have a competitive advantage through our commitment to innovation and thought leadership that has enabled us to take market share from our competitors and accelerate our growth.
- ***Opportunistically Pursue Acquisitions.*** Although we have paused material acquisitions, we do plan to continue to selectively pursue acquisitions of complementary businesses, technologies and teams that allow us to penetrate new markets and add features and functionalities to our platform.

Our Platform

Since inception, our SaaS-based critical communications and resilience platform was architected on a single code base to deliver multi-tenant capability and the speed, scale and resilience necessary to communicate, collaborate and orchestrate the response to critical events, when they occur.

Additional core technical attributes of our platform include:

- Monitors more than 100 types of threat data and aggregates more than 25,000 of risk data elements for situation assessment and risk monitoring.
- Multi-tenant architecture that supports multiple layers of redundancy to maximize uptime and delivery of critical content, regardless of volume or throughput requirements.
- Dynamic spatial/geographic information system capability to geo-target communications by zip code, street address or a specific radius from a location.
- Support for two-way communications and alerting across a comprehensive range of different communication channels and devices, including wireless phones, landlines, hand-held communication and other voice-capable devices, desktop, satellite communication, cell broadcast, location-based SMS, SMS, two-way radios, TV, outdoor digital signage, sirens and internet enabled devices, social media, websites.
- Designed to meet rigorous security and compliance requirements for financial services firms, healthcare institutions, the U.S. federal government and other regulated industries, including facilitating compliance with health care requirements such as HIPAA privacy. We also have products that comply with NIST 800-53, holding more than 15 FedRAMP authorizations.
- Extensive set of APIs and configuration capabilities to allow customers and partners to easily integrate our platform with other systems. Our APIs' two-way invocation capabilities enable third-party systems to flexibly and easily integrate with our platform.
- Multi-channel visualization capabilities support integrated views of threats, incidents and status of response to improve management visibility and control.
- Supports easy-to-use native mobile applications, including multiple secure mobile applications for message initiation, management and reporting.
- Supports push notifications and two-way conversations that enable mobile users to send and receive secure messages such as text, pictures, videos and the users' current geographic locations.

Our Contact Stores

Our contact stores manage contact profiles and connections from more than 6,500 customers based in over 82 countries as of December 31, 2022. They are initially created through an upload of contacts from the customer and are automatically updated with the most current contact information provided by the customer or by individuals who opt-in to receive notification from our Community Engagement application. Our contact stores are simultaneously enriched by geographic, situational and other real-time data. Our contact stores are repositories for contact details, attributes and business rules and preferences, such as a person's last-known location, language spoken, special needs, technical certifications and on-call status.

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

Everbridge Network

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

Our Applications

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

Our applications enable:

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

Our Critical Event Management solutions include:

- ***Business Operations.*** The environment in which businesses operate is becoming more and more complex. Critical events such as COVID-19, severe weather, civil unrest and supply chain disruption impact the resilience of businesses. Everbridge Business Operations helps businesses prepare for, and respond to, critical events, protecting facilities and business operations. Built on Everbridge's industry-leading CEM platform, businesses can detect potential risks which might impact business operations and orchestrate a response in seconds across teams as well as digital and physical systems.
- ***People Resilience.*** The increasing frequency of critical events such as severe weather, global pandemic and civil unrest over the past few years has challenged many organizations to extend their duty of care responsibilities beyond traditional safety and security in the workplace to include health and wellness of people. At the same time the scope of those responsibilities has moved beyond the traditional office and plant-based work model to work in motion where an employee could be working in the office, at home, in the field, or traveling. Everbridge People Resilience helps businesses prepare for, and respond to, critical events, keeping people healthy, safe, and productive wherever they work or travel around the globe. Built on Everbridge's industry-leading CEM platform, businesses can detect potential threats that might impact people, and orchestrate a rapid response across teams as well as digital and physical systems.

- **Digital Operations.** The Everbridge Digital Operations Platform goes one step beyond signal enrichment by combining signals from multiple monitoring tools into a relevant context that provides responders with clear situational awareness. Massive growth in digital service has both empowered businesses and exposed new vulnerabilities which expands the possibility of threats. A digital operations platform enables agile service delivery models, providing resiliency for IT systems in an increasingly virtual world. Organizations now consider great customer experiences imperative to their business and are pivoting towards streamlining and automating digital operations. As a result, service uptime is crucial to delivering that experience. Through event correlation, incident suppression, signal enrichment, context-rich categorization, and prioritization, organizations can monitor issues and react before an incident becomes a business problem. The Everbridge Digital Operations Platform enables customers to automate remedial actions based on previous incident resolution. Automating digital operations allows teams to open fewer tickets and spend less time chasing or reinventing the same resolution, leading to faster Mean Time to Repair (“MTTR”) and more time for innovation.
- **Smart Security.** Everbridge Smart Security helps organizations maintain control of their security by identifying threats to their people or assets and orchestrating a rapid response across teams and systems, all within an easy-to-use common platform. Theft, vandalism, violence, civil unrest, terrorism, and natural disasters are just some of the critical events security practitioners are faced with today. Keeping people safe and assets secure in the face of ever-increasing and ever-more diverse threats is a constant challenge for many organizations. Operations also continue to grow, involving more systems, more users, and much more data. All of this can be difficult to manage and costly to control. When a critical event unfolds and information floods an organization, it needs to get the right information to the right people at the right time to protect its people and their assets and to ensure operational continuity.
- **Public Safety.** Public Safety harnesses the ability to monitor critical events, alert the population, and mobilize a coordinated response across multiple agencies. The frequency of natural and human-made disasters is on the rise, and simultaneously, monitoring, collaborating, and communicating during incidents is becoming increasingly complex. For over 20 years, we have partnered with governments worldwide. From fires or floods to terrorist attacks, we have monitored potential hazards to help governments prepare and respond to incidents, and effectively provide the right people with the right information. Be it a country-wide emergency or a neighborhood outage, communities rely on Everbridge to keep them informed and safe.

We also have expanded our CEM platform through a series of acquisitions, including Red Sky Technologies Inc. (“RedSky”), xMatters Holdings, Inc. (“xMatters”) and The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, “Anvil”).

With enterprise grade redundancy, scalability and uptime, the Everbridge platform has the ability to reach residents and visitors in almost all of the world’s countries and territories.

Our Technology

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

- **Robust, Enterprise-Grade Scalability and Reliability.** Given the mission-critical nature of our solutions, our multi-tenant platform was designed to provide a robust, high level of resiliency, scalability and redundancy. We use multiple geographically distributed service providers and communications carriers to achieve a high degree of redundancy, fault tolerance and cost-effective operations. We have multiple layers of redundancy and a horizontal scaling model across our infrastructure to deliver high availability and performance. Similarly, we leverage redundant downstream communications providers to enable our services to remain uninterrupted even if a particular provider encounters technical difficulties.

- ***Multi-Modal, Globally Local Communications Delivery.*** We optimize international call routing across hundreds of telecommunications providers to enable higher voice quality, improved delivery rates during emergencies and the ability to configure local caller IDs to improve recognition and answer rates. We also work with multiple SMS providers to identify regulatory hurdles and deploy and actively manage an optimal mix of national and international SMS codes to ensure high delivery and response rates.
- ***Security and Compliance.*** Our solutions received designation under the SAFETY Act, and certification by U.S. Department of Homeland Security that places us on the approved product list for homeland security. Our Everbridge Suite solution also achieved authorization under FedRAMP in 2018, that required satisfying a rigorous security and risk management review process and which we believe provides an advantage for selling into the U.S. federal sector. In 2019, our Critical Event Management platform received ISO 27001 certification and also received C5 accreditation under the Federal Office for Information Security in Germany.
- ***Hybrid Infrastructure.*** To provide highly scalable and global solutions, we employ redundant, geographically diverse production implementations of our platform infrastructure in multiple SOC 2-compliant data center facilities in North America and Europe. Within each data center, we utilize a hybrid-cloud architecture that enables us to leverage both proprietary and third-party infrastructure services to enable “on-demand” capacity and performance without substantial upfront investment. Our architecture enables our platform to dynamically determine the best location from which to deliver critical communications on behalf of our customers and solves many international communications delivery challenges by utilizing in-country or in-region telephony, messaging and data communication providers. Our infrastructure is continuously maintained and monitored by dedicated engineers based in redundant network operations centers in the Los Angeles and Boston areas.
- ***Dynamic Location Detection.*** Our platform can create and update dynamic data sets containing a contact’s last-known location, including the airport, street, building floor or conference room at which the contact was most recently present. Multiple data sources can be aggregated including building access control and badging systems, wired and wireless network access points, and corporate travel management and office hoteling systems. These data are used to best locate a contact in an emergency or critical business situation, independent of the contact’s home or office location. Contacts can also share their location via a three-in-one mobile panic button application, which sends a panic message to the applicable organization’s security team, and also includes the ability to send audio and video content, to check-in to capture and report geo-location data and to establish a safe corridor through a potentially unsafe area.

Our Comprehensive Customer Support Services

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

- ***Rapid Onboarding.*** We leverage a proven methodology and domain expertise, honed through thousands of customer on-boardings worldwide, to enable rapid use of our platform and compliance with industry best practices. The average implementation time for standard implementations for new customers purchasing our solutions is 5.5 hours.
- ***Everbridge University.*** We offer online education, training and professional development through Everbridge University, with role-based training modules that can be customized to meet a customer’s needs and that can facilitate formalized knowledge transfer and ensure ongoing self-sufficiency.
- ***Dedicated Account Management.*** We assign dedicated account managers to all customers. Account managers perform regular service reviews and post-incident analyses of customer communications to incorporate communication best practices and recommend additional applications to meet the customer’s critical communications needs.

- **24/7 Technical Support & Emergency Live Operator Service.** We have established geographically redundant technical support centers in the Los Angeles, California; Boston, Massachusetts; and London, United Kingdom areas. From these support centers, we offer our customers 24/7 support by phone, email or through our online support center. In addition, our support centers offer a 24/7 emergency live operator service to assist customers with sending critical communications.
- **Premium Support Services.** With an understanding of the critical role that our solution plays, we have assembled an expert professional services organization to deliver premium support service packages to our customers. Our professional services team includes certified emergency management and critical communications practitioners. We believe that we help customers achieve faster time-to-value by providing on-site project management, consultation with a certified critical communications professional, creation of client-specific message and scenarios, development of ad-hoc report templates and on-site emergency and incident management reviews.

Our Customers

Our customer base has grown from 867 customers at the end of 2011 to more than 6,500 customers as of December 31, 2022. We define a customer as a contracting entity from which we generated \$200 or more of revenue in the prior month, either directly or through a channel partner. At the end of 2011 we had 20 customers with contracts valued at \$100,000 or more, whereas as of December 31, 2022 we had 664 customers with contracts valued at \$100,000 or more, including 78 customers with contracts in excess of \$500,000. As of December 31, 2022, our customers were based in over 82 countries and included the majority of FORTUNE 50 businesses, and many of the largest cities, airports, health systems, manufacturers, and universities around the world. We provide our applications to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education, and professional services. For the year ended December 31, 2022, 68% of our revenue was generated from enterprise customers, 23% from government and government-related customers and 9% from healthcare-related customers.

Sales and Marketing

Our sales and marketing organizations collaborate to create brand preference, efficiently and effectively generate leads, build a strong sales pipeline and cultivate customer relationships to help drive revenue growth. Our marketing strategy is designed to elevate and drive alignment for the Everbridge brand to improve internal culture, provide clarity on the Everbridge vision, build a better understanding of our customers' needs, and deliver consistency in execution of the core brand. The Everbridge brand is the cornerstone of how we accelerate prospect acquisition, customer retention, and growth at scale through a productive and efficient marketing engine. Execution of our go-to-market strategy consists of a strong thought-leadership program, a digital marketing engine grounded in world-class customer experiences, and a diversified sales organization designed to efficiently sell across vertical markets to organizations of all sizes. We have dedicated global sales teams focused on corporate customers, healthcare organizations and government customers, which covers U.S. federal, state and local governmental entities.

Sales

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

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

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

Marketing

We focus our marketing efforts on elevating the strength of the Everbridge brand, communicating product advantages and business benefits, generating leads for our salesforce and channel partners, leveraging geographic market strengths and driving product adoption. We run campaigns that highlight the differentiators, benefits and value of the Everbridge solution through creating world-class digital experiences for prospects and customers globally. We deliver targeted content to demonstrate our thought leadership in critical communications best practices and use digital advertising methods to drive conversion of potential prospects, which convert to opportunities for our sales organization.

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

Research and Development

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

Our Competition

The market for CEM solutions is highly fragmented, intensely competitive and constantly evolving. We compete with an array of established and emerging companies, many of whom are single product or single market focused, as well as in-house solutions. We view CEM as a holistic solution that allows organizations to digitally transform their critical event management processes. These processes are siloed in a variety of ways in different organizations. Similarly, solutions from competitors in the field often are siloed by smaller functions across the holistic CEM solution. CEM includes Mass Notification, Risk Control, Public Warning, IT Alerting and Incident Management, and Control Center systems. The primary competitors for our Mass Notification applications include BlackBerry Limited, F24 AG and OnSolve, LLC. The primary competitors for our Risk Center application include Crisis24 Limited and Dataminr, Inc. The primary competitors for our Public Warning application include Celltick, Intersec and Genasys, Inc. For IT Alerting and Incident Management, our primary competitor is PagerDuty, Inc. For Control Center, our primary competitor is Genetec. The primary competitors for our Travel Risk Management application include Crisis24 and International SOS. Some competitors in siloed solutions are beginning to converge and build strategies that follow our CEM platform strategy. With the introduction of new technologies and market entrants, we expect the competitive environment to remain intense going forward.

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

Intellectual Property

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

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

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

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

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

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

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

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

Government Regulation

The legal environment of Internet-based businesses is evolving rapidly in the United States and elsewhere. The manner in which existing laws and regulations are applied in this environment, and how they will relate to our business in particular, both in the United States and internationally, is often unclear. For example, we sometimes cannot be certain which laws will be deemed applicable to us given the global nature of our business, including with respect to such topics as data privacy and security, pricing, advertising, taxation, and intellectual property ownership and infringement.

Our customers, and those with whom they interact using our product and platform solutions, upload and store personally identifiable information and other data into our solutions and provide access to such data, generally without any restrictions imposed by us. This presents legal challenges to our business and operations, such as rights of privacy related to the data used in connection with our solutions. Both in the United States and internationally, we must monitor and comply with a host of legal concerns regarding the data stored and processed in our solutions by customers. We must also monitor and comply with these issues directly in the operation of our business in these jurisdictions.

We are subject to data privacy and security regulation by data protection authorities in countries throughout the world, by the U.S. federal government, and by the states in which we conduct our business. In recent years, there have been a number of well-publicized data breaches involving the improper use and disclosure of personal information of individuals. Many governing authorities have responded to these incidents by enacting laws requiring holders of personal information to maintain safeguards and to take certain actions in response to a data breach, such as providing prompt notification of the breach to affected individuals and public officials, or amending existing laws to expand compliance obligations. In the European Union, U.S. companies must meet specified privacy and security standards, such as the European General Data Protection Regulation, or the GDPR, which governs the protection of individuals with regard to the processing of personal data, and on the free movement of such data established in the European Union to certain non-European Union countries, such as the United States. Additionally, the data protection laws of each of the European member countries require comprehensive data privacy and security protections for consumers with respect to personal data collected about them. The European Court of Justice upheld the validity of Standard Contractual Clauses, which we will continue to use as a legal mechanism for the transfer of data between the EU and the U.S., although these mechanisms are still subject to legal challenges. We have and will continue to engage in efforts to ensure that data transfers from the European Economic Area comply with the GDPR and the data protection legislation of individual member states.

In the United States, many federal, state, and foreign government bodies and agencies have adopted, or are considering adopting, laws and regulations regarding the collection, use, and disclosure of personal information. California enacted the California Consumer Privacy Act ("CCPA"), as amended by the California Privacy Rights Act of 2020 ("CPRA"), that among other things, requires covered entities to provide new disclosures to California consumers, affords such consumers new abilities to opt-out of certain sales of personal information, and gives such consumers a private right of action to enforce data breaches resulting from the covered entity's violation of its duty to implement and maintain reasonable security measures.

For a discussion of risks related to these various areas of government regulation, see Risk Factors set forth in Part I, Item 1A of this Annual Report on Form 10-K.

Human Capital Management

Culture and Governance

Culture

We believe that our culture has been a key contributor of our success to-date and that our mission, with the critical nature of the solutions that we provide, promotes a sense of greater purpose and fulfillment for our employees. We have invested in building an intentional global culture and believe it represents one of our most important and sustainable sources of competitive advantage.

Governance

Our Board of Directors and Board committees provide oversight on certain human capital matters. The Compensation Committee of our Board of Directors acts on behalf of the Board to review, adopt and approve our compensation strategy, policies, plans and programs, including, among others, reviewing and approving corporate performance goals and objectives relevant to the compensation of our executive officers and other senior management, evaluating and approving the compensation plans and programs advisable for us, and administration of our equity compensation plans, stock purchase plan, bonus plans, and other similar plans and programs.

2022 Strategic Realignment

During 2022, our Board of Directors approved the 2022 Strategic Realignment, as amended, which includes a targeted realignment and reduction of headcount, facilities and other third-party spend. For further information, see Note 20, Restructuring and Restructuring-Related Activities, of the notes to consolidated financial statements.

Diversity and Inclusion

We prioritize diversity, equity and inclusion (“DEI”) to create a workplace that reflects the customers and populations we serve. We demonstrate our commitment to DEI by focusing on several key initiatives. This includes aligning our hiring and recruiting practices to attract a diverse and talented workforce; creating employee resource groups dedicated to celebrating and empowering communities within our organization, including women, employees of color, employees who identify as LGBTQ+, and members of the military and first responders; and supporting a growing ecosystem of minority-owned and led suppliers and partners. As of December 31, 2022, 32% of our global workforce was female, 38% of vice president and above roles globally were female, and non-Caucasian employees represented 26% of our U.S. workforce. We are committed to increasing the diversity of our workforce, and during the year ended December 31, 2022, 39% of our U.S. hires were female and 30% were non-Caucasian.

Labor Practices and Policies

Work Hours, Wages and Benefits

We compensate employees competitively relative to the industry and local labor market. We work to ensure full compliance with applicable wage, work hours, overtime and benefits laws. We assess the current business environment and labor market to refine our compensation and benefits programs.

In addition to salaries, our compensation and benefit programs (which may vary by country and location) include annual bonuses, stock-based compensation awards, an Employee Stock Purchase Plan, retirement savings plans, healthcare and insurance benefits including long-term care insurance, health savings and flexible spending accounts, paid time off, volunteer time off, parental leave, adoption assistance and military leave, among many other benefits.

Safe and Healthy Workplace and Workplace Security

We seek to comply with all health and safety laws applicable to our business. To this end, we consult with employees to help keep work areas safe and free of hazardous conditions. Additionally, we are committed to maintaining a workplace free from violence, harassment, intimidation and other unsafe or disruptive conditions due to internal and external threats. We believe it is paramount to use our own CEM solutions to help us achieve our health and safety goals. We continue to take a variety of measures, including by using our own CEM solutions, to communicate to our employees and help keep them safe.

Workforce, Recruiting, Development and Retention

Workforce Size

As of December 31, 2022, we had 1,713 full-time employees, including 407 in data center operations and customer support, 564 in sales and marketing, 542 in research and development and 200 in general and administrative. As of December 31, 2022, we had 883 full-time employees in the United States and 830 full-time employees internationally. None of our U.S. employees are covered by collective bargaining agreements. We believe our employee relations are good and we have not experienced any work stoppages.

Recruiting

Our key talent philosophy is to develop talent from within and supplement with external hires. Our talent acquisition team uses internal and external resources to recruit highly skilled and talented workers, and we encourage employee referrals for open positions. Measurements of our progress include the percentage of internal candidates sourced and attrition rates. During 2022, 6% of positions were filled by candidates sourced internally and our attrition rate was 37% partially due to the 2022 Strategic Realignment program. We also develop our talent pipeline with programs such as our internship program. During 2022, we hired approximately 40 interns across various departments and geographies, representing 40% gender diversity.

Workforce Development

We are committed to investing in our employees through professional training and development to ensure the highest possible performance for our customers while retaining our employees to grow their careers at Everbridge. We achieve this through several avenues, including skills training within functional departments, education reimbursement and a Manager Development Program. The Manager Development Program was created to help grow our people managers and provide a path to leadership. We offer a wide variety of content and resources to maximize development. Since the program started in 2019, hundreds of employees have participated in training and there was 100% agreement by respondents that the program was beneficial and should be continued.

The Everbridge Performance Management Program was designed to meet several key objectives including providing feedback to enhance performance, providing developmental guidance to grow skills, experience and careers, aligning individual effort to organizational objectives and recognizing achievements and contributions. During 2022, participation in the annual review process was 99%.

The Nominating and Corporate Governance Committee of our Board of Directors develops and periodically reviews with our Chief Executive Officer plans for succession to the offices of our executive officers and makes recommendations to the Board with respect to the selection of appropriate individuals to succeed to these positions.

Employee Engagement and Satisfaction

We conduct an annual employee engagement survey to gauge overall employee satisfaction. The survey is an opportunity for employees to provide anonymous feedback on topics ranging from leadership and management, to opportunities for career growth, to work-life balance and diversity, equity and inclusion. The results of the survey are used to develop our annual corporate and department business plans as well as direct the efforts of our People team.

In 2022, we rolled out a Manager Effectiveness Survey to give additional focus to our people leaders and use this specific feedback to understand what is going well, and where we have opportunities for growth within our management group. We will utilize the results to determine what learning and development initiatives we can provide to our leaders that will be the most impactful to ensure we achieve our company's objectives and key results in 2023.

Based on employee feedback, we have been recognized for our culture, mission and leadership by Great Place to Work®, a global evaluator of workplace culture. In a survey conducted by Comparably measuring employee sentiment across 70,000 companies, we won four 2022 Comparably Awards including Best Company Leadership and Best Company Global Culture.

Environment

Across the globe, both public and private sectors are more concerned than ever about addressing climate change and its associated risks. During severe weather events, enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies have a responsibility to respond effectively and efficiently in order to protect people, assets, and facilities from harm. As a result, changes in laws and business practices may create more demand for our products in the short and long-term.

Climate change is driving more severe weather events across the globe. Our multi-tenant platform was designed to navigate mission-critical events and provide a robust, high level of resiliency, scalability and redundancy. We use multiple geographically distributed service providers and communications carriers to achieve a high degree of redundancy, fault tolerance and cost-effective operations. We have multiple layers of redundancy and a horizontal scaling model across our infrastructure to deliver high availability and performance. Similarly, we leverage redundant downstream communications providers to enable our services to remain uninterrupted even if a particular provider encounters technical difficulties.

Facilities

Our principal executive offices are located in Burlington, Massachusetts, where we occupy an approximately 73,500 square-foot facility as of December 31, 2022; under an amended lease entered into in 2022 which will expire on May 31, 2031, during 2023 we will reduce our Burlington, Massachusetts occupancy to approximately 36,700 square-feet. Our principal executive offices are also located in Pasadena, California, where we occupy an approximately 19,000 square-foot facility under a lease expiring on December 31, 2023. We also have additional offices in the United States as well as internationally including Canada, China, Germany, India, Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland and the United Kingdom.

Corporate Information

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

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

Available Information

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

We use our website, our corporate Facebook page (@Everbridge or <https://www.facebook.com/everbridgeinc>), our corporate Twitter account (@Everbridge or <https://twitter.com/everbridge>), our corporate Instagram account (@Everbridge or <https://www.instagram.com/everbridge>), our corporate LinkedIn account (@Everbridge or <https://www.linkedin.com/company/everbridge>), and our corporate YouTube channel (@EverbridgeInc or <https://www.youtube.com/@everbridgeinc>) as channels of distribution of material company information. For example, financial and other material information regarding our company is routinely posted on and accessible at www.everbridge.com. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. The contents of our website and social media channels are not, however, a part of this Annual Report on Form 10-K and are not incorporated by reference herein.

Item 1A. Risk Factors.

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

Summary of Risk Factors

Investing in our common stock involves a high degree of risk because our business is subject to numerous risks and uncertainties, as fully described below. The following is a summary of the principal factors and uncertainties that make investing in our common stock risky. The following is a summary only and should be read in conjunction with Part I, Item 1A “Risk Factors” and the other information contained in this Annual Report on Form 10-K.

- If our business does not grow as we expect, or if we fail to manage our growth effectively, our operating results and business prospects would suffer.
- We have not been profitable on a consistent basis historically and may not achieve or maintain profitability in the future.
- If we are unable to renew or increase sales of our Mass Notification application, or if we are unable to increase sales of our other applications or add new applications, our business and operating results could be adversely affected.
- Uncertain or weakened global economic conditions may adversely affect our industry, business and results of operations.
- We operate in an emerging, evolving, and competitive market, and if we cannot expand our platform and applications to meet the demands of this market or effectively compete against competitors, our revenue may decline and we may incur operating losses.
- 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 failure to effectively complete and integrate acquired technologies, assets or businesses may harm our financial results.
- Because our long-term growth strategy involves further expansion of our sales to customers outside the United States, our business will be susceptible to risks associated with international operations.
- Implementation of our 2022 Strategic Realignment or simplification strategies may not be successful, which could affect our ability to increase our revenues or could reduce our profitability.
- The nature of our business, involving public safety threats and critical business events, exposes us to inherent liability risks.
- Compromise or unauthorized access to our data or the data of our customers or their employees could harm our business and our customers, cause customers to curtail or cease their use of our applications, damage our reputation, and cause us to incur significant liabilities.
- Interruptions or delays in service from our third-party data center providers could impair our ability to make our platform and applications available to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers, limited growth, and reduction in revenue.
- We are subject to governmental laws and regulations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could harm our business.

- Compliance with governmental laws and regulations could impair our efforts to maintain and expand our customer base, and thereby decrease our revenue.
- If our applications fail to function in a manner that allows our customers to operate in compliance with regulations and/or industry standards, our revenue and operating results could be harmed.
- If we fail to protect our intellectual property and proprietary rights adequately, our business could be harmed.
- An assertion by a third party that we are infringing its intellectual property could subject us to costly and time-consuming litigation or expensive licenses that could harm our business and results of operations.
- The use of open source software in our platform and applications may expose us to additional risks and harm our intellectual property.
- Our stock price may be volatile and you may lose some or all of your investment.
- 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.
- Conversion of the \$375 million aggregate principal amount of 0% convertible senior notes due March 15, 2026 (the “2026 Notes”) and the 2024 Notes may dilute the ownership interest of existing stockholders, including holders who had previously converted their Notes, if we are unable to generate sufficient cash to repay or fail to refinance the debt. It may also otherwise depress the price of our common stock.
- We are obligated to maintain a system of effective internal control over financial reporting and any failure to maintain the adequacy of these internal controls may harm investor confidence in our company and, as a result, the value of our common stock.
- Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.
- Activist investor actions threatened or commenced against us could cause us to incur substantial costs, divert management’s attention and resources, cause uncertainty about the strategic direction of our business and adversely affect our business, financial position and results of operations.
- We issued convertible notes that have rights senior to our common stock.
- Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.
- The conditional conversion feature of the 2026 Notes and 2024 Notes, may adversely affect our financial condition and operating results.
- Legislative actions and new accounting pronouncements are likely to impact our future financial position or results of operations.
- We may have additional tax liabilities from sales taxes, inability to use net operating losses, or changes in regulations, any or all of which could change our effective tax rate or tax liability and have an adverse effect on our results of operations.
- We face exposure to foreign currency exchange rate fluctuations.

Risks Related to Our Business and Our Industry

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

In 2022, we made a significant investment in our sales organization and our revenue increased by \$63.5 million for the year ended December 31, 2022 compared to 2021, due in part to the increase in our customer base.

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

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

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

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

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

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

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

We have posted a net loss in each year since inception, including net losses of \$61.2 million, \$94.8 million and \$93.4 million in the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022, we had an accumulated deficit of \$402.1 million. While we have experienced significant revenue growth in recent periods, we are not certain whether or when we will obtain a high enough volume of sales of our applications to sustain or increase our growth or achieve or maintain profitability in the future. Our ability to achieve or maintain profitability also has been and will continue to be impacted by non-cash stock-based compensation. We also expect our costs to increase in future periods, which could negatively affect our future operating results if our revenue does not increase. In particular, we expect to continue to expend substantial financial and other resources on:

- sales and marketing, including a significant expansion of our sales organization, both domestically and internationally;

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

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

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

While we have introduced several new event management applications over the last few years, we derived 35%, 42% and 50% of our revenue from sales of our Mass Notification application in 2022, 2021 and 2020, respectively, and expect to continue to derive a substantial portion of our revenue from sales of this application in the near term. As a result, our operating results could suffer due to:

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

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

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

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

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

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

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

A significant portion of our revenue growth is generated from sales of additional services, features and products to existing customers. Our future success depends, in part, on our ability to continue to sell such additional services, features and products to our existing customers. We devote significant efforts to developing, marketing, and selling additional services, features and products and associated professional services to existing customers and rely on these efforts for a portion of our revenue. These efforts require a significant investment in building and maintaining customer relationships, as well as significant research and development efforts in order to provide upgrades and launch new services, features, and products. The rate at which our existing customers purchase additional services, features, and products depends on a number of factors, including the perceived need for additional CEM solutions, the efficacy of our current services, the perceived utility and efficacy of our new offerings, our customers' budgets, and general economic conditions in the geographic regions in which we operate, which may be impacted by, among other things, the economic uncertainty resulting from the global geopolitical tension due to ongoing conflict between Russia and Ukraine and consequences associated with COVID-19. Any new applications we develop or acquire might not be introduced in a timely or cost-effective manner and might not achieve the broad market acceptance necessary to generate significant revenue. In addition, if customers demand customized solutions and services that we do not offer, our upfront development costs would increase which could negatively impact our operating results. If any of our competitors implements new technologies before we are able to implement them or better anticipates market opportunities, those competitors may be able to provide more effective or cheaper products than ours. If our efforts to sell additional services, features, and products to our customers are not successful, our future revenue and operating results will be harmed.

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

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

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

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

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

We continue to be substantially dependent on our sales force to obtain new customers and increase sales with existing customers and our research and development personnel to continue to innovate and support our platform. Our ability to successfully pursue our growth strategy will also depend on our ability to attract, motivate and retain our personnel, especially those in sales, marketing, and research and development. We intend to continue to expand our global sales force, and we face a number of challenges in achieving our hiring goals. For instance, there is significant competition for sales personnel, including sales engineers, with the sales skills and technical knowledge that we require, including experience selling to large enterprise customers. We face intense competition for these employees from numerous technology, software and other companies, especially in certain geographic areas in which we operate, and we cannot ensure that we will be able to attract, motivate and/or retain sufficient qualified employees in the future. If we are unable to attract new employees and retain our current employees, we may not be able to adequately develop and maintain new products or professional services or market our existing products or professional services at the same levels as our competitors and we may, therefore, lose customers and market share. Our failure to attract and retain personnel, especially those in sales and marketing positions for which we have historically had a high turnover rate, could have an adverse effect on our ability to execute our business objectives and, as a result, our ability to compete could decrease, our operating results could suffer, and our revenue could decrease. We invest significant time and resources in training new personnel to understand our solutions. In general, new hires require significant training and substantial experience before becoming productive. Our recent hires and planned hires may not become as productive as we require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we currently operate or where we seek to conduct business. Our business and operating results may be materially and adversely impacted if the efforts to retain our sales and marketing and research and development personnel are not successful.

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

Our solutions, including our Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911, are designed to communicate life-saving or damage-mitigating information to the right people, on the right device, in the right location, at the right time during public safety threats and critical business events. In addition, certain of our solutions are designed to identify crisis events applicable to a customer and assist in responding to them. Due to the nature of such solutions, we are potentially exposed to greater risks of liability for employee acts or omissions or system failures than may be inherent in other businesses. Although substantially all of our customer and partner agreements contain provisions limiting our liability to our customers and partners, we cannot assure you that these limitations will be enforced or the costs of any litigation related to actual or alleged omissions or failures would not have a material adverse effect on us even if we prevail. Further, certain of our insurance policies and the laws of some states may limit or prohibit insurance coverage for punitive or certain other types of damages or liability arising from gross negligence and we cannot assure you that we are adequately insured against the risks that we face.

Environmental, social and governance (“ESG”) expectations and standards expose the Company to risks that could adversely affect the Company’s reputation and performance.

Standards for identifying, measuring and reporting ESG matters continue to evolve, including requirements for ESG-related practices and disclosures that may be required of companies by securities regulators and customers. If the Company’s ESG practices or disclosures, including with respect to such matters as board and employee diversity and climate-related disclosures, do not meet evolving investor, customer, or other stakeholder expectations, standards, and policies, then the Company’s attractiveness as an investment, business partner, acquiror or service provider, as well as the reputation of the Company and its ability to attract or retain employees, could be negatively impacted. Further, the Company’s failure or perceived failure to pursue or fulfill ESG objectives or to satisfy applicable reporting standards on a timely basis, or at all, could have similar negative impacts or expose the Company to government enforcement actions and private litigation.

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

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

If our estimates or judgements relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant estimates and judgments involve revenue recognition and include others such as: the valuation of our stock-based compensation awards, including the determination of fair value of our common stock, among others. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

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

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

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

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

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

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

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

As usage of our platform and applications grows, we will need to continue making significant investments to develop and implement new applications, technologies, security features and cloud-based infrastructure operations. Meeting our customers' growing needs will require the introduction of compelling new features, intelligence modules and capabilities that reflect the changing nature of our market to maintain and improve the quality, speed, and value of our platform. In addition, we will need to appropriately scale, maintain, or update our internal business systems and our services organization, including customer support and professional services, to serve our growing customer base, particularly as our customer demographics change over time. The success of any enhancement to our platform depends on several factors, including availability, frequent updates, analytics reflecting current commercial intelligence, competitive pricing, adequate quality testing, integration with existing technologies and overall market acceptance. Any failure of, or delay in, these efforts could impair the performance of our platform and applications and reduce customer satisfaction. Even if we are able to upgrade our systems and expand our staff, any such expansion may be expensive and complex, requiring management's time and attention. To the extent that we do not effectively scale our platform and operations to meet the growing needs of our customers, we may not be able to grow as quickly as we anticipate, our customers may reduce or cancel use of our applications and professional services, we may be unable to compete effectively and our business and operating results may be harmed.

Our quarterly 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 acquisitions of RedSky, xMatters and Anvil 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;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- the success or perceived success of our 2022 Strategic Realignment;
- the announcement or adoption of new regulations and policy mandates or changes to existing regulations and policy mandates, including any changes relating to the United Kingdom's exit from the European Union, commonly referred to as "Brexit";
- the cost or results of existing or unforeseen litigation and intellectual property infringement;
- general economic conditions, both domestically and internationally, as well as economic conditions related to the COVID-19 pandemic and the war in Ukraine;
- 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 the war in Ukraine and impact of public health crises, including the 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.

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

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

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

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

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

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

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

We have in the past and may in the future seek to acquire additional businesses, products or technologies. We also may evaluate and consider other potential strategic transactions, including investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our platform and applications, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. Achieving the anticipated benefits of past or future acquisitions and other strategic transactions will depend in part upon whether we can integrate acquired operations, products, and technology in a timely and cost-effective manner and successfully market and sell these as new product offerings, or as new features within our existing offerings.

For example, we acquired RedSky in January 2021, xMatters in May 2021 and Anvil in November 2021. The integration of these businesses and any other acquisitions may prove to be difficult due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and accustomed to different corporate cultures, business operations, and internal systems. We may need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked sufficiently effective controls, procedures and policies. The acquisition and integration processes are complex, expensive and time consuming, and may cause an interruption of, or loss of momentum in, product development, sales activities, and operations of both companies. Further, we may be unable to retain key personnel of an acquired company following the acquisition. If we are unable to effectively execute or integrate acquisitions, the anticipated benefits of such acquisition, including sales or growth opportunities or targeted synergies may not be realized, and our business, financial condition and operating results could be adversely affected.

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

- incurring higher than anticipated capital expenditures and operating expenses;
- failing to assimilate the operations and personnel or failing to retain the key personnel of the acquired company or business;
- failing to integrate the acquired technologies, or incurring significant expense to integrate acquired technologies, into our platform and applications;
- disrupting our ongoing business;
- diverting our management's attention and other company resources;
- failing to maintain uniform standards, controls and policies;
- incurring significant accounting charges;
- impairing relationships with our customers and employees;
- finding that the acquired technology, asset or business does not further our business strategy, that we overpaid for the technology, asset or business or that we may be required to write off acquired assets or investments partially or entirely;
- failing to realize the expected synergies of the transaction;
- being exposed to unforeseen liabilities and contingencies that were not identified prior to acquiring the company; and
- being unable to generate sufficient revenue and profits from acquisitions to offset the associated acquisition costs.

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

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

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

We believe our success has depended, and continues to depend, on the efforts and talents of our senior management and key personnel. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract them. In addition, the loss of any of our senior management or key personnel could interrupt our ability to execute our business plan, as such individuals may be difficult to replace. Our ability to hire and retain other key employees needed to achieve the Company's growth objectives also depends on our ability to manage the existing equity incentive pool. If the equity pool is not refreshed, there is a risk that we may not be able to hire and retain such key employees. If the equity pool is refreshed with authorized shares of the Company that are issued in accordance with our 2016 Equity Incentive Plan, our stockholders will be diluted. Further, if we do not maintain a reasonable equity burn rate, our stockholders may be overly diluted and this may impact our ability to obtain shareholder approval to refresh our equity pool. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business and results of operations could be harmed.

Changes in our business and operations, as well as organizational changes, have placed, and may continue to place, significant demands on our management and infrastructure. If we fail to manage these changes effectively, we may be unable to execute our business plan, maintain high levels of service, or address competitive challenges adequately.

Over the past 12 months, we have experienced organizational changes, including the recent appointment of new executives, including a new Chief Executive Officer, a new Chief Product Officer and a new Chief Revenue Officer, and the promotion, addition, or departure of members of our senior management team. These organizational changes have placed, and will continue to place, a significant strain on our management, administrative, operational, and financial infrastructure. Our success will depend in part upon the ability of our senior management team to manage these changes effectively. If we fail to manage these changes effectively, we may be unable to execute our business plan, maintain high levels of service, or address competitive challenges adequately.

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

Our growth strategy is dependent, in part, upon increasing sales of our solutions to large enterprises and governments. Sales to large customers involve risks that may not be present (or that are present to a lesser extent) with sales to smaller entities. These risks include:

- increased purchasing power and leverage held by large customers in negotiating contractual arrangements with us;
- unfavorable contract terms;
- more stringent and complicated implementation processes, including stricter implementation deadlines and penalties for any failure to meet such deadlines;
- more complex, stringent or costly requirements imposed upon us in our support service contracts with such customers, including stricter support response times and penalties for any failure to meet support requirements;
- longer sales cycles, substantial upfront sales costs, and the associated risk that substantial time and resources may be spent on a potential customer that ultimately elects not to purchase our platform or purchases less than we hoped;

- closer relationships with, and dependence upon, large technology companies who offer competitive products; and
- more pressure for discounts and write-offs.

In addition, our ability to successfully sell our services to large enterprises is dependent on us attracting and retaining sales personnel, including sales engineers, with experience in selling to large organizations. Also, because security breaches with respect to larger, high-profile enterprises are likely to be heavily publicized, there is increased reputational risk associated with serving such customers. If we are unable to increase sales of our offerings to large enterprise and government customers while mitigating the risks associated with serving such customers, our business, financial position and results of operations may suffer.

Our revenue growth will depend in part on the success of our efforts to augment our direct-sales channels by developing relationships with third parties.

We rely largely on the direct-sales model to market our platform. In order to continue to build our business, we plan to continue to develop partnerships to support our sales efforts through referrals and co-selling arrangements. Our efforts to develop relationships with partners are still at an early stage, we have generated limited revenue through these relationships to date, and we cannot assure you that we will be able to develop and maintain successful partnerships or that these partners will be successful in marketing and selling our platform or solutions based upon our platform. Identifying partners, negotiating and supporting relationships with them and maintaining relationships requires a significant commitment of time and resources that may not yield a significant return on our investment. We expect that our partners will have only limited commitments to dedicate resources to marketing and promoting our solutions. In addition, our competitors may be more effective in providing incentives to our partners or prospective partners to favor their products or services over our solutions. If we are unsuccessful in establishing or maintaining our relationships with partners, or if these partners are unsuccessful in marketing or selling our solutions or are unable or unwilling to devote sufficient resources to these activities, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results may suffer. Further, new or emerging technologies, technological trends or changes in customer requirements may result in certain third parties de-emphasizing their dealings with us or becoming potential competitors in the future.

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

A component of our growth strategy involves the further expansion of our operations and customer base internationally. We opened our first international office in Beijing, China in April 2012 and subsequently opened an office in Windsor, England in September 2012 as part of our geographic expansion. In March 2014, we acquired Vocal Limited, a mass notification company based in Colchester, England. In December 2016, we acquired Svensk Krisledning AB, a SaaS mobile crisis management company based in Norsborg, Sweden. In April 2018, we acquired Unified Messaging Systems ASA, a critical communication and population alerting systems company based in Oslo, Norway. In May 2018, we acquired Respond B.V., a critical communication solutions company based in the Netherlands. In February 2020, we acquired CNL Software Limited, a global provider of physical security information management platform software based in Camberley, United Kingdom. In March 2020, we acquired One2Many Group B.V. based in the Netherlands. In May 2020, we acquired Techwan SA based in Switzerland. In August 2020, we acquired SnapComms Limited based in New Zealand. In November 2021 we acquired Anvil Worldwide Limited and The Anvil Group Limited based in the United Kingdom. For the years ended December 31, 2022 and 2021, approximately 26% and 25% of our revenue, respectively, was derived from customers located outside of the United States and Canada. We intend to further expand our local presence in regions such as Europe, the Middle East and Asia. Our current international operations and future initiatives will involve a variety of risks, including:

- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- economic or political instability in foreign markets;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;

- more stringent regulations relating to technology, including with respect to privacy, data security and the unauthorized use of, access to, or deletion of commercial and personal information, particularly in the European Union;
- difficulties in maintaining our company culture with a dispersed and distant workforce;
- unexpected changes in regulatory requirements, taxes or trade laws;
- differing labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- limited or insufficient intellectual property protection;
- political instability or terrorist activities;
- differing exposure to, responses to and capacities for managing the COVID-19 pandemic;
- likelihood of potential or actual violations of domestic and international anticorruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, or of U.S. and international export control and sanctions regulations, which likelihood may increase with an increase of sales or operations in foreign jurisdictions and operations in certain industries; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

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

Our business, including the sales of our products and professional services by us and our channel partners, may be subject to foreign governmental regulations, which vary substantially from country to country and change from time to time. Our failure, or the failure by our channel partners, to comply with these regulations could adversely affect our business. Further, in many foreign countries it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. regulations applicable to us. Although we have implemented policies and procedures designed to comply with these laws and policies, there can be no assurance that our employees, contractors, channel partners and agents have complied, or will comply, with these laws and policies. Violations of laws or key control policies by our employees, contractors, channel partners or agents could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our products and could have a material adverse effect on our business and results of operations. If we are unable to successfully manage the challenges of international expansion and operations, our business and operating results could be adversely affected.

We are also continuing to monitor developments related to the United Kingdom's departure from the European Union in 2020, commonly referred to as "Brexit." The full effect of Brexit remains uncertain, but it could have significant implications for our business and could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and differing laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations in the United Kingdom and our financial results.

We are subject to risks relating to local crises and geopolitical instability due to our security and travel assistance services.

Especially through our subsidiary Anvil, we provide medical, security and travel assistance service through a network of service providers who provide on-the-ground security, travel or healthcare services to our customers' employees when they are traveling abroad. Our services include the security and transport of customer assets. The support we receive from service providers could be affected by geopolitical instability or conflict and we may have difficulty enforcing agreements or protecting assets due to crisis situations. For example, during the outbreak of the war in Ukraine, we had to rely on service providers to evacuate customer employees. We may also face difficulties if we undertake commitments to customers who, when in times of crisis, create a demand that exceeds what we have contracted for in the region. We may also face challenges with regulatory compliance when moving assets and individuals between countries.

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

We believe our culture has been a key contributor to our success to-date and that the critical nature of the solutions that we provide promotes a sense of greater purpose and fulfillment in our employees. We have invested in building a strong corporate culture and believe it is one of our most important and sustainable sources of competitive advantage. Any failure to preserve our culture could negatively affect our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives. As we grow and develop the infrastructure of a public company, we may find it difficult to maintain these important aspects of our company culture, particularly given the remote or hybrid work environment as a result of COVID-19 related shifts in the workplace. If we fail to maintain our company culture, our business may be adversely impacted.

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

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

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

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

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

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

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

The 2022 Strategic Realignment program is in support of the 2022 strategic initiatives to simplify our business and accelerate the integration of recent acquisitions. We expect to record in the aggregate approximately \$14 million to \$15 million in restructuring charges associated with the 2022 Strategic Realignment and \$16 million to \$17 million in business transformation costs associated with the 2022 Strategic Realignment. A significant portion of these charges will result in future cash expenditures, and the program is expected to be substantially completed by the end of fiscal 2023.

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

Risks Related to Cybersecurity and Reliability

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

In the ordinary course of our operations, we collect, receive, store, process, generate, use, transfer, disclose, make accessible, protect, secure, dispose of, transmit, and share (collectively, process) data of our customers and their employees, customers and constituents, including personally identifiable information such as contact information and physical location, as well as other data including health information or financial information. Security incidents, whether as a result of third-party action, employee or customer error, technology impairment or failure, malfeasance or criminal activity, could result in unauthorized access to, or loss or unauthorized disclosure of, this information, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation, impair our sales and harm our customers and our business. Cyber incidents and malicious internet-based activity continue to increase generally, and providers of cloud-based services have been targeted. We and the third parties upon which we rely are subject to a variety of evolving threats, including but not limited to social-engineering attacks (including through phishing attacks), malicious code (such as viruses and worms), malware (including as a result of advanced persistent threat intrusions), denial-of-service attacks (such as credential stuffing), credential harvesting, personnel misconduct or error, ransomware attacks, supply-chain attacks, software bugs, server malfunctions, software or hardware failures, loss of data or other information technology assets, adware, telecommunications failures, earthquakes, fires, floods, and other similar threats. In particular, severe ransomware

attacks are becoming increasingly prevalent – particularly for companies like ours who provide cloud-based services – and can lead to significant interruptions in our operations, loss of sensitive data and income, reputational harm, and diversion of funds. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments. Some actors now engage and are expected to continue to engage in cyber-attacks, including without limitation nation-state actors for geopolitical reasons and in conjunction with military conflicts and defense activities. During times of war and other major conflicts, we, the third parties upon which we rely, and our customers may be vulnerable to a heightened risk of these attacks, including retaliatory cyber-attacks, that could materially disrupt our systems and operations, supply chain, and ability to produce, sell and distribute our goods and services. We have experienced malicious internet-based attacks in the past and while to date none have been material to our business, we may in the future be the target of attempts to gain unauthorized access to our systems. If third parties with whom we work, such as vendors or developers, violate applicable laws or our security policies, such violations may also put our customers' information at risk and could in turn have an adverse effect on our business. While we have implemented security measures designed to protect against security incidents, there can be no assurance that these measures will be effective. We take steps to detect and remediate vulnerabilities, but we may be unable to anticipate or prevent vulnerabilities or techniques used to obtain unauthorized access or to sabotage systems because they change frequently and often are not detected until after an incident has occurred. Therefore, such vulnerabilities could be exploited but may not be detected until after a security incident has occurred. These vulnerabilities pose material risks to our business. Further, we may experience delays in developing and deploying remedial measures designed to address any such identified vulnerabilities. As we increase our customer base and our brand becomes more widely known and recognized, third parties may increasingly seek to compromise our security controls or gain unauthorized access to our sensitive corporate information or customers' data. Future or past business transactions (such as acquisitions or integrations) could expose us to additional cybersecurity risks and vulnerabilities, as our systems could be negatively affected by vulnerabilities present in acquired or integrated entities' systems and technologies. Furthermore, we may discover security issues that were not found during due diligence of such acquired or integrated entities, and it may be difficult to integrate companies into our information technology environment and security program. Further, because of the nature of the services that we provide to our customers during public safety threats and critical business events, we may be a unique target for attacks.

Remote work has become more common and has increased risks to our information technology systems and data, as more of our employees utilize network connections, computers and devices outside our premises or network, including working at home, while in transit and in public locations.

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

While we maintain general liability insurance coverage and coverage for errors or omissions, we cannot assure you that such coverage would be adequate or would otherwise protect us from liabilities or damages with respect to claims alleging compromises of personal data or that such coverage will continue to be available on acceptable terms or at all. Our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security obligations. While we may be entitled to damages if our third-party service providers fail to satisfy their privacy or security-related obligations to us, any award may be insufficient to cover our damages, or we may be unable to recover such award.

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

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

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

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

Our operations depend, in part, on our third-party facility providers' abilities to protect these facilities against damage or interruption from natural disasters, power or telecommunications failures, cyber incidents, criminal acts and similar events. In the event that any of our third-party facilities arrangements are terminated, or if there is a lapse of service or damage to a facility, we could experience interruptions in our platform as well as delays and additional expenses in arranging new facilities and services. Any changes in third-party service levels at our data centers or any errors, defects, disruptions, cyber incidents or other performance problems with our solutions could harm our reputation. We also rely on third-party service providers and technologies to operate critical business systems to process sensitive information in a variety of contexts, including, without limitation, encryption and authentication technology, crisis identification and notification, employee email, content delivery to customers, and other functions.

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

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

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

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

Any errors, defects, viruses, or security vulnerabilities in the hardware or software we use could result in errors, interruptions, cyber incidents, security breaches, or a failure of our applications. Any significant interruption in the availability of all or a significant portion of such software could have an adverse impact on our business unless and until we can replace the functionality provided by these applications at a similar cost. Additionally, we rely upon third parties' abilities to enhance their current applications, develop new applications on a timely and cost-effective basis and respond to emerging industry standards and other technological changes. We may be unable to effect changes to such third-party technologies, which may prevent us from rapidly responding to evolving customer requirements, which could, in turn, negatively impact our ability to generate revenue and adversely impact our business. We also may be unable to replace the functionality provided by the third-party software currently offered in conjunction with our applications in the event that such software becomes obsolete or incompatible with future versions of our platform and applications or is otherwise not adequately maintained or updated. Please see the section titled "The use of open source software in our platform and applications may expose us to additional risks and harm our intellectual property." for additional discussion of the risks associated with use of open source software.

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

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

Risks Related to Data Privacy and Government Regulation

We are subject to stringent and evolving U.S. and foreign laws, regulations, rules, contractual obligations, policies and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could result in adverse consequences, including regulatory investigations or actions, litigation, fines and penalties, disruptions of our business operations, and reputational harm. Compliance with such laws could also impair our efforts to maintain and expand our customer base, and thereby decrease our revenue.

We collect, receive, store, process, generate, use, transfer, disclose, make accessible, protect, secure, dispose of, transmit, and share (collectively, "process") personally identifiable information and other data, including health information and financial information if applicable, directly from our customers and through our channel partners. We also process or otherwise handle personally identifiable information about our customers' employees, customers and constituents in certain circumstances. We use this information to provide applications to our customers and to support, expand and improve our business. We may also share customers' personally identifiable information with third parties as described in our privacy policy and/or as otherwise authorized by our customers.

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

In the United States, federal, state, and local governments have enacted numerous data privacy and security laws, including data breach notification laws, personal data privacy laws, consumer protection laws (e.g., Section 5 of the Federal Trade Commission Act), and other similar laws (e.g., wiretapping laws). For example, the federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), imposes specific requirements relating to the privacy, security, and transmission of individually identifiable health information. The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 ("CAN-SPAM") and the Telephone Consumer Protection Act of 1991 ("TCPA") impose specific requirements on communications with customers. For example, the TCPA imposes various consumer consent requirements and other restrictions on certain telemarketing activity and other communications with consumers by phone, fax or text message. TCPA violations can result in significant financial penalties, including penalties or criminal fines imposed by the Federal Communications Commission or fines of up to \$1,500 per violation imposed through private litigation or by state authorities. Additionally, certain sector-specific regulations, including regarding the financial industry, may require additional privacy and security-related obligations. For example, the Gramm Leach Bliley Act ("GLBA"), as amended, imposes specific requirements relating to the privacy and security of certain nonpublic personal information processed by covered financial institutions.

California enacted legislation in 2018, the California Consumer Privacy Act ("CCPA"), that became operative on January 1, 2020, and applies to personal information of consumers, business representatives, and employees. The CCPA requires covered companies to, among other things, provide new disclosures to California consumers, and affords such consumers new abilities to opt-out of certain sales of personal information. The CCPA provides for civil penalties of up to \$7,500 per violation and allows private litigants affected by certain data breaches to recover significant statutory damages. In addition, the California Privacy Rights Act of 2020 ("CPRA") expands the CCPA's requirements, including by adding a new right for individuals to correct their personal information and establishing a new regulatory agency to implement and enforce the law. Other states, such as Virginia and Colorado, have also passed comprehensive privacy laws, and similar laws are being considered in several other states, as well as at the

federal and local levels. We cannot fully predict the impact of the CCPA and other state laws on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Additionally, regulators are increasingly scrutinizing companies that process children's data. Numerous laws, regulations, and legally-binding codes, such as the Children's Online Privacy Protection Act ("COPPA"), the CCPA and CPRA, other U.S. state comprehensive privacy laws, and the European Union's General Data Protection Regulation ("EU GDPR") and the United Kingdom's GDPR ("UK GDPR") impose various obligations on companies that process children data, including by requiring certain consents to process such data and extending certain rights to children and their parents with respect that data. Some of these obligations have wide ranging applications, including for services that do not intentionally target child users (defined in some circumstances as a user under the age of 18 years old).

In addition, several foreign countries and governmental bodies, including the European Union and Canada, have regulations governing the collection and use of personal information obtained from their residents, which are often more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of personal information that identifies or may be used to identify an individual, such as names, email addresses and in some jurisdictions, Internet Protocol, or IP, addresses. Such regulations and laws may be modified and new laws may be enacted in the future. Outside the United States, an increasing number of laws, regulations, and industry standards may govern data privacy and security. For example, the EU GDPR and the UK GDPR and China's Personal Information Protection Law ("PIPL") impose strict requirements for processing personal data. In Canada, the Personal Information Protection and Electronic Documents Act ("PIPEDA") and various related provincial laws, as well as Canada's Anti-Spam Legislation ("CASL"), may apply to our operations.

Within the European Union, legislators have adopted the General Data Protection Regulation ("EU GDPR"), which went into effect in May 2018. The GDPR includes more stringent operational requirements on entities that process personal data (as compared to existing EU law), including significant penalties for non-compliance, more robust obligations on data processors and data controllers, greater rights for data subjects (potentially requiring significant changes to both our technology and operations), and heavier documentation requirements for data protection compliance programs. Specifically, the GDPR introduces numerous privacy-related changes for companies operating in the EU, including greater control over personal data by data subjects (e.g., the "right to be forgotten"), increased data portability for EU consumers, data breach notification requirements and increased fines. Under the GDPR, fines of up to 20 million euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater, could be imposed for violations of certain GDPR requirements, or the company could be subject to private litigation related to processing of personal data brought by classes of data subjects or consumer protection organizations authorized at law to represent their interests. The GDPR requirements apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information. In the ordinary course of business, we may transfer personal data from Europe and other jurisdictions to the United States or other countries. Europe and other jurisdictions have enacted laws requiring data to be localized or limiting the transfer of personal data to other countries. In particular, the European Economic Area (EEA) and the UK have significantly restricted the transfer of personal data to the United States and other countries whose privacy laws it believes are inadequate. Other jurisdictions, including China, may adopt similarly stringent interpretations of their data localization and cross-border data transfer laws. Although there are currently various mechanisms that may be used to transfer personal data from the EEA and UK to the United States in compliance with law, such as the EEA and UK's standard contractual clauses, these mechanisms are subject to legal challenges, and there is no assurance that we can satisfy or rely on these measures to lawfully transfer personal data to the United States. Companies that transfer personal data out of the EEA and UK to other jurisdictions, particularly to the United States, are subject to increased scrutiny from regulators, individual litigants, and activist groups. Some European regulators have ordered certain companies to suspend or permanently cease certain transfers out of Europe for allegedly violating the GDPR's cross-border data transfer limitations. This could result in increased costs of compliance and limitations on our customers and us. Despite our ongoing efforts to maintain compliance with the GDPR, we may not be successful either due to various factors within our control (such as limited financial or human resources) or outside our control (such as a lack of vendor cooperation). It's also possible that local data protection authorities ("DPAs") may have different interpretations of the GDPR, leading to potential inconsistencies amongst various EU states. If there is no lawful manner for us to transfer personal data from the EEA, the UK or other jurisdictions to the United States, or if the requirements for a legally-compliant transfer are too onerous, we could face significant adverse consequences, including the interruption or degradation of our operations, the need to relocate part of or all

of our business or data processing activities to other jurisdictions at significant expense, increased exposure to regulatory actions, substantial fines and penalties, the inability to transfer data and work with partners, vendors and other third parties, and injunctions against our processing or transferring of personal data necessary to operate our business.

Additionally, several states and localities have enacted measures related to the use of artificial intelligence and machine learning in products and services. For example, in Europe, there is a proposed regulation related to artificial intelligence (“AI”) that, if adopted, could impose onerous obligations related to our use of AI or machine learning-related systems. We may have to change our business practices to comply with such obligations.

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

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

We are also bound by contractual obligations related to data privacy and security, and our efforts to comply with such obligations may not be successful. For example, certain privacy laws, such as the GDPR and the CCPA, require our customers to impose specific contractual restrictions on their service providers. Additionally, some of our customer contracts require us to host personal data locally. We publish privacy policies, marketing materials and other statements, such as compliance with certain certifications or self-regulatory principles, regarding data privacy and security. If these policies, materials or statements are found to be deficient, lacking in transparency, deceptive, unfair, or misrepresentative of our practices, we may be subject to investigation, enforcement actions by regulators or other adverse consequences.

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

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

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

In addition, governmental and other customers may require our applications to comply with certain privacy, security or other certifications and standards. As described above, the EEA and the UK have significantly restricted the transfer of personal data to the United States and other countries whose privacy laws it believes are inadequate and standard contractual clauses are used as one mechanism to facilitate cross-border data transfers. If our applications fail to maintain compliance with these mechanisms, certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our applications to such customers, or may otherwise be at a competitive disadvantage, either of which would harm our business, results of operations and financial condition. If our policies and practices are, or are perceived to be, insufficient or if our customers have concerns regarding the transfer of data from the European Union to the United States, we could be subject to enforcement actions or investigations by EU Data Protection Authorities or lawsuits by private parties, and our business could be negatively impacted, as described above.

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

Obligations related to data privacy and security are quickly changing, becoming increasingly stringent, and creating regulatory uncertainty. Additionally, these obligations may be subject to differing applications and interpretations, which may be inconsistent or conflict among jurisdictions. Preparing for and complying with these obligations requires us to devote significant resources, which may necessitate changes to our services, information technologies, systems, and practices and to those of any third parties that process personal data on our behalf. In addition, these obligations may require us to change our business model. We may at times fail (or be perceived to have failed) in our efforts to comply with our data privacy and security obligations. Moreover, despite our efforts, our personnel or third parties on whom we rely may fail to comply with such obligations, which could negatively impact our business operations. If we, or the third-parties upon which we rely, do not comply with laws or regulations such as those detailed in preceding risk factors, or if we become liable under these laws or regulations due to the failure of our customers to comply with these laws by obtaining proper consent, we could face significant consequences, including but not limited to: government enforcement actions (e.g., investigations, fines, penalties, audits, inspections, and similar); litigation (including class-action claims); additional reporting requirements and/or oversight; bans on processing personal data; orders to destroy or not use personal data; and imprisonment of company officials. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, reputation, results of operations and financial condition.

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

A portion of our revenue is generated by subscriptions sold to government entities. Additionally, many of our current and prospective customers, such as those in the financial services, and healthcare and life sciences industries, are highly regulated and may be required to comply with more stringent regulations in connection with subscribing to and implementing our applications. Selling subscriptions to these entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully complete a sale. In addition, delivering subscribed solutions to these governmental entities can be expensive and time consuming; for example, requiring complex integrations with various local telecommunications carriers, telecommunications infrastructure that changes over the course of the sale and delivery process, and various changing telecommunications standards (for example, 2G through 5G). Delivery delay in early projects may cause backlog impacting later projects.

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

Collecting payment from a government entity may also present difficulties. For example, governmental demand and payment for our applications may also be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions.

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

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

Risks Related to Our Intellectual Property

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

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

We have numerous issued patents and patent applications pending as of December 31, 2022. We cannot assure you that any patents will issue from any patent applications, that patents that issue from such applications will give us the protection that we seek or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers. In addition, we have registered the “Everbridge”, “Nixle” and “Visual Command Center” names in the United States, and have registered the “Everbridge” name in the European Union. We have registrations and/or pending applications for additional marks in the United States and various other countries; however, we cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Ownership of Our Common Stock

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

The market price of our common stock may be highly volatile and may fluctuate substantially as a result of a variety of factors, some of which are related in complex ways. Our stock price ranged from an intraday low of \$24.10 to an intraday high of \$68.23 during the year ended December 31, 2022. Factors that may affect the market price of our common stock include:

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

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

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 global geopolitical tension including as a result of the ongoing conflict between Ukraine and Russia, the consequences of the COVID-19 pandemic, the anticipated contributions from the acquisitions of RedSky, xMatters and Anvil, and the associated economic uncertainty on our business and the timing and scope of economic activity globally, which are inherently difficult to predict. This guidance, which consists of forward-looking statements, is qualified by, and subject to, such assumptions, estimates and expectations as provided, and the other information contained in or referred to in the factors described in this Annual Report on Form 10-K and our other current and periodic reports filed with the Securities and Exchange Commission. While presented with numerical specificity, this guidance is necessarily speculative in nature, and is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions or economic conditions, some of which may change. It can be expected that some or all of the assumptions, estimates and expectations of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release of such guidance. Furthermore, analysts and investors may develop and publish

their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, including due to the global economic uncertainty and financial market conditions caused by the ongoing war in Ukraine and the consequences of the COVID-19 pandemic, and which could adversely affect our operations and operating results. 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.

Conversion of the 2026 Notes and 2024 Notes may dilute the ownership interest of existing stockholders, including holders who had previously converted their Notes, if we are unable to generate sufficient cash to repay or fail to refinance the debt. It may also otherwise depress the price of our common stock.

In March 2021, we issued the 2026 Notes, which will mature on March 15, 2026, unless earlier redeemed or repurchased by us or converted by the holders thereof pursuant to their terms. In December 2019, we issued the 2024 Notes, which will mature on December 15, 2024, unless earlier redeemed or repurchased by us or converted by the holders thereof pursuant to their terms. The conversion of some or all of the convertible 2026 Notes and 2024 Notes may dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the 2026 Notes and 2024 Notes, if we are unable to generate sufficient cash to repay or fail to refinance the debt. During 2022, we paid approximately \$288.8 million in cash to repurchase approximately \$316.4 million principal amount of our 2024 Notes. There is \$133.6 million principal amount of 2024 Notes outstanding. The 2024 Notes and 2026 Notes were not convertible during the year ended December 31, 2022. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the 2026 Notes and 2024 Notes may encourage short selling by market participants because the conversion of the 2026 Notes and 2024 Notes could be used to satisfy short positions, or anticipated conversion of the 2026 Notes and 2024 Notes into shares of our common stock could depress the price of our common stock.

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

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

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

The Sarbanes-Oxley Act of 2002 requires that we maintain effective internal control over financial reporting and disclosure controls and procedures. We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting.

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

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

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

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

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

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends to holders of our common stock in the foreseeable future. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

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

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

- authorize our board of directors to issue preferred stock, without further stockholder action and with voting liquidation, dividend and other rights superior to our common stock;
- require that any action to be taken by our stockholders be affected at a duly called annual or special meeting and not by written consent, and limit the ability of our stockholders to call special meetings;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for director nominees;
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;

- require the approval of holders of two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or amend or repeal the provisions of our certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action by written consent or call a special meeting;
- prohibit cumulative voting in the election of directors; and
- provide that vacancies on our board of directors may be filled only by the vote of a majority of directors then in office, even though less than a quorum.

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

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

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

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

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

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

Activist investor actions threatened or commenced against us could cause us to incur substantial costs, divert management's attention and resources, cause uncertainty about the strategic direction of our business and adversely affect our business, financial position and results of operations.

Steps taken by activist shareholders from time to time could conflict with our strategic direction, divert the attention of our Board of Directors, management, and employees, be costly and time-consuming, and disrupt the momentum in our business and operations, as well as our ability to execute our strategic plan. For example, in connection with our 2022 Annual Meeting of our Shareholders (the "2022 Annual Meeting"), an activist investor announced that it intended to withhold support for certain directors nominated by the Board of Directors for reelection and made multiple public statements in recent months regarding the Company's strategy, Board of Directors and management team. These types of actions may also create perceived uncertainties as to the future direction of our business or strategy, which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel, and may impact our relationship with investors, vendors, customers and other third parties. These types of actions could also impact the market price and the volatility of our common stock. In addition, we may choose to initiate, or may become subject to, litigation as a result of shareholder actions, which would serve as a further distraction to our Board of Directors, senior management and employees and could require us to incur significant additional costs.

Risks Related to our Indebtedness

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

In March 2021, we issued the 2026 Notes, which will mature on March 15, 2026, unless earlier redeemed or repurchased by us or converted by the holders thereof pursuant to their terms. In December 2019, we issued the 2024 Notes, which will mature on December 15, 2024, unless earlier redeemed or repurchased by us or converted by the holders thereof pursuant to their terms. During 2022, we paid approximately \$288.8 million in cash to repurchase approximately \$316.4 million principal amount of our 2024 Notes.

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

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

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

As of December 31, 2022, we had \$508.6 million (undiscounted) principal amount of indebtedness under the 2026 Notes and 2024 Notes. Our indebtedness may:

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

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

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

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. ASU 2020-06 reduces the number of accounting models for convertible instruments by eliminating two of the three models in Accounting Standards Codification ("ASC") 470-20, *Debt—Debt with Conversion and Other Options*, that require separate accounting for embedded conversion features, amends the requirements for a contract that is potentially settled in an entity's own shares to be classified in equity, and amends certain guidance on the computation of earnings per share for convertible instruments and contracts on an entity's own equity. We adopted the standard on January 1, 2022 using the modified retrospective approach. Upon adoption of ASU 2020-06, we no longer separately present in equity the embedded conversion feature of the convertible senior notes. Instead, we account for the convertible senior notes wholly as debt. The elimination of the cash conversion model reduces reported interest expense in periods subsequent to adoption.

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

In the event the conditional conversion feature of the 2026 Notes or 2024 Notes is triggered, holders of the 2026 Notes or 2024 Notes, as the case may be, will be entitled to convert the 2026 Notes or 2024 Notes, as applicable, at any time during specified periods at their option. The 2026 Notes and 2024 Notes were not convertible during the year ended December 31, 2022. If one or more holders elect to convert their 2026 Notes or 2024 Notes, as the case may be, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their 2026 Notes or 2024 Notes, as the case may be, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the 2026 Notes or 2024 Notes, as applicable, as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Risks Related to Taxation

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

As of December 31, 2022, we had federal and state net operating loss carryforwards (“NOL”s) of \$282.6 million and \$238.1 million, respectively, due to prior period losses, of which \$242.1 million and \$23.4 million, respectively, can be carried forward indefinitely with the remaining NOLs expiring in various years through 2042 if not utilized. In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. We completed a Section 382 study for the period through November 7, 2022 and determined that a Section 382 ownership change occurred on December 31, 2017 subjecting all pre-Tax Act losses to a utilization limitation. We also have federal and state NOLs of \$46.8 million and \$34.4 million, respectively, from various acquisitions which are subject to limitations under Section 382. The Company completed a Section 382 study for xMatters, Inc., a wholly owned subsidiary of the Company that was acquired on May 7, 2021. As a result of the study, the Company determined that out of total federal NOLs of \$64.0 million, \$0.9 million of federal NOLs generated by xMatters, Inc. prior to May 7, 2021 would not be available for utilization due to ownership changes experienced by xMatters, Inc. Additionally, state NOLs generated in one state cannot be used to offset income generated in another state. For these reasons, we may not be able to realize a tax benefit with respect to our NOLs, whether or not we attain profitability.

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

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

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

We may have additional tax liabilities.

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

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

The application of federal, state, local and foreign tax laws to services provided electronically is continuously evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted or amended at any time, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the Internet. Effective for tax years beginning after December 31, 2021, legislation commonly referred to as the Tax Cuts and Jobs Act eliminated the option to currently deduct research and development expenditures and requires taxpayers to capitalize and amortize U.S.-based and non-U.S.-based research and development expenditures over five and fifteen years, respectively. Although there has been proposed legislation that would defer the capitalization requirement to later years, we have no assurance that the provision will be repealed or otherwise modified. These enactments or amendments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and could ultimately result in a negative impact on our operating results.

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

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

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

General Risks

Uncertain or weakened global economic conditions, or reductions in information technology spending, may adversely affect our industry, business and results of operations.

Our overall performance depends on domestic and worldwide economic conditions, which may remain challenging for the foreseeable future. Financial developments seemingly unrelated to us or to our industry may adversely affect us and our planned international expansion. The U.S. economy and other key international economies have been impacted by inflation, rising interest rates, the ongoing conflict between Ukraine and Russia, financial and credit market fluctuations, outbreaks of contagious diseases (such as the COVID-19 pandemic), threatened sovereign defaults and ratings downgrades, falling demand for a variety of goods and services, restricted credit, threats to major multinational companies, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our applications and services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions or affect renewal rates, any of which could adversely affect our operating results. We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery and the impacts worldwide, in the United States, or in our industry.

We are subject to various laws and regulations pertaining to export controls and trade and economic sanctions, which can impact our business activities and subject us to liability for noncompliance.

Our activities are subject to various U.S. and foreign export control, import, and sanctions laws and regulations, including the U.S. Department of Commerce's Export Administration Regulations and the U.S. Department of the Treasury's Office of Foreign Assets Control economic and trade sanctions programs (collectively, "Trade Controls"). Trade Controls can restrict our ability to provide certain products and services, including in connection with Anvil's movement of assets between countries, and may from time to time may trigger regulatory licensing requirements. Our ability to secure requisite licensing is not guaranteed.

Trade Controls are subject to frequent change, and compliance therewith can be time- and resource-intensive. Although we have policies and procedures in place to ensure compliance, we cannot guarantee full compliance with those protocols, or with applicable Trade Controls. Violations of these regimes can result in significant financial penalties, loss of licensing privileges, other administrative penalties, reputational harm, and adverse business impact.

Litigation or legal proceedings could expose us to significant liabilities and have a negative impact on our reputation or business. For example, we are subject to putative securities class litigation and certain officers and directors have been named in a related derivative complaint, which will result in significant legal expense and could divert management attention and adversely impact our business.

From time to time, we may be party to various claims and litigation proceedings. For example, in April 2022, a putative securities class action complaint was filed against us and certain of our officers and in June 2022, derivative complaints were filed against our officers and directors. These cases are still pending. See Note 19, Commitments and Contingencies, of the notes to consolidated financial statements for more information. We evaluate these claims and litigation proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we may establish reserves, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our assessments and estimates.

Even when not merited, the defense of these lawsuits will result in legal fees and may divert management's attention, and we may incur significant expenses in defending these lawsuits. The results of litigation and other legal proceedings are inherently uncertain, and adverse judgments or settlements in some of these legal disputes may result in adverse monetary damages, penalties or injunctive relief against us, which could negatively impact our financial position, cash flows or results of operations.

Furthermore, while we maintain insurance for certain potential liabilities, such insurance does not cover all types and amounts of potential liabilities and is subject to various exclusions as well as caps on amounts recoverable. Even if we believe a claim is covered by insurance, insurers may dispute our entitlement to recovery for a variety of potential reasons, which may affect the timing and, if the insurers prevail, the amount of our recovery.

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

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

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

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

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

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

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

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

We face exposure to foreign currency exchange rate fluctuations.

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

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

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Our principal executive offices are located in Burlington, Massachusetts, where we occupy an approximately 73,500 square-foot facility as of December 31, 2022; under an amended lease entered into in 2022 which will expire on May 31, 2031, during 2023 we will reduce our Burlington, Massachusetts occupancy to approximately 36,700 square-feet. Our principal executive offices are also located in Pasadena, California, where we occupy an approximately 19,000 square-foot facility under a lease expiring on December 31, 2023. We also have additional offices in the United States as well as internationally including Canada, China, Germany, India, Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland and the United Kingdom.

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

Item 3. Legal Proceedings.

In April 2022, certain former shareholders of Anvil, which was acquired by Everbridge on November 4, 2021, filed a claim in the United Kingdom Commercial Court against Everbridge Holdings Limited and Everbridge, Inc. The suit claims that these companies breached certain provisions of the acquisition documents relating to the issuance of Everbridge, Inc. stock, which formed part of the consideration payable for the stock in Anvil. The claimants are seeking damages for losses they purport to have suffered as a result of these alleged breaches.

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

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

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

Item 4. Mine Safety Disclosures.

Not applicable

PART II

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

Market Information

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

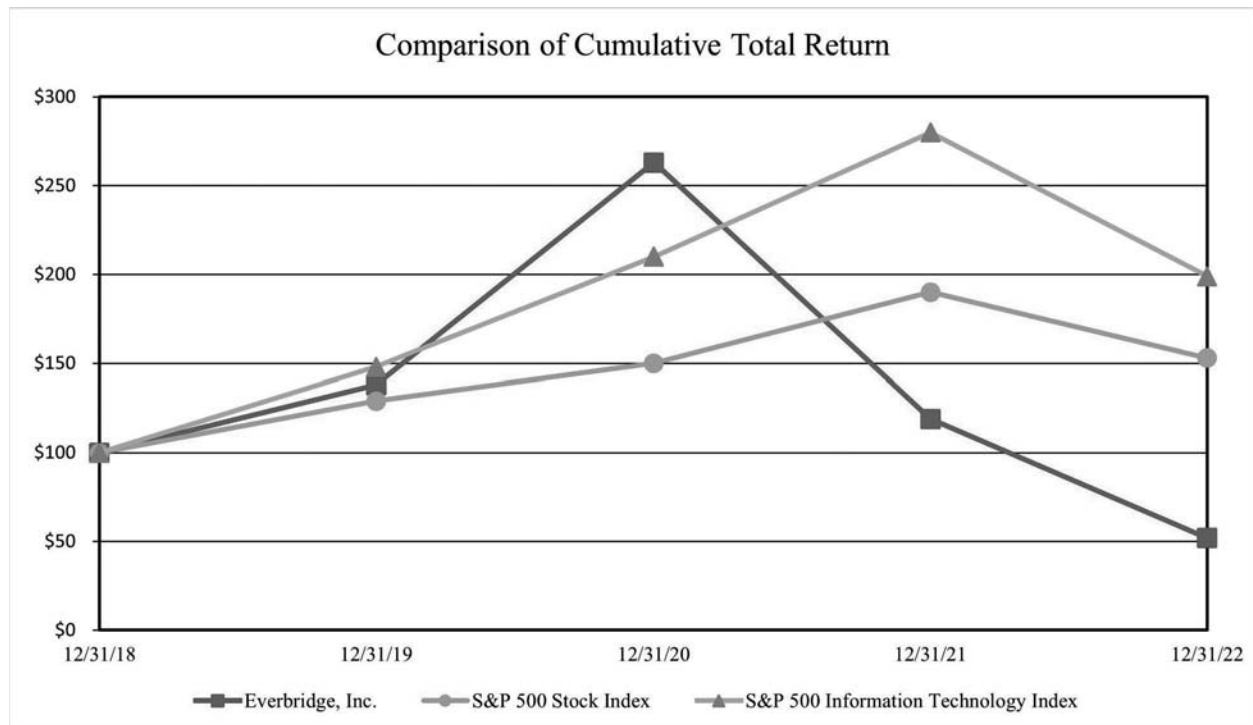
As of December 31, 2022, there were 124 holders of record of our common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Stock Performance Graph

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

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

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



	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
Everbridge, Inc.	\$ 100.00	\$ 138.00	\$ 263.00	\$ 119.00	\$ 52.00
S&P 500 Stock Index	\$ 100.00	\$ 129.00	\$ 150.00	\$ 190.00	\$ 153.00
S&P 500 Information Technology Index	\$ 100.00	\$ 148.00	\$ 210.00	\$ 280.00	\$ 199.00

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

November 2022, the Company received 22,914 in the Company's shares as final settlement of 1.50% convertible senior notes due November 1, 2022 (the "2022 Notes") capped call options and subsequently retired the shares.

The following table details our monthly share repurchases during the three months ended December 30, 2022:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
October 1, 2022 - October 31, 2022	—	\$ —	—	\$ —
November 1, 2022 - November 30, 2022	22,914	—	—	—
December 1, 2022 - December 31, 2022	—	—	—	—
Total	<u>22,914</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

Securities Authorized for Issuance Under Equity Compensation Plans

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

Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

Everbridge is a global software company that empowers resilience by leveraging intelligent automation technology to enable customers to anticipate, mitigate, respond to, and recover from critical events to keep people safe and organizations running. During public safety threats including severe weather conditions, active shooter situations, terrorist attacks or a pandemic, as well as critical business events such as IT outages, cyber-attacks, product recalls or supply-chain interruptions, global customers rely on our Critical Event Management platform to empower their resilience and 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 through the secure delivery to a comprehensive range of different communication channels and devices, 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 automate and 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 several languages and dialects – all simultaneously. Our Critical Event Management platform is comprised of a comprehensive set of software applications packaged for organizations to address five core use cases, safeguarding: Business Operations, People Resilience, Digital Operations, Smart Security, and Public Safety. Everbridge’s individual products address the full spectrum of tasks an organization requires to manage a critical event, including Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911. Everbridge applications leverage our Critical Event Management platform, permitting customers to use a single contacts database, rules engine of algorithms and hierarchies, and user interface to accomplish multiple objectives. We believe that our broad suite of integrated applications delivered via a single global CEM platform is a significant competitive advantage in the Resilience market.

Our customer base has grown from 867 customers at the end of 2011 to more than 6,500 customers as of December 31, 2022. Our customers are based in over 82 countries and include the majority of FORTUNE 50 businesses, and many of the largest cities, airports, health systems, manufacturers, and universities around the world. We provide our applications to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education and professional services.

We sell all of our critical event management applications on a subscription basis. We generally enter into contracts that range from one to three years in length, with an average contract duration of 1.8 years as of December 31, 2022, and generally bill and collect payment annually in advance. We derive most of our revenue from subscriptions to applications. On average, 95% of the revenue that we recognized in each of the eight most recently completed quarters was generated from contracts entered into in prior quarters or renewals of those contracts; the balance of the revenue that we recognized in each such quarter was generated from contracts entered into with new customers or new contracts, other than renewals, entered into with existing customers in such quarter. We derived approximately 35% of our revenue in 2022 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 \$431.9 million in 2022, \$368.4 million in 2021, \$271.1 million in 2020 and \$200.9 million in 2019, representing year-over-year increases of 17% in 2022, 36% in 2021 and 35% in 2020. We had net losses of \$61.2 million, \$94.8 million, \$93.4 million and \$52.3 million in 2022, 2021, 2020 and 2019, respectively.

During 2022, we updated our geographic market presentation. Prior period has been recast to conform to the current presentation. North America includes United States and Canada and International aggregates international revenues excluding Canada. As of December 31, 2022, and 2021, 19% and 18% of our customers, respectively, were located outside of North America and these customers generated 26% and 25% of our total revenue for the years ended December 31, 2022 and 2021, respectively.

We have focused on rapidly growing our business and believe that the future growth of our business is dependent on many factors, including our ability to increase the functionality of our platform and applications, expand our customer base, accelerate adoption of our applications beyond Mass Notification within our existing customer base and expand our international presence. Our future growth will also depend on the growth in the market for critical event management solutions and our ability to effectively compete. In order to further penetrate the market for critical event management solutions and capitalize on what we believe to be a significant opportunity, we intend to continue to invest in research and development, build-out our data center infrastructure and services capabilities and hire additional sales representatives, both domestically and internationally, to drive sales to new customers and incremental sales of new applications to existing customers. Nevertheless, we expect to continue to incur losses in the near term and, if we are unable to achieve our growth objectives, we may not be able to achieve profitability.

Recent Developments

On February 9, 2022, the Compensation Committee of our Board of Directors approved a modification to the performance thresholds of our PSU awards which affected 785 grantees and excluded our Named Executive Officers for 2021. The modified PSUs vest based on achieving certain revenue growth thresholds which range from 1% to 40% compounded annual growth over the measurement period. The modification date fair value for the PSUs was \$55.31. Incremental stock-based compensation expense of \$17.5 million will be recognized over the remaining service periods of the PSUs less subsequent forfeitures.

On May 3, 2022, our Board of Directors approved the 2022 Strategic Realignment program to strategically realign our resources in order to accelerate and grow our investments in our largest growth opportunities while streamlining our operations. This program is in support of the 2022 strategic initiatives to simplify our business and accelerate the integration of recent acquisitions, and will help to drive the financial outcomes of sustainable growth and improved profitability and cash flow. The 2022 Strategic Realignment program includes a targeted realignment and reduction of headcount, facilities and other third-party spend, including brand refresh initiatives. On November 2, 2022, our Board of Directors approved an amendment to the 2022 Strategic Realignment program to include additional targeted realignment and reduction of headcount and other third-party spend. The 2022 Strategic Realignment is expected to be substantially completed by the end of fiscal 2023.

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

In November 2022, we settled the remaining \$8 thousand aggregate principal amount of the 2022 Notes at maturity. Additionally, in November 2022, we received \$1.3 million in cash and 22,914 in our shares as final settlement of the capped call options related to the 2022 Notes.

During the three months ended December 31, 2022, we paid approximately \$288.8 million in cash to repurchase approximately \$316.4 million principal amount of the 2024 Notes.

Other Business and Macroeconomic Conditions

Rising interest rates present a recent challenge impacting the U.S. economy and could make it more difficult for us to obtain traditional financing on acceptable terms, if at all, in the future. Additionally, the general consensus among economists suggests that we should expect a higher recession risk to continue over the next year, which, together with rising interest rates and inflation, could result in further economic uncertainty and volatility in the capital markets in the near term, and could negatively affect our operations. Furthermore, such economic conditions have produced downward pressure on share prices. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, we may experience increases in the near future, especially if inflation rates continue to rise, on our operating costs including our labor costs, employee availability and wage increases, consequences associated with COVID-19 and the ongoing conflict between Russia and Ukraine which may result in additional stress on the Company's working capital resources.

Presentation of Financial Statements

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

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

Adoption of Accounting Standards Update 2020-06

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

During the year ended December 31, 2022, we recognized amortization of deferred costs in interest expense based on ASU 2020-06. As we adopted the standard using the modified retrospective approach, periods prior to our adoption have not been recast and are not directly comparable. See Notes 2 and 9 in the notes to our condensed consolidated financial statements included in this Annual Report on Form 10-K for additional discussion of the impact of the adoption of ASU 2020-06.

Components of Results of Operations

Revenue

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

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

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

Cost of Revenue

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

Operating Expenses

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

Sales and Marketing

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

Research and Development

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

General and Administrative

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

Restructuring

Restructuring expense consists of 2022 Strategic Realignment program expenses related to headcount, facilities and other third-party spend. See Note 20 in the notes to our condensed consolidated financial statements included in this Annual Report on Form 10-K.

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.

Gain (Loss) on Extinguishment of Debt, Capped Call Modification and Change in Fair Value

Gain (loss) on extinguishment of debt, capped call modification and change in fair value relates to the partial extinguishment of our 2024 Notes, extinguishment of our 2022 Notes, modification of a 2022 Notes capped call agreement, change in the fair value of 2022 Notes capped call options which were settled in cash and extinguishment of consideration loan notes issued in connection with our Anvil acquisition.

Other income (expense), net

Other income (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):

	Year Ended December 31,		
	2022	2021	2020
Revenue	\$ 431,892	\$ 368,433	\$ 271,141
Cost of revenue ⁽¹⁾	134,934	114,216	83,028
Gross profit	296,958	254,217	188,113
Operating expenses:			
Sales and marketing ⁽¹⁾	173,621	161,337	123,330
Research and development ⁽¹⁾	95,986	81,647	62,512
General and administrative ⁽¹⁾	99,365	87,482	74,485
Restructuring	12,169	—	—
Total operating expenses	381,141	330,466	260,327
Operating loss	(84,183)	(76,249)	(72,214)
Other income (expense), net	20,611	(31,126)	(23,449)
Loss before income taxes	(63,572)	(107,375)	(95,663)
Benefit from income taxes	2,398	12,579	2,267
Net loss	<u>\$ (61,174)</u>	<u>\$ (94,796)</u>	<u>\$ (93,396)</u>

- (1) Includes stock-based compensation expense and depreciation and amortization of acquired intangible assets as follows. During 2022, we updated the presentation of the allocation of stock-based compensation capitalized for software development. Prior period has been recast to conform to the current presentation (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Stock-based compensation expense:			
Cost of revenue	\$ 5,468	\$ 3,678	\$ 2,966
Sales and marketing	15,917	15,936	15,836
Research and development	9,967	8,717	8,935
General and administrative	16,268	15,764	19,018
Total	<u>\$ 47,620</u>	<u>\$ 44,095</u>	<u>\$ 46,755</u>

	Year Ended December 31,		
	2022	2021	2020
Depreciation and amortization expense:			
Cost of revenue	\$ 24,896	\$ 21,508	\$ 12,165
Sales and marketing	1,210	930	932
Research and development	933	710	597
General and administrative	33,561	30,020	17,065
Total	<u>\$ 60,600</u>	<u>\$ 53,168</u>	<u>\$ 30,759</u>

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

	Year Ended December 31,		
	2022	2021	2020
Revenue	100%	100%	100%
Cost of revenue	31%	31%	31%
Gross profit	69%	69%	69%
Operating expenses:			
Sales and marketing	40%	44%	45%
Research and development	22%	22%	23%
General and administrative	23%	24%	27%
Restructuring	3%	0%	0%
Total operating expenses	88%	90%	96%
Operating loss	(19)%	(21)%	(27)%
Other income (expense), net	5%	(8)%	(9)%
Loss before income taxes	(15)%	(29)%	(35)%
Benefit from income taxes	1%	3%	1%
Net loss	(14)%	(26)%	(34)%

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

Year Ended December 31, 2022 Compared to the Year Ended December 31, 2021

Revenue

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
Revenue	\$ 431,892	\$ 368,433	\$ 63,459	17.2%

Revenue increased by \$63.5 million in 2022 compared to 2021. The increase was due to a \$63.5 million increase in sales of our solutions driven by expansion of our customer base from 6,135 customers as of December 31, 2021 to 6,513 as of December 31, 2022, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
Cost of revenue	\$ 134,934	\$ 114,216	\$ 20,718	18.1%
Gross margin %	69%	69%		

Cost of revenue increased by \$20.7 million in 2022 compared to 2021. The increase was primarily due to a \$9.6 million increase in employee-related costs, which include stock-based compensation. After the 2022 Strategic Realignment is completed, we expect a reduction in operational costs. There were 407 and 497 employees as of December 31, 2022 and 2021, respectively. The remaining increase was principally the result of a \$4.0 million increase in travel risk management, operational resiliency and occupational health solutions costs, a \$3.4 million increase in depreciation and amortization expense attributable to our acquired intangible assets, a \$2.9 million increase in hosting, software and messaging costs and a \$0.8 million increase attributed to office and other related expenses to support revenue generating activities.

Gross margin percentage remained flat in 2022 as compared to 2021.

Operating Expenses

Sales and Marketing Expense

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
Sales and marketing	\$ 173,621	\$ 161,337	\$ 12,284	7.6%
% of revenue	40%	44%		

Sales and marketing expense increased by \$12.3 million in 2022 compared to 2021. The increase was primarily due to a \$12.7 million increase in employee-related costs, which include stock-based compensation. After the 2022 Strategic Realignment is completed, we expect a reduction in operational costs. There were 564 and 655 employees as of December 31, 2022 and 2021, respectively. The remaining increase was principally the result of a \$1.2 million increase attributed to office related expenses and a \$0.4 million increase in software expenses to support the sales team, partially offset by a \$2.0 million decrease in trade show and advertising costs.

Research and Development Expense

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
Research and development	\$ 95,986	\$ 81,647	\$ 14,339	17.6%
% of revenue	22%	22%		

Research and development expense increased by \$14.3 million in 2022 compared to 2021. The increase was primarily due to a \$14.4 million increase in employee-related costs, which include stock-based compensation. After the 2022 Strategic Realignment is completed, we expect a reduction in operational costs. There were 542 and 579 employees as of December 31, 2022 and 2021, respectively. The remaining increase was principally the result of a \$2.8 million increase in hosting and software related cost and a \$0.2 million increase in office related expenses to support research and development activities, partially offset by a \$1.2 million decrease in professional services. In addition, a total of \$15.4 million of internally-developed software costs during 2022 and \$13.5 million of internally-developed software costs during 2021 were capitalized, resulting in a \$1.9 million offset to the increase during 2022.

General and Administrative Expense

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
General and administrative	\$ 99,365	\$ 87,482	\$ 11,883	13.6%
% of revenue	23%	24%		

General and administrative expense increased by \$11.9 million in 2022 compared to 2021. The increase was primarily due to a \$7.0 million net decrease in our contingent consideration obligation recognized in 2021 related to final obligation adjustments as well as a \$4.0 million increase in employee-related costs, which include stock-based compensation. After the 2022 Strategic Realignment is completed, we expect a reduction in operational costs. There were 200 and 221 employees as of December 31, 2022 and 2021, respectively. The remaining increase was principally the result of a \$3.5 million increase in depreciation and amortization and a \$1.5 million increase in professional services and office related expenses to support the administrative team. These increases were partially offset by a \$4.1 million decrease in allowance for credit losses partially due to a recovery from a payment received from a customer during 2022.

Restructuring

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
Restructuring	\$ 12,169	\$ —	\$ 12,169	N/A
% of revenue	3%	0%		

During the year ended December 31, 2022, we incurred approximately \$12.2 million of restructuring charges, of which \$7.8 million was for employee-related expenses, \$4.2 million was for facilities-related expenses and \$0.2 million for other expenses.

Other Income (Expense), Net

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
Other income (expense), net	\$ 20,611	\$ (31,126)	\$ 51,737	166.2%
% of revenue	5%	(8)%		

Other income (expense), net increased by \$51.7 million in 2022 compared to 2021 primarily due to a \$30.8 million decrease in interest expense related to our convertible senior notes resulting from our adoption of ASU 2020-06 (see Notes 2 and 9 in the notes to our consolidated financial statements included in this Annual Report on Form 10-K for a discussion of the impact of the adoption of ASU 2020-06), a \$16.6 million increase in gain on extinguishment of debt, a \$5.3 million increase in interest income, a \$2.4 million increase in net foreign currency transaction gains and a \$1.2 million increase in other income, net partially due to a settlement of a receivable. These increases were partially offset by a \$4.6 million decrease in fair value of 2022 Notes capped call options.

Income Taxes

(dollars in thousands)	Year Ended December 31,		Change	
	2022	2021	\$	%
Benefit from income taxes	\$ 2,398	\$ 12,579	\$ (10,181)	(80.9)%
% of revenue	1%	3%		

Income tax benefit decreased by \$10.2 million in 2022 compared to 2021. A portion of the losses incurred during 2022 were realized in some jurisdictions during the year or recognized as a deferred tax asset as of December 31, 2022 which was greater than the state and foreign tax incurred by our profitable separate legal subsidiaries. Losses incurred for other operating jurisdictions required a valuation allowance. The change in income tax benefit of \$10.2 million for 2022 as compared to 2021 was related to the change in valuation allowance and the realization of losses against deferred tax liabilities established for prior acquisitions.

Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020

For a discussion regarding our financial condition and results of operations for the year ended December 31, 2021 as compared to the year ended December 31, 2020, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on February 25, 2022.

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):

	Year Ended December 31,		
	2022	2021	2020
Adjusted EBITDA	\$ 42,115	\$ 11,220	\$ 8,044
Adjusted gross profit	315,036	270,004	195,236
Adjusted free cash flow	13,906	2,441	2,895

- Adjusted EBITDA.** Adjusted EBITDA represents our net loss before interest and investment (income) expense, net, (benefit from) provision for income taxes, depreciation and amortization expense, (gain) loss on extinguishment of debt, capped call modification and change in fair value, change in fair value of contingent consideration, stock-based compensation expense and costs related to the 2022 Strategic Realignment. We do not consider these items to be indicative of our core operating performance. The items that are non-cash include depreciation and amortization expense, (gain) loss on extinguishment of debt, capped call modification and change in fair value, change in fair value of contingent consideration and stock-based compensation expense. Adjusted EBITDA is a measure used by management to understand and evaluate our core operating performance and trends and to generate future operating

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

The following table presents a reconciliation of adjusted EBITDA to net loss, the most directly comparable GAAP measure, for each of the periods indicated (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Net loss	\$ (61,174)	\$ (94,796)	\$ (93,396)
Interest and investment expense, net	(591)	35,559	22,082
Benefit from income taxes	(2,398)	(12,579)	(2,267)
Depreciation and amortization	60,600	53,168	30,759
(Gain) loss on extinguishment of debt, capped call modification and change in fair value	(19,243)	(7,181)	446
Change in fair value of contingent consideration	(57)	(7,046)	3,665
Stock-based compensation	47,620	44,095	46,755
2022 Strategic Realignment	17,358	—	—
Adjusted EBITDA	<u>\$ 42,115</u>	<u>\$ 11,220</u>	<u>\$ 8,044</u>

- Adjusted Gross Profit.** Adjusted gross profit represents gross profit plus amortization of acquired intangibles, stock-based compensation and costs related to the 2022 Strategic Realignment. Adjusted gross profit is a measure used by management to understand and evaluate our core operating performance and trends and to generate future operating plans. The exclusion of amortization of acquired intangibles, stock-based compensation expense and costs related to the 2022 Strategic Realignment facilitates comparisons of our operating performance on a period-to-period basis. In the near term, we expect these expenses to continue to negatively impact our gross profit. Adjusted gross profit is not a measure calculated in accordance with GAAP. We believe that adjusted gross profit provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. Nevertheless, our use of adjusted gross profit has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. You should consider adjusted gross profit alongside our other GAAP-based financial performance measures, gross profit and our other GAAP financial results. The following table presents a reconciliation of adjusted gross profit to gross profit, the most directly comparable GAAP measure, for each of the periods indicated (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Gross profit	\$ 296,958	\$ 254,217	\$ 188,113
Amortization of acquired intangibles	11,657	12,109	4,157
Stock-based compensation	5,468	3,678	2,966
2022 Strategic Realignment	953	—	—
Adjusted gross profit	<u>\$ 315,036</u>	<u>\$ 270,004</u>	<u>\$ 195,236</u>

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

	Year Ended December 31,		
	2022	2021	2020
Net cash provided by operating activities	\$ 20,167	\$ 22,193	\$ 15,803
Capital expenditures	(3,462)	(5,055)	(3,257)
Capitalized software development costs	(15,065)	(14,697)	(9,651)
Free cash flow	1,640	2,441	2,895
Cash payments for 2022 Strategic Realignment	12,266	—	—
Adjusted free cash flow	<u>\$ 13,906</u>	<u>\$ 2,441</u>	<u>\$ 2,895</u>

Additional Supplemental Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain additional supplemental non-GAAP financial measures, including non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP sales and marketing expense, non-GAAP research and development expense, non-GAAP general and administrative expense, non-GAAP total operating expenses, non-GAAP operating income (loss) and non-GAAP net income (loss), which we collectively refer to as non-GAAP financial measures. These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense, amortization of acquired intangibles, change in fair value of contingent consideration, accretion of interest on convertible senior notes and (gain) loss on extinguishment of debt and capped call modification and change in fair value, costs related to the 2022 Strategic Realignment and the tax impact of such adjustments. The tax impact of such adjustments was determined by recalculating current and deferred taxes utilizing non-GAAP pre-tax income for the year and analyzing changes in valuation allowance post purchase accounting. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision making. While our non-GAAP financial measures are an important tool for financial and operational decision making and for evaluating our own operating results over different periods of time, you should consider our non-GAAP financial measures alongside our GAAP financial results.

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

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

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

	Year Ended December 31,		
	2022	2021	2020
Cost of revenue	\$ 134,934	\$ 114,216	\$ 83,028
Amortization of acquired intangibles	(11,657)	(12,109)	(4,157)
Stock-based compensation	(5,468)	(3,678)	(2,966)
2022 Strategic Realignment	(953)	—	—
Non-GAAP cost of revenue	\$ 116,856	\$ 98,429	\$ 75,905
Gross profit	\$ 296,958	\$ 254,217	\$ 188,113
Amortization of acquired intangibles	11,657	12,109	4,157
Stock-based compensation	5,468	3,678	2,966
2022 Strategic Realignment	953	—	—
Non-GAAP gross profit	\$ 315,036	\$ 270,004	\$ 195,236
Non-GAAP gross margin	72.94%	73.28%	72.01%
Sales and marketing	\$ 173,621	\$ 161,337	\$ 123,330
Stock-based compensation	(15,917)	(15,936)	(15,836)
2022 Strategic Realignment	(1,053)	—	—
Non-GAAP sales and marketing	\$ 156,651	\$ 145,401	\$ 107,494
Research and development	\$ 95,986	\$ 81,647	\$ 62,512
Stock-based compensation	(9,967)	(8,717)	(8,935)
2022 Strategic Realignment	(1,014)	—	—
Non-GAAP research and development	\$ 85,005	\$ 72,930	\$ 53,577
General and administrative	\$ 99,365	\$ 87,482	\$ 74,485
Amortization of acquired intangibles	(31,325)	(28,350)	(15,979)
Change in fair value of contingent consideration	57	7,046	(3,665)
Stock-based compensation	(16,268)	(15,764)	(19,018)
2022 Strategic Realignment	(2,168)	—	—
Non-GAAP general and administrative	\$ 49,661	\$ 50,414	\$ 35,823
Restructuring (2022 Strategic Realignment)	\$ 12,169	\$ —	\$ —
Total operating expenses	\$ 381,141	\$ 330,466	\$ 260,327
Amortization of acquired intangibles	(31,325)	(28,350)	(15,979)
Change in fair value of contingent consideration	57	7,046	(3,665)
Stock-based compensation	(42,152)	(40,417)	(43,789)
2022 Strategic Realignment	(16,404)	—	—
Non-GAAP operating expenses	\$ 291,317	\$ 268,745	\$ 196,894
Operating loss	\$ (84,183)	\$ (76,249)	\$ (72,214)
Amortization of acquired intangibles	42,982	40,459	20,136
Change in fair value of contingent consideration	(57)	(7,046)	3,665
Stock-based compensation	47,620	44,095	46,755
2022 Strategic Realignment	17,357	—	—
Non-GAAP operating income (loss)	\$ 23,719	\$ 1,259	\$ (1,658)
Net loss	\$ (61,174)	\$ (94,796)	\$ (93,396)
Amortization of acquired intangibles	42,982	40,459	20,136
Change in fair value of contingent consideration	(57)	(7,046)	3,665
Stock-based compensation	47,620	44,095	46,755
2022 Strategic Realignment	17,358	—	—
Accretion of interest on convertible senior notes	4,561	35,271	22,161
(Gain) loss on extinguishment of debt, capped call modification and change in fair value	(19,243)	(7,181)	446
Income tax adjustments	(1,151)	(1,278)	(669)
Non-GAAP net income (loss)	\$ 30,896	\$ 9,524	\$ (902)

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 \$198.7 million as of December 31, 2022. We have generated significant losses since inception and expect to continue to generate losses for the foreseeable future.

We believe that our cash and cash equivalent balances and the cash flows generated by our operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. We believe we will meet longer-term expected future cash requirements and obligations. However, our belief may prove to be incorrect, and we could utilize our available financial resources sooner than we currently expect. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in the section of this Annual Report on Form 10-K titled “Risk Factors.” We cannot assure you that we will be able to raise additional capital on acceptable terms or at all. In addition, if we fail to meet our operating plan during the next 12 months, our liquidity could be adversely affected.

Material Cash Requirements and Contractual Obligations

We expect to use cash primarily for operating activities, such as expansion of our sales and marketing operations, research and development activities and other working capital needs, such as salaries, bonuses, and other personnel cost and data center hosting costs, as well as payments for acquisitions of businesses, interest payments on our convertible senior notes and payments related to the 2022 Strategic Realignment. We expect to continue to finance our operations primarily through cash from sales to our customers and may consider future equity issuances and debt financing arrangements. As of December 31, 2022, our commitments to settle contractual obligations include \$508.6 million principal amount of indebtedness under the 2026 Notes and 2024 Notes (see Note 9 of the notes to consolidated financial statements) and lease obligations of \$26.2 million (see Note 18 of the notes to consolidated financial statements).

Cash Flows

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

	Year Ended December 31,		
	2022	2021	2020
Cash, cash equivalents and restricted cash at beginning of period	\$ 492,758	\$ 475,630	\$ 539,662
Cash provided by operating activities	20,167	22,193	15,803
Cash used in investing activities	(18,893)	(281,836)	(85,185)
Cash provided by (used in) financing activities	(290,520)	276,344	5,054
Effects of exchange rates on cash, cash equivalents and restricted cash	(1,918)	427	296
Cash, cash equivalents and restricted cash at end of period	<u>\$ 201,594</u>	<u>\$ 492,758</u>	<u>\$ 475,630</u>

At December 31, 2022, \$16.7 million of the \$201.6 million of cash, cash equivalents and restricted cash was held by foreign subsidiaries. Our intention is to indefinitely reinvest foreign earnings in our foreign subsidiaries. If these earnings were used to fund domestic operations, they would be subject to additional income taxes upon repatriation.

Sources of Funds

Convertible Senior Notes

In March 2021, we issued \$375.0 million aggregate principal amount of the 2026 Notes, including \$50.0 million aggregate principal amount of notes issued upon exercise in full by the initial purchasers of their option to purchase additional 2026 Notes. The 2026 Notes will mature on March 15, 2026, unless earlier redeemed or repurchased by the Company or converted by the holders pursuant to their terms.

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

In connection with the issuance of the 2026 Notes, we purchased capped call options that in the aggregate relate to the total number of shares of our common stock underlying the 2026 Notes, with an initial strike price of approximately \$180.70 per share, which corresponds to the initial conversion price of the 2026 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the 2026 Notes, and with a cap price of approximately \$258.14. The cost of the purchased capped calls was \$35.1 million.

In December 2019, we issued \$450.0 million aggregate principal amount of the 2024 Notes, including \$75.0 million aggregate principal amount of notes issued upon exercise in full by the initial purchasers of their option to purchase additional 2024 Notes. The 2024 Notes will mature on December 15, 2024, unless earlier redeemed or repurchased by the Company or converted by the holders pursuant to their terms.

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 our common stock or a combination of cash and shares of our common stock paid or delivered, as the case may be, to the holder upon conversion of a 2024 Note.

In connection with the issuance of the 2024 Notes, we purchased capped call options that in the aggregate relate to the total number of shares of our 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 was \$44.9 million.

During fiscal year 2022, we paid approximately \$288.8 million in cash to repurchase approximately \$316.4 million principal amount of the 2024 Notes.

During fiscal year 2019, we paid \$57.8 million to repurchase \$23.0 million aggregate principal amount of the 2022 Notes. We also partially terminated capped call options entered into in connection with the 2022 Notes during fiscal year 2019 and received \$5.8 million. During fiscal year 2020, we issued 362,029 shares upon the conversion of approximately \$12.2 million in aggregate principal amount of the 2022 Notes. In connection with the issuance of the 2026 Notes in March 2021, we paid approximately \$58.6 million in cash and issued 1,288,994 shares of common stock to repurchase approximately \$58.6 million aggregate principal amount of the 2022 Notes. We also partially terminated capped call options entered into in connection with the 2022 Notes in March 2021 and received approximately \$10.6 million. In addition, during fiscal year 2021, we issued 627,212 shares upon the conversion of approximately \$21.1 million in aggregate principal amount of the 2022 Notes. During fiscal year 2022, we settled \$8 thousand aggregate principal amount of the 2022 Notes at maturity and received \$1.3 million in cash and 22,914 in shares as final settlement of the capped call options.

Uses of Funds

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

Operating Activities

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

Operating activities generated \$20.2 million in net cash in 2022 from \$107.7 million in non-cash operating expenses, which was partially offset by our net loss of \$61.2 million and by a \$26.3 million decrease in changes in operating assets and liabilities. Specifically, we recognized non-cash charges aggregating to \$60.6 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$47.6 million for stock-based compensation, \$18.3 million for amortization of deferred commissions, \$4.6 million related to the accretion of interest on our convertible senior notes, \$0.7 million for loss on disposal of assets and \$0.4 million for provision for credit losses, offset by \$19.2 million gain on extinguishment of debt and capped call modification, \$5.2 million for deferred income taxes and \$0.1 million in other non-cash charges. The net change in operating assets and liabilities of \$26.3 million reflected \$23.1 million increase in deferred cost, a \$4.9 million decrease in accounts payable, a \$4.1 million decrease in accrued payroll and employee related liabilities, a \$3.5 million increase in other assets, a \$0.8 million increase in accounts receivable and a \$0.2 million decrease in other liabilities. These amounts were offset by an \$8.7 million increase in deferred revenue, a \$1.0 million increase in accrued expenses and a \$0.6 million decrease in prepaid expenses.

Operating activities generated \$22.2 million in net cash in 2021 from \$121.5 million in non-cash operating expenses, which was partially offset by our net loss of \$94.8 million and by a \$4.5 million decrease in changes in operating assets and liabilities. Specifically, we recognized non-cash charges aggregating to \$53.2 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, \$44.1 million for stock-based compensation, \$35.3 million related to the accretion of interest on our convertible senior notes, \$14.4 million for amortization of deferred commissions, \$4.8 million for provision for credit losses, offset by \$13.0 million for deferred income taxes, \$7.2 million gain on extinguishment of debt and capped call modification, \$7.0 million change in the fair value of our contingent consideration obligation, a \$2.7 million payment for contingent consideration and \$0.4 million in other non-cash charges. The net change in operating assets and liabilities of \$4.5 million reflected an \$18.2 million increase in accounts receivable, a \$16.8 million increase in deferred cost, a \$4.0 million decrease in other liabilities, a \$1.2 million increase in other assets and a \$0.5 million increase in prepaid expenses. These amounts were offset by a \$26.6 million increase in deferred revenue, a \$3.8 million increase in accounts payable, a \$3.1 million increase in accrued expenses and a \$2.7 million increase in accrued payroll and employee related liabilities.

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 \$18.9 million cash in 2022, which consisted of a \$15.1 million investment in software development, \$3.5 million in purchases of property and equipment and \$1.6 million to settle certain Anvil acquisition purchase liabilities, offset by \$1.2 million attributed to a landlord reimbursement.

Investing activities used \$281.8 million cash in 2021, which consisted of \$262.1 million of cash paid related to the acquisitions of xMatters, Anvil, RedSky and SnapComms, \$14.7 million of investment in software development and \$5.1 million in purchases of property and equipment.

Financing Activities

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

Financing activities used \$290.5 million of cash in 2022, which reflects \$288.8 million in payments for the extinguishment of the 2024 Notes, a \$6.3 million payment for employee withholding taxes related to the issuance of restricted stock units and performance-based restricted stock units offset by \$3.2 million from the issuance of stock under our employee stock purchase plan, \$1.3 million in cash received for the partial termination of the 2022 Notes capped call options and \$0.1 million in other financing activities.

Financing activities provided \$276.3 million of cash in 2021, which reflects proceeds of \$329.3 million from our 2026 Notes offering after deducting debt issuance cost and the cost for the capped call transactions entered into in connection with the 2026 Notes offering, \$4.6 million from the issuance of stock under our employee stock purchase plan and \$3.1 million from the exercise of stock options. These amounts were offset by \$48.0 million in payments for the extinguishment of 2022 Notes offset by cash received for the partial termination of the 2022 Notes capped call options, \$10.1 million in payments for employee withholding taxes related to the issuance of restricted stock units and \$2.5 million in payments for contingent consideration.

Backlog

We generally sell our critical communications applications on a subscription basis. We generally enter into contracts that range from one to three years in length, with an average contract duration of 1.8 years as of December 31, 2022, and generally bill and collect payment annually in advance. Since we bill many of our customers at the beginning of each contract year, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenue, deferred revenue or elsewhere in our consolidated financial statements. We expect that the amount of backlog relative to the total value of our subscription agreements will change from year to year for several reasons, including the specific timing and duration of customer agreements, varying invoicing cycles of agreements, the specific timing of customer renewals and changes in customer financial circumstances. In addition, because revenue for any period is a function of revenue recognized from deferred revenue under contracts in existence at the beginning of the period, as well as contracts that are renewed and new customer contracts that are entered into during the period, backlog at the beginning of any period is not necessarily indicative of future performance. Our presentation of backlog may also differ from that of other companies in our industry. Due to these factors, as well as variances in billing arrangements with customers, we do not utilize backlog as a key management metric internally.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates. Our critical accounting estimates that we believe to have the greatest potential impact on our consolidated financial statements are summarized below.

Revenue Recognition

We derive our revenues primarily from subscription services and professional services. We recognize revenue in accordance with FASB ASC 606, *Revenue from Contracts with Customers*. We determine revenue recognition through the following steps:

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

Subscription Services Revenues

Subscription services revenues primarily consist of fees that provide customers access to one or more of our hosted applications for critical 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 our service is made available to the customer. All services are recognized using an output measure of progress looking at time elapsed as the contract generally provides the customer equal benefit throughout the contract period. Our subscription contracts are generally two years or longer in length, billed annually in advance, and non-cancelable.

Professional Services Revenues

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

Software License Revenues

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

Contracts with Multiple Performance Obligations

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

Allowance for Credit Losses

Allowance for credit risk for accounts receivables and contract assets is established based on various factors including credit profiles of our customers, historical payments and current economic trends. We review the 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. If our estimate of uncollectible accounts is too low, credit loss expense may increase in future periods, and if it is too high, credit loss expense may decrease in future periods.

Deferred Costs

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be four years. Sales commissions attributable to professional services are expensed within twelve months of selling the service to the customer. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors. Amortization of deferred commissions is included in sales and marketing expenses in the accompanying consolidated statements of operations.

Stock-Based Compensation

We recognize compensation expense for RSUs based on the fair value of the award and on a straight-line basis over the vesting period based on the estimated portion of the RSU that is expected to vest. Our board of directors determines the fair value of RSUs based on the closing price of our common stock as reported on the Nasdaq Global Market on the date of grant.

We grant PSUs that vest upon satisfaction of certain performance-based conditions. The PSUs generally vest based on us achieving certain revenue growth thresholds. The vesting of the PSUs is subject to the employee's continued employment with us through the date of achievement. The fair value is based on the value of our common stock at the date of issuance and the probability of achieving the performance metric. 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.

For the portion of the PSUs that were modified in 2022, we determined on the modification date whether the awards would vest under both the original vesting conditions and the new vesting conditions. For PSUs where expectation of the achievement of performance conditions were probable both prior to and post-modification, total compensation cost was unchanged. For PSUs where expectation of the achievement of performance conditions changed from improbable prior to the modification to probable post-modification, the fair value of such modifications was based on the value of our common stock at the date of modification. For PSUs where expectation of the achievement of performance conditions were improbable both prior to and post-modification, no compensation expense was recognized.

We recognize compensation expense for our market-based grants based on the fair value of the award which is remeasured at each reporting period until settlement. Inherent in the valuation and recording of stock-based compensation for market-based grants, are several estimates that we made in regard to valuation and expense that will be incurred. We use the Monte-Carlo simulation model to measure the fair value of market-based grants. Expected volatility is based on a combination of historical stock price volatility and implied volatility of our common stock. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the expected term. We have not paid dividends and do not anticipate paying a cash dividend in the foreseeable future and, accordingly, use an expected dividend yield of zero.

We recognize compensation expense for our employee stock purchase plan (“ESPP”) based on the fair value of the award and on a straight-line basis over the term based on the estimated portion of the ESPP that is expected to vest. Inherent in the valuation and recording of stock-based compensation for ESPP, are several estimates that we made in regard to valuation and expense that will be incurred. We use the Black-Scholes option pricing model to measure the fair value of ESPP. Expected volatility is based on a combination of historical stock price volatility and implied volatility of our common stock. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the expected term. We have not paid dividends and do not anticipate paying a cash dividend in the foreseeable future and, accordingly, use an expected dividend yield of zero.

Business Combinations

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

We perform valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination in order to record the tangible and intangible assets acquired and liabilities assumed based on our best estimate of fair value. Determining the fair value of assets acquired and liabilities assumed requires management to use significant judgment and estimates including the selection of valuation methodologies, estimates of future revenue and cash flows, discount rates and selection of comparable companies. Significant estimation is required in determining the fair value of the customer relationship intangible assets, deferred revenue and contingent consideration liabilities. The significant estimation is primarily due to the judgmental nature of the inputs to the valuation models used to measure the fair value of these intangible assets, deferred revenue and contingent consideration liabilities, as well as the sensitivity of the respective fair values to the underlying significant assumptions. We use the income approach to measure the fair value of these intangible assets, a discounted cash flow approach for deferred revenue and a Monte Carlo simulation model to measure the fair value of the contingent consideration liabilities. The significant assumptions used to estimate the fair value of the intangible assets, deferred revenue and contingent consideration liabilities included forecasted revenues from existing customers, existing customer attrition rates, estimated costs required to fulfill the deferred revenue obligation and forecasted revenues for the contingent consideration earnout period. When estimating the significant assumptions to be used in the valuation we include a consideration of current industry information, market and economic trends, historical results of the acquired business, nature of the performance obligations associated with the deferred revenue and other relevant factors. These significant assumptions are forward-looking and could be affected by future economic and market conditions. We engage the assistance of valuation specialists in concluding on fair value measurements in connection with determining fair values of assets acquired and liabilities assumed in a business combination.

The valuation of the contingent consideration is 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 our assessment of the probability of meeting such results, with the probability-weighted earn-out using a Monte Carlo Simulation Model then discounted to estimate fair value. Fair value is estimated using the probability weighted cash flow estimate closer to the measurement date. The various operating performance measures included in these contingent consideration agreements primarily relate to product revenue.

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

Goodwill Impairment

Goodwill represents the excess of the aggregate purchase price paid over the fair value of the net assets acquired in our business combinations. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We performed our annual impairment assessment on November 30, 2022. We operate under one reporting unit and as a result, evaluate goodwill impairment based on our fair value as a whole.

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

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

When assessing goodwill for impairment for the year ended December 31, 2022, we first performed a qualitative assessment to determine whether it was necessary to perform the two-step quantitative analysis. Based on the qualitative assessment including our share price decrease as well as positive factors related to macroeconomic conditions, industry and market considerations, cost factors, financial performance and market capitalization, we determined it was unlikely that our reporting unit fair value was less than its carrying value and the two-step impairment test was not required. Based on the results of our most recent annual qualitative assessment performed on November 30, 2022, there was no impairment of goodwill recorded.

Capitalized Software Development Costs

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

Convertible Senior Notes

Significant judgment is required in determining the balance sheet classification of the convertible senior notes. We analyze our intention to settle all of the debt at maturity or to settle in shares if exercised by the debt holder prior to maturity in order to classify the debt as long-term on the balance sheet.

Capped call options which were settled in cash were accounted for as derivative instruments. Significant judgment was required in determining the value of derivative asset. We determined the fair value of the derivative asset based on the value of our common stock.

Prior to our adoption of ASU 2020-06, significant judgment was 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. We accounted for the convertible senior notes, the partial repurchase and conversions of the 2022 Notes 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. We 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, we utilized both an income and market approach. For the income approach, we used a convertible bond pricing model, which included several assumptions including volatility and the risk-free rate. For the market approach, we 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.

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

Our investment portfolio is exposed to market risk from changes in interest rates. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not change the fair value of our interest sensitive financial instruments by a material amount. In addition, if a 100-basis point change in overall interest rates were to occur in 2022, our interest income would not change significantly in relation to amounts we would expect to earn, based on our cash, cash equivalents, and investments as of December 31, 2022.

Changes in interest rates may also impact gains or losses from the conversion of our outstanding convertible senior notes. In March 2021, we issued \$375 million in aggregate principal amount of our 2026 Notes. In December 2019, we issued \$450 million in aggregate principal amount of our 2024 Notes. During the year ended December 31, 2022, we paid approximately \$288.8 million in cash to repurchase approximately \$316.4 million principal amount of the 2024 Notes. In November 2017, we issued \$115 million in aggregate principal amount of our 2022 Notes. During the year ended December 31, 2022, we settled the remaining \$8 thousand aggregate principal amount of the 2022 Notes at maturity. The 2026 Notes and 2024 Notes are convertible under certain circumstances, including trading price conditions related to our common stock, and upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. The 2026 Notes and 2024 Notes were not convertible during the year ended December 31, 2022.

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 \$198.7 million as of December 31, 2022, which consisted of bank deposits and money market funds. To date, fluctuations in interest income have not been significant.

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

Foreign Currency Exchange Risk

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

Inflation Risk

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

Item 8. Financial Statements and Supplementary Data.

Financial Statements

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

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

None

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2022.

Management’s Annual Report on Internal Control Over Financial Reporting

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

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2022. In making this assessment, our management used the Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting is effective as of December 31, 2022.

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

Inherent Limitations on Effectiveness of Controls

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13(a)-15(d) and 15d-15(d) under the Exchange Act that occurred during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2022.

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

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2022.

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

The information required by this item is incorporated by reference to our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2022.

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

The information required by this item is incorporated by reference to our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2022.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2022.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

(b) Exhibits:

Exhibit Index

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
3.1	Sixth Amended and Restated Certificate of Incorporation of Everbridge, Inc.		10-Q	001-37874	3.1	8/9/21
3.2	Second Amended and Restated Bylaws of Everbridge, Inc.		10-Q	001-37874	3.2	8/9/21
4.1	Form of common stock certificate of Everbridge, Inc.		S-1/A	333-213217	4.1	9/6/16
4.2	Base Indenture, dated November 20, 2017, between Everbridge, Inc. and U.S. Bank National Association, as Trustee.		8-K	001-37874	4.1	11/20/17
4.3	First Supplemental Indenture, Dated November 20, 2017, between Everbridge, Inc. and U.S. Bank, National Association, as Trustee (including the form of 1.5% convertible senior notes due 2022).		8-K	001-37874	4.2	11/20/17
4.4	Indenture, dated December 13, 2019, between Everbridge, Inc. and U.S. Bank National Association, as Trustee.		8-K	001-37874	4.1	12/13/19
4.5	Description of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.		10-K	001-37874	4.5	2/25/22
4.6	Indenture, dated March 11, 2021, between Everbridge, Inc. and U.S. Bank National Association, as Trustee.		8-K	001-37874	4.1	3/11/21
4.7	Form of Global Note, representing Everbridge, Inc.'s 0% Convertible Senior Notes due 2026 (included as Exhibit A to the Indenture filed as Exhibit 4.1).		8-K	001-37874	4.2	3/11/21
10.1	Lease Agreement, dated as of April 26, 2018 by and between Everbridge, Inc. and PR 155 North Lake, LLC.		10-K	001-37874	10.1	3/1/19
10.2+	2008 Equity Incentive Plan, as amended and as currently in effect, and Forms of Stock Option Agreement and Notice of Exercise thereunder.		S-1/A	333-213217	10.3	9/6/16

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
10.3+	2016 Equity Incentive Plan and Forms of Stock Option Agreement, Notice of Exercise and Stock Option Grant Notice thereunder.		S-1/A	333-213217	10.4	9/6/16
10.4+	Form of Restricted Stock Unit Award Agreement under the Everbridge, Inc. 2016 Equity Incentive Plan, as amended.		10-Q	001-37874	10.1	8/14/17
10.5+	2016 Employee Stock Purchase Plan.		S-1/A	333-213217	10.5	9/6/16
10.6+	Non-Employee Director Compensation Plan.		10-K	001-37874	10.6	2/26/21
10.7+	Form of Indemnification Agreement by and between Everbridge, Inc. and each of its directors and executive officers.		S-1	333-213217	10.9	8/19/16
10.8+	Amended and Restated Engagement Agreement, dated as of February 26, 2021, by and between Everbridge, Inc. and Jaime Ellertson.		10-K	001-37874	10.9	2/26/21
10.9+	Employment Agreement, dated as of February 4, 2019, by and between Everbridge, Inc. and Patrick Brickley.		8-K	001-37874	10.1	3/1/19
10.10+	Letter agreement, dated December 8, 2021, by and between Patrick Brickley and Everbridge, Inc.		8-K	001-37874	10.1	12/9/21
10.11+	Employment Agreement, dated as of August 19, 2019, by and between Everbridge, Inc. and Vernon Irvin.		10-Q	001-37874	10.2	11/8/19
10.12+	Letter agreement, dated December 8, 2021, by and between Vernon Irvin and Everbridge, Inc.		8-K	001-37874	10.2	12/9/21
10.13+	Employment Agreement dated July 25, 2022, between David Wagner and the Company.		8-K	001-37874	10.1	7/25/22
10.14+	Consulting Services Agreement dated December 31, 2022 between Elliot J. Mark and the Company.	X				
10.15+	2022 Corporate Bonus Plan of Everbridge, Inc.	X				
10.16+	Everbridge, Inc. Severance Plan.		10-Q	001-37874	10.1	8/9/22
10.17+	Everbridge, Inc. 2022 Inducement Incentive Plan.		8-K	001-37874	10.1	12/20/22
10.18+	Form of Option Grant Notice and Award Agreement under the Everbridge, Inc. 2022 Inducement Incentive Plan.		8-K	001-37874	10.2	12/20/22
10.19+	Form of Restricted Stock Unit Grant Notice and Award Agreement under the Everbridge, Inc. 2022 Inducement Incentive Plan.		8-K	001-37874	10.3	12/20/22
10.20	Lease, dated as of December 16, 2016, by and between Everbridge, Inc. and Burlington Centre Owner, LLC.		10-K	001-37874	10.20	3/23/17

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
10.21	First Amendment to Lease, dated as of February 6, 2018, by and between Everbridge, Inc. and 25 Corporate Drive LLC.		10-K	001-37874	10.20	3/1/19
10.22	Second Amendment to Lease, dated as of October 16, 2018, by and between Everbridge, Inc. and 25 Corporate Drive LLC.	X				
10.23	Third Amendment to Lease, dated as of November 15, 2022, by and between Everbridge, Inc. and 25 Corporate Drive LLC.	X				
21.1	Subsidiaries of Everbridge, Inc.	X				
23.1	Consent of Ernst & Young, LLP.	X				
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
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.

Item 16. Form 10-K Summary.

None.

SIGNATURES

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

Everbridge, Inc.

Date: February 24, 2023

By: /s/ David J. Wagner
David J. Wagner
Chief Executive Officer

Date: February 24, 2023

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David J. Wagner</u> David J. Wagner	President, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	February 24, 2023
<u>/s/ Patrick Brickley</u> Patrick Brickley	Executive Vice President and Chief Financial Officer <i>(Principal Financial Officer)</i>	February 24, 2023
<u>/s/ Phillip E. Huff</u> Phillip E. Huff	Vice President, Corporate Controller and Chief Accounting Officer <i>(Principal Accounting Officer)</i>	February 24, 2023
<u>/s/ David Benjamin</u> David Benjamin	Director	February 24, 2023
<u>/s/ Richard D'Amore</u> Richard D'Amore	Director	February 24, 2023
<u>/s/ Alison Dean</u> Alison Dean	Director	February 24, 2023
<u>/s/ Rohit Ghai</u> Rohit Ghai	Director	February 24, 2023
<u>/s/ David Henshall</u> David Henshall	Chairman of the Board of Directors	February 24, 2023
<u>/s/ Kent Mathy</u> Kent Mathy	Director	February 24, 2023
<u>/s/ Simon Paris</u> Simon Paris	Director	February 24, 2023
<u>/s/ Sharon Rowlands</u> Sharon Rowlands	Director	February 24, 2023

EVERBRIDGE, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Everbridge, Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2023 expressed an unqualified opinion thereon.

Adoption of ASU No. 2020-06

As discussed in Notes 2 and 9 to the consolidated financial statements, the Company changed its method of accounting for Convertible Senior Notes in 2022 due to the adoption of ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for Software Revenue Contracts

Description of the Matter

The Company has a number of contracts under which it is required to deliver its software onto customer-controlled premises. In addition to it, such contracts usually have additional performance obligations, such as software support and maintenance, professional services, and managed services. Revenue recognition accounting policy for such contracts is discussed in Note 2 to the consolidated financial statements. The financial statement accounts primarily affected by such transactions were revenue and deferred revenue.

Auditing such transactions was especially challenging because of the significant judgment required by management to determine the standalone selling prices for each distinct performance obligation in order to allocate the transaction price for purposes of revenue recognition. Making this judgment of estimating a standalone selling price involves consideration of overall pricing objectives, market conditions and other factors, including the value of the Company's other similar contracts, the applications sold, customer demographics, geographic locations and the number and types of users within the Company's contracts. The significant judgment was primarily due to using such considerations to estimate the price that each distinct performance obligation would be sold for on a standalone basis because such performance obligations are typically sold together on a bundled basis. Changes in these estimates of standalone selling prices can have a material effect on the amount of revenue recognized from each distinct performance obligation.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the revenue recognition process for software licenses, including controls over the determination of standalone selling prices for distinct performance obligations.

Our audit procedures included, among others, evaluating the Company's judgments related to the estimate of standalone selling price of each performance obligation. We tested management's estimate of stand-alone selling price of each performance obligation, including an evaluation of the assumptions applied by the Company in the estimates by comparing those significant assumptions to the Company's overall pricing objectives, market conditions and other factors, including the value of the Company's other similar contracts, the applications sold, customer demographics, geographic locations and the number and types of users within the Company's contracts. We met with the project managers to discuss and evaluate those estimates. We also performed a sensitivity analysis of the significant assumptions to evaluate the impact that the change in the standalone selling price of each identified performance obligation resulting from changes in the assumptions would have on revenue recognized during the period.

/s/ Ernst & Young LLP

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

Boston, Massachusetts

February 24, 2023

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited Everbridge, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Everbridge, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and our report dated February 24, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Boston, Massachusetts
February 24, 2023

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

	As of December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 198,725	\$ 488,035
Restricted cash	2,046	3,880
Accounts receivable, net	119,986	120,995
Prepaid expenses	13,133	13,740
Assets held for sale	6,485	—
Deferred costs and other current assets	31,866	28,469
Total current assets	372,241	655,119
Property and equipment, net	8,993	12,185
Capitalized software development costs, net	27,370	22,720
Goodwill	508,781	531,163
Intangible assets, net	166,177	219,319
Restricted cash	823	843
Prepaid expenses	1,709	1,916
Deferred costs and other assets	39,570	35,750
Total assets	<u>\$ 1,125,664</u>	<u>\$ 1,479,015</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,854	\$ 16,002
Accrued payroll and employee related liabilities	31,175	36,725
Accrued expenses	13,566	13,884
Deferred revenue	233,106	223,579
Contingent consideration liabilities	—	59
Convertible senior notes	—	8
Liabilities held for sale	2,062	—
Other current liabilities	10,644	14,073
Total current liabilities	301,407	304,330
Long-term liabilities:		
Deferred revenue, noncurrent	9,278	14,261
Convertible senior notes	500,298	665,695
Deferred tax liabilities	6,236	16,082
Other long term liabilities	19,334	15,958
Total liabilities	836,553	1,016,326
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001, 10,000,000 shares authorized, no shares issued or outstanding as of December 31, 2022 and December 31, 2021, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 40,127,522 and 39,389,733 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively	40	39
Additional paid-in capital	721,143	853,664
Accumulated deficit	(402,124)	(388,112)
Accumulated other comprehensive loss	(29,948)	(2,902)
Total stockholders' equity	289,111	462,689
Total liabilities and stockholders' equity	<u>\$ 1,125,664</u>	<u>\$ 1,479,015</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2022	2021	2020
Revenue	\$ 431,892	\$ 368,433	\$ 271,141
Cost of revenue	134,934	114,216	83,028
Gross profit	296,958	254,217	188,113
Operating expenses:			
Sales and marketing	173,621	161,337	123,330
Research and development	95,986	81,647	62,512
General and administrative	99,365	87,482	74,485
Restructuring	12,169	—	—
Total operating expenses	381,141	330,466	260,327
Operating loss	(84,183)	(76,249)	(72,214)
Other expense, net:			
Interest income	5,697	390	2,007
Interest expense	(5,106)	(35,949)	(24,089)
Gain (loss) on extinguishment of debt, capped call modification and change in fair value	19,243	7,181	(446)
Other income (expense), net	777	(2,748)	(921)
Total other income (expense), net	20,611	(31,126)	(23,449)
Loss before income taxes	(63,572)	(107,375)	(95,663)
Benefit from income taxes	2,398	12,579	2,267
Net loss	<u>\$ (61,174)</u>	<u>\$ (94,796)</u>	<u>\$ (93,396)</u>
Net loss per share attributable to common stockholders:			
Basic	<u>\$ (1.54)</u>	<u>\$ (2.50)</u>	<u>\$ (2.70)</u>
Diluted	<u>\$ (1.76)</u>	<u>\$ (2.50)</u>	<u>\$ (2.70)</u>
Weighted-average common shares outstanding:			
Basic	39,680,440	37,962,793	34,581,144
Diluted	45,583,459	37,962,793	34,581,144
Other comprehensive income (loss):			
Foreign currency translation adjustment	(27,046)	(5,712)	8,557
Total other comprehensive income (loss)	(27,046)	(5,712)	8,557
Total comprehensive loss	<u>\$ (88,220)</u>	<u>\$ (100,508)</u>	<u>\$ (84,839)</u>

See accompanying notes to consolidated financial statements.

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

	Common stock		Par value	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	
	Shares	\$				\$	Total
Balance at January 1, 2020	33,848,627	\$	34	\$ 425,945	\$ (199,920)	\$ (5,747)	\$ 220,312
Issuance of common stock in connection with acquisitions	462,224	—	—	53,193	—	—	53,193
Stock-based compensation	—	—	—	47,079	—	—	47,079
Vesting of restricted stock units and performance-based restricted stock units	451,879	—	—	—	—	—	—
Stock award shares withheld to settle employee tax withholding liability	(48,469)	—	—	(6,364)	—	—	(6,364)
Exercise of stock options	323,838	1	—	8,159	—	—	8,160
Issuance of shares under employee stock purchase plan	49,319	—	—	3,389	—	—	3,389
Settlement of convertible notes due 2022	362,029	—	—	11,375	—	—	11,375
Other comprehensive income	—	—	—	—	—	8,557	8,557
Net loss	—	—	—	—	(93,396)	—	(93,396)
Balance at December 31, 2020	35,449,447	—	35	542,776	(293,316)	2,810	252,305
Issuance of common stock in connection with acquisitions	1,311,960	—	—	169,541	—	—	169,541
Issuance of common stock for contingent consideration	51,914	—	—	7,177	—	—	7,177
Stock-based compensation	—	—	—	44,684	—	—	44,684
Vesting of restricted stock units and performance-based restricted stock units	573,493	2	—	—	—	—	2
Stock award shares withheld to settle employee tax withholding liability	(68,832)	—	—	(10,085)	—	—	(10,085)
Exercise of stock options	114,381	—	—	3,113	—	—	3,113
Issuance of shares under employee stock purchase plan	41,164	—	—	4,587	—	—	4,587
Equity component of convertible notes due 2026, net of allocated issuance costs and taxes	—	—	—	99,000	—	—	99,000
Purchase of capped call hedge for the convertible notes due 2026, including issuance costs	—	—	—	(35,124)	—	—	(35,124)
Settlement of convertible notes due 2022	1,916,206	2	—	17,109	—	—	17,111
Termination and modification of capped call hedge for the convertible notes due 2022	—	—	—	10,886	—	—	10,886
Other comprehensive loss	—	—	—	—	—	(5,712)	(5,712)
Net loss	—	—	—	—	(94,796)	—	(94,796)
Balance at December 31, 2021	39,389,733	\$	39	\$ 853,664	\$ (388,112)	\$ (2,902)	\$ 462,689

	Common stock		Additional paid-in capital		Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Par value					
Balance at January 1, 2022	39,389,733	\$	\$	853,664	\$	(388,112)	\$
Cumulative effect of adoption of ASU 2020-06, net of taxes	—	—	—	(185,141)	47,162	(2,902)	\$
Modification of 2022 Notes capped call options and resulting reclassification to derivative asset	—	—	—	6,110	—	—	(137,979)
Capped call termination and retirement of shares	(22,914)	—	—	—	—	—	6,110
Stock-based compensation	—	—	—	49,508	—	—	—
Vesting of restricted stock units and performance-based restricted stock units	843,402	1	—	—	—	—	49,508
Stock award shares withheld to settle employee tax withholding liability	(198,278)	—	—	(6,307)	—	—	1
Exercise of stock options	9,883	—	—	144	—	—	(6,307)
Issuance of shares under employee stock purchase plan	105,696	—	—	3,165	—	—	144
Other comprehensive loss	—	—	—	—	—	(27,046)	3,165
Net loss	—	—	—	—	(61,174)	—	(27,046)
Balance at December 31, 2022	40,127,522	\$	\$	721,143	\$	(402,124)	\$
						(29,948)	\$
							289,111

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net loss	\$ (61,174)	\$ (94,796)	\$ (93,396)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	60,600	53,168	30,759
Amortization of deferred costs	18,251	14,373	12,609
Deferred income taxes	(5,183)	(12,972)	(3,478)
Accretion of interest on convertible senior notes	4,561	35,271	22,161
(Gain) loss on disposal of assets	727	(82)	5
(Gain) loss on extinguishment of debt, capped call modification and change in fair value	(19,243)	(7,181)	446
Provision for credit losses and sales reserve	410	4,750	3,071
Stock-based compensation	47,620	44,095	46,755
Change in fair value of contingent consideration obligation	(57)	(7,046)	3,665
Payment of contingent consideration in excess of acquisition date fair value	—	(2,653)	—
Other non-cash adjustments	—	(240)	73
Change in operating assets and liabilities:			
Accounts receivable	(848)	(18,187)	(22,614)
Prepaid expenses	560	(478)	(3,983)
Deferred costs	(23,063)	(16,793)	(18,902)
Other assets	(3,527)	(1,172)	146
Accounts payable	(4,855)	3,772	1,547
Accrued payroll and employee related liabilities	(4,136)	2,687	3,499
Accrued expenses	992	3,088	1,057
Deferred revenue	8,746	26,595	24,964
Other liabilities	(214)	(4,006)	7,419
Net cash provided by operating activities	20,167	22,193	15,803
Cash flows from investing activities:			
Capital expenditures	(3,462)	(5,055)	(3,257)
Proceeds from landlord reimbursement	1,219	—	—
Payments for acquisition of business, net of acquired cash	(1,585)	(262,084)	(55,138)
Additions to capitalized software development costs	(15,065)	(14,697)	(9,651)
Purchase of intangibles	—	—	(17,139)
Net cash used in investing activities	(18,893)	(281,836)	(85,185)

	Year Ended December 31,		
	2022	2021	2020
Cash flows from financing activities:			
Proceeds from issuance of convertible notes	—	375,000	—
Payments of debt issuance costs	—	(10,640)	(131)
Purchase of convertible notes capped call hedge	—	(35,100)	—
Repurchase of convertible notes	(288,761)	(58,643)	—
Proceeds from termination of convertible notes capped call hedge	1,312	10,650	—
Payments of contingent consideration obligation	—	(2,540)	—
Payments associated with shares withheld to settle employee tax withholding liability	(6,306)	(10,083)	(6,364)
Proceeds from employee stock purchase plan	3,165	4,587	3,389
Proceeds from option exercises	144	3,113	8,160
Other	(74)	—	—
Net cash provided by (used in) financing activities	(290,520)	276,344	5,054
Effect of exchange rates on cash, cash equivalents and restricted cash	(1,918)	427	296
Net increase (decrease) in cash, cash equivalents and restricted cash	(291,164)	17,128	(64,032)
Cash, cash equivalents and restricted cash—beginning of year	492,758	475,630	539,662
Cash, cash equivalents and restricted cash—end of year	<u>\$ 201,594</u>	<u>\$ 492,758</u>	<u>\$ 475,630</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 556	\$ 894	\$ 1,938
Taxes, net of refunds received	1,716	1,543	706
Supplemental disclosure of non-cash activities			
Common stock issued in connection with acquisitions	—	169,541	53,193
Deferred consideration in connection with acquisition	—	—	4,044
Contingent consideration in connection with acquisitions	—	9,195	6,267
Common stock issued in connection with contingent consideration payment	—	7,177	—
Purchase accounting payable, net	—	1,492	(163)
Common stock issued in connection with settlement of convertible notes	—	17,109	11,375
Modification of 2022 Notes capped call options and resulting reclassification from equity to derivative asset	6,090	—	—
Common stock received in connection with settlement of capped call options	700	—	—
Purchased intangible asset decrease	(963)	(3,027)	—
Capitalized assets included in accounts payable and accrued expenses	349	1,622	291
Stock-based compensation capitalized for software development	2,093	589	324
Treasury stock retired	700	—	—

See accompanying notes to consolidated financial statements.

Everbridge, Inc.
Notes to the Consolidated Financial Statements

(1) Business and Nature of Operations

Everbridge, Inc., a Delaware corporation (together with its wholly-owned subsidiaries, referred to as “Everbridge” or the “Company”), is a global software company that empowers resilience by leveraging intelligent automation technology to enable customers to anticipate, mitigate, respond to, and recover from critical events to keep people safe and organizations running. The Company’s SaaS-based platform enables the Company’s customers to manage and mitigate critical events. The Company’s enterprise applications, such as Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect, Travel Risk Management, SnapComms and E911, automate numerous critical event management (“CEM”) processes. The Company generates revenue primarily from subscription fees to the Company’s enterprise applications. The Company has operations in the United States, United Kingdom, Norway, China, Netherlands, Canada, New Zealand, France, India, and other countries.

(2) Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

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

Use of Estimates

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

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

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

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

Recently Adopted Accounting Pronouncements

ASU 2021-10

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

ASU 2021-04

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

ASU 2020-06

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

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

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

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

Recent Accounting Pronouncements Not Yet Adopted

ASU 2021-08

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

ASU 2022-04

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

Other accounting standard updates effective for interim and annual periods beginning after December 31, 2022 are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Fair Value Measurements

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

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

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

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

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

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

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

Concentrations of Credit and Business Risk

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

The Company maintains cash and cash equivalent balances at several banks. Accounts located in the United States are insured by the Federal Deposit Insurance Corporation ("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 years ended December 31, 2022, 2021 and 2020. No single customer comprised more than 10% of the Company's gross accounts receivable balance at December 31, 2022. One customer comprised approximately 10% of the Company's gross accounts receivable balance at December 31, 2021.

Cash and Cash Equivalents

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

Restricted Cash

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

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

Accounts Receivable

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.

Property and Equipment, Net

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

Capitalized Software Development Costs

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

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

For software licenses for on premises usage, software development costs are capitalized in accordance with ASC 985-20, *Costs of Software to be Sold, Leased or Marketed*. The Company capitalizes software development costs incurred after technological feasibility of the software is established or for development costs that have alternative future uses. Under the Company's current practice, the technological feasibility of the underlying software is not established until substantially all product development and testing is complete, which generally includes the development of a working model. Software development costs that have been capitalized to date have not been material.

Business Combinations

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

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

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

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

Held for Sale

Assets and liabilities to be disposed of by sale ("disposal groups") are reclassified into assets and liabilities held for sale on the Company's Consolidated Balance Sheet in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the disposal group; the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal group; an active program to locate a buyer and other actions required to complete the plan to sell the disposal group have been initiated; the sale of the disposal group is probable, and transfer of the disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond our control extend the period of time required to sell the disposal group beyond one year; the disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Upon determining that a disposal group meets the criteria to be classified as held for sale, the Company reports the assets and liabilities of the disposal group as held for sale in the current period in the Consolidated Balance Sheet.

Disposal groups are measured at the lower of carrying value or fair value less costs to sell and are not depreciated or amortized. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Gains are not recognized on the sale of a disposal group until the date of sale. The fair value of a disposal group, less any costs to sell, is assessed each reporting period it remains classified as held for sale and any remeasurement to the lower of carrying value or fair value less costs to sell is reported as an adjustment to the carrying value of the disposal group.

Segment Information

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

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

Long-Lived Assets

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

Intangible Assets

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

Goodwill

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

The Company performed a qualitative goodwill assessment at November 30, 2022 and concluded there was no impairment based on the qualitative assessment including our share price decrease as well as positive factors related to macroeconomic conditions, industry and market considerations, cost factors, financial performance and market capitalization.

Debt Issuance Costs

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

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

Revenue Recognition

The Company derives its revenues primarily from subscription services and professional services.

Revenues are recognized when control of services is transferred to the Company's customers in an amount that reflects the consideration it expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

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

Identify the customer contract

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

Identify performance obligations that are distinct

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

Determine the transaction price

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding sales taxes that are collected on behalf of government agencies. The Company estimates any variable consideration to which it will be entitled at contract inception, and reassesses at each reporting date, when determining the transaction price. The Company does not include variable consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will occur when any uncertainty associated with the variable consideration is resolved. Variable consideration revenue was not material for the years ended December 31, 2022, 2021 and 2020.

Allocate the transaction price to the distinct performance obligations

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

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

Recognize revenue as the performance obligations are satisfied

Revenues are recognized when or as control of the promised goods or services is transferred to customers. Revenue from subscriptions to the Company's critical event management and enterprise safety applications is recognized ratably over the subscription period beginning on the date the Company's online software products are made available to customers. Most subscription contracts are two years or more. The Company recognizes revenue from professional services as the services are provided. Software on premises license transactions are generally perpetual in nature and are recognized at a point in time when made available to the customer for use.

Disaggregation of Revenue

The Company provides disaggregation of revenue based on geographic region (see Note 15) and based on the subscription versus professional services and other classification on the consolidated statements of operations as it believes this best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Subscription Services Revenues

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

Professional Services Revenues

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

Software License Revenues

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

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

Contracts with Multiple Performance Obligations

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

Returns

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

Customer Acceptance

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

Trade and Other Receivables

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

Deferred Costs

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

Advertising Expenses

Advertising expenses to promote the Company's services are expensed as incurred. Advertising expenses included in sales and marketing expense were \$6.4 million, \$9.5 million and \$4.8 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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

Research and Development

Research and development expenses primarily consist of employee-related costs for research and development staff, including salaries, bonuses, benefits and stock-based compensation and the cost of certain third-party service providers related to the development of the Company's solutions that do not meet the criteria to be capitalized under ASC 350-40, *Internal Use Software* or ASC 985-20, *Costs of Software to be Sold, Leased or Marketed*.

Stock-Based Compensation

Stock-based compensation expense is comprised of stock options, restricted stock units ("RSUs"), performance-based RSUs ("PSUs"), market-based grants and employee stock purchase plan awards.

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

The Company grants PSUs that vest upon satisfaction of certain performance-based conditions. The vesting of PSUs is subject to the employee's continued employment with the Company through the date of achievement. The fair value is based on value of the Company's common stock at the date of issuance and the probability of achieving the performance metric. 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 Company recognizes compensation expense for market-based grants based on the fair value of the award which is remeasured at each reporting period until settlement. The Company utilizes the Monte-Carlo simulation model for determining the estimated fair value of market-based grants. The Monte-Carlo simulation model requires the use of subjective assumptions including the volatility of the underlying stock.

Income Taxes

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

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

The Tax Cuts and Jobs Act subjects a United States shareholder to tax on Global Intangible Low-Taxed Income ("GILTI") earned by certain foreign subsidiaries. The FASB staff question-and-answer document Topic 740 No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company elected to account for GILTI in the year the tax is incurred.

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

Foreign Currency Translation

The functional currency for the Company's foreign subsidiaries is the local currency. For those subsidiaries, the assets and liabilities are translated into U.S. dollars at the exchange rate at the balance sheet date. Income and expenses are translated at the average exchange rates for the period. Net losses on foreign currency transactions of \$0.5 million, \$1.5 million and \$0.4 million for the years ended December 31, 2022, 2021 and 2020, respectively, were recorded as a component of other expenses, net, on the consolidated statements of operations.

Other Comprehensive Income (Loss)

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

Net Loss Per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is computed by dividing the Company's net loss attributable to common stockholders by the weighted-average number of common shares used in the loss per share calculation during the period. Diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive securities, including stock-based compensation awards and convertible senior notes. The Company uses the if converted method for convertible senior notes for calculating any potential dilutive effect on diluted loss per share.

(3) Accounts Receivable and Contract Assets, Net

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

	As of December 31,	
	2022	2021
Accounts receivable amortized cost	\$ 127,298	\$ 127,917
Allowance for credit losses	(7,312)	(6,922)
Net accounts receivable	<u>\$ 119,986</u>	<u>\$ 120,995</u>

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

	Year Ended December 31,		
	2022	2021	2020
Balance, beginning of period	\$ (6,922)	\$ (3,788)	\$ (1,125)
Provision for expected credit losses	(1,413)	(3,512)	(2,877)
Write-offs, net	1,023	378	214
Balance, end of period	<u>\$ (7,312)</u>	<u>\$ (6,922)</u>	<u>\$ (3,788)</u>

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

	As of December 31,	
	2022	2021
Contract asset amortized cost	\$ 8,525	\$ 8,569
Allowance for credit losses	(1,015)	(1,160)
Net contract asset	<u>\$ 7,510</u>	<u>\$ 7,409</u>

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

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

	Year Ended December 31,		
	2022	2021	2020
Balance, beginning of period	\$ (1,160)	\$ (398)	\$ —
Provision for expected credit losses, net	(24)	(798)	(398)
Write-offs	169	36	—
Balance, end of period	<u>\$ (1,015)</u>	<u>\$ (1,160)</u>	<u>\$ (398)</u>

Credit loss expense for the years ended December 31, 2022, 2021 and 2020 was \$0.2 million, \$4.4 million and \$2.7 million, respectively. A payment received from a customer during the year ended December 31, 2022 reduced credit losses expense by \$1.4 million.

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

	Year Ended December 31,		
	2022	2021	2020
Balance, beginning of period	\$ (250)	\$ (175)	\$ (175)
Additions	(211)	(239)	(85)
Write-offs	36	164	85
Balance, end of period	<u>\$ (425)</u>	<u>\$ (250)</u>	<u>\$ (175)</u>

(4) Property and Equipment, Net

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

	Useful life in years	As of December 31,	
		2022	2021
Furniture and equipment	5	\$ 1,655	\$ 2,530
Leasehold improvements ⁽¹⁾	9	7,081	7,842
System hardware	5	1,718	1,357
Office computers	3	7,553	8,783
Computer and system software	3	2,398	2,694
		20,405	23,206
Less accumulated depreciation and amortization		(11,412)	(11,021)
Property and equipment, net		<u>\$ 8,993</u>	<u>\$ 12,185</u>

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

Depreciation and amortization expense for property and equipment for the years ended December 31, 2022, 2021 and 2020 was \$5.1 million, \$3.8 million and \$2.7 million, respectively.

(5) Capitalized Software Development Costs, Net

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

	Gross carrying amount	Amortization period	Accumulated amortization	Net carrying amount
As of December 31, 2022	\$ 92,115	3 years	\$ (64,745)	\$ 27,370
As of December 31, 2021	\$ 75,042	3 years	\$ (52,322)	\$ 22,720

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

The Company capitalized software development costs of \$17.1 million, \$15.3 million and \$9.9 million during the years ended December 31, 2022, 2021 and 2020, respectively.

Amortized expense for capitalized software development costs was \$12.5 million, \$9.0 million and \$7.9 million during the years ended December 31, 2022, 2021 and 2020, respectively. Amortization of capitalized software development costs is classified within cost of revenue in the consolidated statements of operations and comprehensive loss.

The expected amortization of capitalized software development costs, as of December 31, 2022, for each of the next three years is as follows (in thousands):

2023	\$	12,704
2024		9,667
2025		4,999
	\$	<u>27,370</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 years ended December 31, 2022, 2021 and 2020, no impairments were identified of those assets requiring measurement at fair value on a non-recurring basis.

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

Level 1 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.

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

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis 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 December 31, 2022				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	\$ 140,336	\$ —	\$ —	\$ 140,336
Total financial assets	<u>\$ 140,336</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 140,336</u>
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ —	\$ —
Total financial liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
As of December 31, 2021				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash equivalents:				
Money market funds	\$ 409,692	\$ —	\$ —	\$ 409,692
Total financial assets	<u>\$ 409,692</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 409,692</u>
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ 59	\$ 59
Total financial liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 59</u>	<u>\$ 59</u>

The Company's assets that are measured by management at fair value on a recurring basis are generally classified within Level 1 or Level 2 of the fair value hierarchy. The Company did not have any transfers into or out of Level 3 during the year ended December 31, 2022.

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

For the years ended December 31, 2022, 2021 and 2020, gains or losses realized on the sale of investments were not material. Investments are reviewed periodically to identify possible other-than-temporary impairments. As the Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired for any of the periods presented.

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

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

Fair value at December 31, 2020	\$ 10,619
Contingent consideration from RedSky acquisition	9,135
Contingent consideration from Anvil acquisition	60
Change in fair value of contingent consideration obligation from SnapComms acquisition	709
Change in fair value of contingent consideration obligation from one2many acquisition	408
Change in fair value of contingent consideration obligation from RedSky acquisition	(8,163)
Payment for SnapComms acquisition	(720)
Payment for one2many acquisition	(10,679)
Payment for RedSky acquisition	(972)
Foreign currency translation	(338)
Fair value at December 31, 2021	59
Change in fair value of contingent consideration obligation from Anvil acquisition	(57)
Foreign currency translation	(2)
Fair value at December 31, 2022	\$ —

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

On May 27, 2020, the Company entered into a Stock Purchase Agreement with Techwan SA ("Techwan") pursuant to which the Company purchased all of the issued and outstanding shares of stock of Techwan (see Note 8). In accordance with the Stock Purchase Agreement, 6,779 shares of the Company's common stock were reserved and were expected to be issued to the sellers in November 2021 subject to the provisions in the Stock Purchase Agreement. Management analyzed the liability for derivative accounting consideration under ASC 815, *Derivatives and Hedging*, and determined that the liability qualifies for derivative accounting. The derivative liability was not designated as a hedging instrument. In accordance with ASC 815, the Company recorded the acquisition-related deferred common stock consideration derivative liability, which was carried at fair value, in other long-term liabilities on the consolidated balance sheet. The derivative liability was marked-to-market each measurement period and changes in fair value during the year ended December 31, 2021 of \$(0.2) million were recorded as a component of other expense, net on the consolidated statements of operations. The fair value was derived from the Company's stock price. In November 2021, the Company issued 6,779 shares of the Company's common stock to settle the derivative liability and reclassified the derivative liability from a liability to equity.

On November 4, 2021, the Company entered into an agreement with the shareholders of The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, "Anvil") pursuant to which the Company purchased all of the issued and outstanding share capital of Anvil (see Note 8). The Company paid \$70.2 million in cash at closing, acquired net purchase liabilities of \$1.6 million and issued \$89.7 million in loan notes ("Consideration Loan Notes") due on November 4, 2022, unless early redeemed by the Company or if there is a redemption on event of default. Also, on November 4, 2021, the Company entered into a Flip-Up Agreement with the Consideration Loan Notes holders to issue shares of the Company's common stock within 10 business days. The Flip-Up Agreement included a call option for the Company buy the Consideration Loan Notes from the sellers of Anvil and a put option for the sellers of Anvil to sell the Consideration Loan Notes to the Company for 574,639 shares of the Company's common stock.

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

The call and put option was considered a feature embedded in the Consideration Loan Notes. As the value of the call and put option conversion feature embedded in the Consideration Loan Notes was influenced principally by the underlying equity security's fair value and the volatility in that fair value, the call and put option conversion feature was not considered closely related to the Consideration Loan Notes host contract; therefore, the call and put option conversion feature was bifurcated from the Consideration Loan Notes and recognized separately as a derivative liability at fair value.

On November 4, 2021, the Company exercised the call option and issued the 574,639 shares of common stock on November 10, 2021. During the three months ended December 31, 2021, the Company recognized a \$10.1 million gain on the derivative and extinguishment of the Consideration Loan Notes in Gain (loss) on extinguishment of debt, capped call modification and change in fair value on the consolidated statement of operations due the decrease in the Company's stock price between the date the consideration loan notes were issued and the date the consideration loan notes were extinguished.

In connection with the issuance of the 2022 Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and other financial institutions. See Note 9 for details on the 2022 Notes capped call transactions. In September 2022, the Company modified certain of the capped call agreements to elect cash settlement as the final settlement method of the capped call options with two of the counterparties. Management analyzed the capped call options to be settled in cash for derivative accounting consideration under ASC 815, *Derivatives and Hedging*, and determined that they qualify for derivative accounting. The derivative assets were not designated as a hedging instrument. In September 2022, the Company reclassified the fair value of the capped call options to be settled in cash of \$6.1 million from additional paid-in capital to other current assets on the consolidated balance sheet in accordance with ASC 815. The fair value was derived using a Black-Scholes option-pricing model. The valuation model uses various market-based inputs, including stock price, remaining contractual term, expected volatility, risk-free interest rate and expected dividend yield. The Company applies judgment when determining expected volatility. The Company considers both historical and implied volatility levels of the underlying equity security. The assets, which were classified as Level 2 of the fair value hierarchy, were marked-to-market and the decrease in fair value during the year ended December 31, 2022 of \$4.8 million was recorded as a component of Gain (loss) on extinguishment of debt, capped call modification and change in fair value on the consolidated statement of operations and on the consolidated statement of cash flows. In November 2022, the Company received the related cash as final settlement of the capped call options.

During the year ended December 31, 2022, as a result of assessing the probabilities of payment for the potential contingent consideration for The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, "Anvil") through June 30, 2023, the Company recognized a decrease in the fair value of Anvil's contingent consideration obligation in the amount of \$0.1 million.

The Company estimates the fair value of the convertible senior notes based on market-observable inputs (Level 2). As of December 31, 2022 and 2021, the fair value of the 2026 Notes was determined to be \$320.5 million and \$318.3 million, respectively, and the principal amount of the 2026 Notes was \$375.0 million for each period. As of December 31, 2022 and 2021, the fair value of the 2024 Notes was determined to be \$118.2 million and \$440.6 million, respectively, and the principal amount of the 2024 Notes was \$133.6 million and \$450.0 million, respectively. See Note 9.

(7) Goodwill and Intangible Assets, Net

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

Balance at December 31, 2020	\$ 187,411
Increase due to acquisitions	348,794
Foreign currency translation	(5,042)
Balance at December 31, 2021	531,163
Acquisition initial value adjustment	(1,788)
Foreign currency translation	(20,594)
Balance at December 31, 2022	<u>\$ 508,781</u>

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

There were no impairments recorded against goodwill in 2022, 2021 or 2020.

Intangible assets consisted of the following (in thousands):

	Gross carrying amount	Weighted- average life (years)	As of December 31, 2022	
			Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	\$ 34,924	3.47	\$ (21,217)	\$ 13,707
Tradenames	16,513	4.55	(7,057)	9,456
Customer relationships	204,697	8.34	(61,683)	143,014
Total intangible assets	<u>\$ 256,134</u>		<u>\$ (89,957)</u>	<u>\$ 166,177</u>

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

Amortization expense for intangible assets was \$43.0 million, \$40.5 million and \$20.2 million for the years ended December 31, 2022, 2021 and 2020, respectively. Amortization expense of tradenames and customer relationships is included within general and administrative expenses, while amortization of developed technology is included in cost of revenue. The Company recorded amortization expense attributed to developed technology of \$11.7 million, \$12.1 million and \$4.2 million for the years ended December 31, 2022, 2021 and 2020, respectively. In December 2020, the Company completed an asset acquisition and recorded \$17.1 million to developed technology. During the years ended December 31, 2022 and 2021, the Company recognized a \$1.0 million and a \$3.0 million, respectively, reduction in the cost basis of the developed technology due to a partial return of the purchase price. The average useful life for the December 2020 asset acquisition of acquired technology is 4.0 years. During the year ended December 31, 2022, the Company retired \$19.2 million of fully amortized intangible assets.

The expected amortization of the intangible assets, as of December 31, 2022, for each of the next five years and thereafter is as follows (in thousands):

2023	\$ 37,321
2024	31,811
2025	26,022
2026	20,212
2027	15,752
Thereafter	35,059
	<u>\$ 166,177</u>

(8) Business Combinations and Assets and Liabilities Held for Sale

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

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

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

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

2022 Assets and Liabilities Held for Sale

The Company entered into an agreement in the fourth quarter of fiscal 2022 to sell certain assets. In connection with entering into this agreement, the Company concluded that the asset sale met the held for sale criteria and classified the assets and liabilities as held for sale.

Assets and liabilities classified as held for sale as of December 31, 2022 were comprised of the following (in thousands):

Accounts receivable	\$	635
Prepaid assets		254
Trade names		184
Customer relationships		5,344
Acquired technology		68
Total assets held for sale	\$	6,485
Accounts payable	\$	53
Accrued expenses		8
Deferred revenue		2,001
Total liabilities held for sale	\$	2,062

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

2021 Acquisitions

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

Red Sky Technologies Inc.

On January 15, 2021, the Company entered into a Stock Purchase Agreement with Red Sky Technologies Inc. ("RedSky") pursuant to which the Company purchased all of the issued and outstanding shares of stock of RedSky for a base consideration of \$55.4 million, net of cash acquired. The Company paid \$32.4 million in cash, net of cash acquired, and issued 162,820 newly issued shares of the Company's common stock at closing. On the date of this acquisition, the average price of the Company's common stock on the Nasdaq Global Market was \$141.46 per share. In addition to the base purchase price, there was also a potential contingent payment of up to \$30 million that was eligible to be earned by the sellers based on certain revenue targets through the contractual measurement period. At the date of the acquisition, the Company preliminarily assessed the probability of RedSky meeting the revenue metrics through the contractual measurement period and recorded a \$9.1 million initial fair value of contingent consideration as part of the purchase price allocation. During the year ended December 31, 2021, the Company recognized a decrease in the fair value of RedSky's contingent consideration obligation in general and administrative expenses in the consolidated statements of operations in the amount of \$8.2 million. During the year ended December 31, 2021, the Company paid \$0.4 million in cash and issued 4,058 shares of the Company's common stock to settle RedSky's contingent consideration liability. The Company acquired RedSky for its E911 incident response solutions platform to enhance the Company's CEM suite of solutions as well as market penetration and customer reach.

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

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

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

The weighted average useful life of all identified acquired intangible assets is 7.73 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 9.0 years and 4.0 years, respectively. Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method. The straight-line method of amortization represents the Company's best estimate of the period of expected cash flows of the identifiable intangible assets.

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

For the year ended December 31, 2021, the Company incurred transaction costs of less than \$0.1 million in connection with the RedSky acquisition, which were expensed as incurred and included in general and administrative expenses.

xMatters Holdings, Inc.

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

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

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

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

The weighted average useful life of all identified acquired intangible assets is 8.13 years. The average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 9.0 years and 5.0 years, respectively. Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method. The straight-line method of amortization represents the Company's best estimate of the period of expected cash flows of the identifiable intangible assets.

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

For the year ended December 31, 2021, the Company incurred transaction costs of \$1.5 million in connection with the xMatters acquisition, of which \$0.1 million and \$0.7 million was expensed during the years ended December 31, 2022 and 2021, respectively, and included in general and administrative expenses.

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

On November 4, 2021, the Company entered into an agreement with the shareholders of The Anvil Group (International) Limited, Anvil Worldwide Limited and The Anvil Group Limited (collectively, "Anvil") pursuant to which the Company purchased all of the issued and outstanding share capital of Anvil for a base consideration of \$161.5 million. See Note 6 for a discussion of the Consideration Loan Notes and Flip-Up Agreement. The Company paid \$70.2 million in cash at closing, acquired net purchase liabilities of \$1.6 million and issued \$89.7 million Consideration Loan Notes. On November 10, 2021, the Company issued 574,639 newly issued shares of the Company's common stock to settle consideration loan notes issued on the acquisition date. During year ended December 31, 2022, the Company paid approximately \$1.6 million to settle certain purchase liabilities. In addition to the base purchase price, there is also a potential contingent payment of up to \$0.8 million that may be paid to the sellers on or before June 30, 2023. At the date of the acquisition, the Company preliminarily assessed the probability of the contingent consideration payment and recorded a \$0.1 million preliminary fair value as part of the purchase price allocation. During the year ended December 31, 2022, the Company recognized a decrease in the fair value of Anvil's contingent consideration obligation in general and administrative expenses in the consolidated statements of operations in the amount of \$0.1 million. The Company acquired Anvil for its travel risk management, operational resiliency and occupational health solutions platforms to enhance the Company's CEM suite of solutions as well as market penetration and customer reach.

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

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

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

The weighted average useful life of all identified acquired intangible assets is 8.07 years. The average useful lives for acquired technologies, customer relationships and trade names are 4.0 years, 9.0 years and 5.0 years, respectively. Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method. The straight-line method of amortization represents the Company's best estimate of the period of expected cash flows of the identifiable intangible assets.

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

For the year ended December 31, 2021, the Company incurred transaction costs of \$1.4 million in connection with the Anvil acquisition, of which \$0.1 million and \$1.0 million, respectively, was expensed during the years ended December 31, 2022 and 2021 and included in general and administrative expenses.

(9) Convertible Senior Notes

Adoption of ASU 2020-06

On January 1, 2022, the Company adopted ASU 2020-06 and applied it to its Convertible Senior Notes using the modified retrospective method. Adoption of ASU 2020-06 resulted in an adjustment to convertible senior notes, deferred tax liabilities, additional paid-in capital and accumulated deficit. The Company recognized the cumulative effect of initially applying ASU 2020-06 as an adjustment to the opening balance of accumulated deficit. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

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

The cumulative effect of the changes made to the Company's consolidated January 1, 2022 balance sheet for the adoption of ASU 2020-06 was as follows (in thousands):

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

The effect of the Company's adoption of ASU 2020-06 had a \$1.40 and \$1.18 increase in basic and diluted loss per share, respectively, for the fiscal year ended December 31, 2022.

0% Convertible Senior Notes Due 2026

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

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

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

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

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

- during any calendar quarter commencing after the calendar quarter ending on June 30, 2021 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

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

- during the five business day period after any ten consecutive trading day period (the “2026 Notes Measurement Period”), in which the “trading price” (as the term is defined in the 2026 Notes Indenture) per \$1,000 principal amount of notes for each trading day of such 2026 Notes Measurement Period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day;
- if the Company calls such notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the notes called (or deemed called) for redemption; or
- upon the occurrence of specified corporate events.

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

As of December 31, 2022, the 2026 Notes were not convertible at the option of the debt holder and were classified as long-term on the consolidated balance sheet.

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

Prior to the Company's adoption of ASU 2020-06, based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2026 Notes to be approximately 7.25%, assuming no conversion option. Assumptions used in the estimate represented what market participants would use in pricing the equity component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2026 Notes, which resulted in a fair value of the liability component of \$269.6 million upon issuance, calculated as the present value of implied future payments based on the \$375.0 million aggregate principal amount. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, was amortized to interest expense over the term of the 2026 Notes. The \$105.4 million difference between the aggregate principal amount of \$375.0 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2026 Notes were not considered redeemable.

Prior to the Company's adoption of ASU 2020-06, significant judgment was 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 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.

Prior to the Company's adoption of ASU 2020-06, 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.

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

Prior to the Company's adoption of ASU 2020-06, in accounting for the transaction costs related to the issuance of the 2026 Notes, the Company allocated the total amount incurred to the liability and equity components based on their estimated relative fair values. Transaction costs attributable to the liability component, totaling \$7.6 million, were being amortized to expense over the term of the 2026 Notes, and transaction costs attributable to the equity component, totaling \$3.0 million, were netted with the equity component in shareholders' equity.

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

	As of December 31,	
	2022	2021
Liability component:		
Principal	\$ 375,000	\$ 375,000
Less: debt discount, net of amortization	(6,763)	(97,261)
Net carrying amount	\$ 368,237	\$ 277,739
Equity component ⁽¹⁾	—	99,000

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

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

	Year Ended December 31,	
	2022	2021
Amortization of debt discount and transaction costs	\$ 2,112	\$ 15,715

Effective interest rates were 0.6% and 7.3% during the years ended December 31, 2022 and 2021, respectively.

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

	As of December 31,			
	2022		2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2026 Notes	\$ 320,520	\$ 368,237	\$ 318,311	\$ 277,739

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

Based on the closing price of the Company's common stock of \$29.58 on December 31, 2022, the if-converted value of the 2026 Notes was less than their respective principal amounts.

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Notes to the Consolidated Financial Statements—(Continued)

0.125% Convertible Senior Notes Due 2024

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

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

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

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

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

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2020 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any ten consecutive trading day period (the "2024 Notes Measurement Period"), in which the "trading price" (as the term is defined in the 2024 Notes Indenture) per \$1,000 principal amount of notes for each trading day of such 2024 Notes Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- if the Company calls such notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of specified corporate events.

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

As of December 31, 2022, the 2024 Notes were not convertible at the option of the debt holder and were classified as long-term on the consolidated balance sheet.

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The 2024 Notes were 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.

During the year ended December 31, 2022, the Company paid approximately \$288.8 million in cash to repurchase approximately \$316.4 million aggregate principal amount of the 2024 Notes and recognized an extinguishment gain in the amount of \$24.0 million in gain (loss) on extinguishment of debt, capped call modification and change in fair value on the consolidated statement of operations during the year ended December 31, 2022.

Prior to the Company's adoption of ASU 2020-06, 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 represented 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, was 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.

Prior to the Company's adoption of ASU 2020-06, significant judgment was 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 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.

Prior to the Company's adoption of ASU 2020-06, 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.

Prior to the Company's adoption of ASU 2020-06, 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, were being amortized to expense over the term of the 2024 Notes, and transaction costs attributable to the equity component, totaling \$2.6 million, were netted with the equity component in shareholders' equity.

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Notes to the Consolidated Financial Statements—(Continued)

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

	As of December 31,	
	2022	2021
Liability component:		
Principal	\$ 133,558	\$ 450,000
Less: debt discount, net of amortization	(1,497)	(62,044)
Net carrying amount	\$ 132,061	\$ 387,956
Equity component ⁽¹⁾	—	86,133

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

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

	Year Ended December 31,		
	2022	2021	2020
0.125% coupon	\$ 539	\$ 562	\$ 564
Amortization of debt discount and transaction costs	2,449	18,924	17,974
	<u>\$ 2,988</u>	<u>\$ 19,486</u>	<u>\$ 18,538</u>

Effective interest rates were 0.7% and 5.2% during the years ended December 31, 2022 and 2021, respectively.

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

	As of December 31,			
	2022		2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2024 Notes	\$ 118,199	\$ 132,061	\$ 440,564	\$ 387,956

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

Based on the closing price of the Company's common stock of \$29.58 on December 31, 2022, the if-converted value of the 2024 Notes was less than their respective principal amounts.

1.50% Convertible Senior Notes Due 2022

In November 2017, the Company issued \$115.0 million aggregate principal amount of 1.50% convertible senior notes due 2022 including \$15.0 million aggregate principal amount of 2022 Notes issued upon the initial purchasers' exercise in full of their option to purchase additional 2022 Notes. The 2022 Notes matured on November 1, 2022. Interest was payable semiannually in arrears on May 1 and November 1 of each year, commencing on May 1, 2018.

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

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

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

During the year ended December 31, 2021, the Company issued 627,212 shares upon the conversion of approximately \$21.1 million in aggregate principal amount of the 2022 Notes and recognized \$19.8 million in additional paid-in capital on the consolidated balance sheet related to shares issued. The Company determined the fair value of the liability portion being extinguished immediately prior to extinguishment. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes ranged from approximately 4.87% to 5.13%. The fair value of such liability portion was then deducted from the amount of consideration transferred and allocated to the liability component. The difference between the fair value of the liability and its carrying value, inclusive of any unamortized debt issue costs, was recognized as an extinguishment loss in the amount of \$0.5 million in loss on extinguishment of convertible notes and capped call modification on the consolidated statement of operations during the year ended December 31, 2021.

In connection with the issuance of the 2026 Notes in March 2021, the Company paid approximately \$58.6 million in cash and issued 1,288,994 shares of common stock to repurchase approximately \$58.6 million aggregate principal amount of the 2022 Notes. The Company determined the fair value of the liability portion being extinguished immediately prior to extinguishment. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes to be approximately 4.87%. The fair value of such liability portion was then deducted from the amount of consideration transferred and allocated to the liability component. The difference between the fair value of the liability and its carrying value, inclusive of any unamortized debt issue costs, was recognized as an extinguishment loss in the amount of \$2.2 million in loss on extinguishment of convertible notes and capped call modification on the consolidated statement of operations during the year ended December 31, 2021. The remaining consideration was allocated to the reacquisition of the equity component and recognized as a reduction of additional paid-in capital on the consolidated balance sheet in the amount of \$2.7 million. The Company also partially terminated capped call options entered into in connection with the 2022 Notes in March 2021 and received \$10.6 million recorded to additional paid-in capital on the consolidated balance sheet and modified a capped call option agreement entered into in connection with the 2022 Notes and recognized modification expense of \$0.2 million in loss on extinguishment of convertible notes and capped call modification on the consolidated statement of operations and additional paid-in capital on the consolidated balance sheet.

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

In November 2022, the Company settled the \$8 thousand aggregate principal amount of the 2022 Notes at maturity.

Prior to the Company's adoption of ASU 2020-06, based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of its 2022 Notes at the time of issuance to be approximately 6.93%, assuming no conversion option. Assumptions used in the estimate represented 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, was 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.

Prior to the Company's adoption of ASU 2020-06, 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.

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

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

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

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

	Year Ended December 31,		
	2022	2021	2020
1.50% coupon	\$ —	\$ 110	\$ 1,363
Amortization of debt discount and transaction costs	—	632	4,187
	<u>\$ —</u>	<u>\$ 742</u>	<u>\$ 5,550</u>

Effective interest rates were 2.2% and 6.9% during the years ended December 31, 2022 and 2021, respectively.

The fair value of the 2022 Notes, which was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, quoted price of the 2022 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments (prior to the adoption of ASU 2020-06, carrying value excluded the equity component of the Company's convertible notes classified in equity) were as follows (in thousands):

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

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

In connection with the issuance of the 2022 Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and others. The capped call transactions are expected generally to reduce potential dilution to our common stock upon any conversion of the 2022 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2022 Notes, as the case may be, with such reduction and/or offset subject to a cap. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the 2022 Notes, with an initial strike price of approximately \$33.71 per share, which corresponds to the initial conversion price of the 2022 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the 2022 Notes, and have a cap price of approximately \$47.20. The cost of the purchased capped calls of \$12.9 million was recorded to shareholders' equity and will not be re-measured. During the three months ended March 31, 2021, the Company amended one of the capped call agreements to reduce the cap price to \$46.68 and recognized modification expense of \$0.2 million in loss on extinguishment of convertible notes and capped call modification on the consolidated statement of operations.

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

The following table summarizes the Company's debt obligations at December 31, 2022 (in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Debt obligations	\$ —	\$ 133,558	\$ 375,000	\$ —	\$ 508,558

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

(10) Stockholders' Equity

Preferred Stock

As of December 31, 2022, the Company had authorized 10,000,000 shares of preferred stock, par value \$0.001, of which no shares were outstanding.

Common Stock

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

As of December 31, 2022, the Company had authorized 100,000,000 shares of common stock, par value \$0.001. At December 31, 2022 and 2021, there are 40,127,522 and 39,389,733 shares of common stock issued and outstanding, respectively.

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

(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.

On December 16, 2022, the Board of Directors (the "Board") adopted the Everbridge, Inc. 2022 Inducement Plan (the "2022 Inducement Plan"). The 2022 Inducement Plan was adopted without stockholder approval pursuant to Nasdaq Listing Rule 5635(c)(4) and will be administered by the Compensation Committee of the Board (the "Committee"). The Board reserved 600,000 shares of Common Stock for issuance under the 2022 Inducement Plan. The only persons eligible to receive grants of Inducement Awards (as defined below) under the 2022 Inducement Plan are individuals who satisfy the standards for inducement grants under Nasdaq Listing Rule 5635(c)(4). Inducement Awards may only be granted by: (i) the Committee, provided such committee is comprised solely of "independent directors" (as defined by Nasdaq Listing Rule 5605(a)(2)) or (ii) a majority of the Company's "independent directors." An "Inducement Award" means any right to receive Common Stock, cash or other property granted under the 2022 Inducement Plan (including nonstatutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards, performance cash awards or other stock-based awards). The Board also adopted a (i) form of stock option grant notice, option agreement, and notice of exercise (the "Inducement Option Grant Package") and (ii) form of restricted stock unit award grant notice and award agreement (the "Inducement RSU Grant Package") for use under the Inducement Plan.

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 years ended December 31, 2022, 2021 and 2020, 105,696, 41,164, and 49,319 shares of common stock, respectively, were purchased under the 2016 ESPP. As of December 31, 2022, 2021 and 2020, total recognized compensation cost was \$1.7 million, \$1.8 million, and \$1.4 million, respectively. As of December 31, 2022, unrecognized compensation cost related to the 2016 ESPP was \$0.4 million which will be amortized over a weighted-average period of 0.16 years.

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

	Year Ended December 31,		
	2022	2021	2020
Employee Stock Purchase Plan:			
Expected term (in years) ⁽¹⁾	0.50	0.50	0.50
Expected volatility ⁽²⁾	65% - 70%	45% - 60%	55% - 65%
Risk-free interest rate ⁽³⁾	0.85% - 3.33%	0.05% - 0.06%	0.12% - 0.29%
Dividend rate ⁽⁴⁾	0%	0%	0%

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

- (1) The expected term represents the contractual term of the 2016 ESPP;
- (2) The expected volatility of the Company's common stock on the date of grant is based on the weighted average of the Company's historical volatility as a public company, the implied volatility of publicly-traded options on the Company's common stock and the volatilities of publicly traded peer companies that are reasonably comparable to the Company's own operations;
- (3) The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term of the grant; and
- (4) The expected dividend yield is assumed to be zero as the Company has never paid dividends and has no current plans to pay any dividends on the Company's common stock.

Stock Options

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

There were no stock options granted during the years ended December 31, 2022 and 2021. The Company recorded stock-based compensation expense of \$0.1 million, \$1.2 million and \$3.5 million for the years ended December 31, 2022, 2021 and 2020, respectively, attributed to stock options.

The total intrinsic value of options exercised during the years ended December 31, 2022, 2021 and 2020 was \$0.2 million, \$12.7 million and \$30.6 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each option. Based on the fair market value of the Company's common stock at December 31, 2022, 2021 and 2020 the total intrinsic value of all outstanding options was \$1.2 million, \$6.9 million and \$34.5 million, respectively.

There was no unrecognized compensation cost related to nonvested stock options as of December 31, 2022. The amount of cash received from the exercise of stock options during the years ended December 31, 2022, 2021 and 2020 was \$0.1 million, \$3.1 million, and \$8.2 million, respectively.

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

	Stock options outstanding	Weighted average exercise price
Outstanding at December 31, 2021	157,740	\$ 23.83
Exercised	(9,883)	14.58
Forfeited	(5,655)	38.66
Outstanding at December 31, 2022	<u>142,202</u>	23.89

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

	As of December 31, 2022		
	Number of shares	Remaining contractual life (years)	Weighted- average exercise price
Outstanding	142,202	4.15	\$ 23.89
Vested and expected to vest	142,202	4.15	23.89
Exercisable	142,202	4.15	23.89

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

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 December 31, 2022	142,202	\$ 23.89	—	\$ —

Restricted Stock Units

During the year ended December 31, 2022, the Company granted 2,920,954 RSUs to members of its senior management and certain other employees pursuant to the 2016 Plan. There were 685,583 RSUs that vested during the year ended December 31, 2022. The Company accounts for RSUs issued to employees at fair value, based on the market price of the Company's common stock on the date of grant. The weighted-average grant date fair values of RSUs granted during the years ended December 31, 2022, 2021 and 2020 were \$39.51, \$124.4 and \$122.82, respectively. The fair values of RSUs that vested during the years ended December 31, 2022, 2021 and 2020, were \$44.9 million, \$25.6 million and \$18.2 million, respectively. During the years ended December 31, 2022, 2021 and 2020, the Company recorded \$40.9 million, \$28.1 million, and \$20.1 million respectively, of stock-based compensation related to the RSUs.

As of December 31, 2022, there was \$80.5 million of unrecognized compensation expense related to unvested RSUs which is expected to be recognized over a weighted-average period of approximately 2.35 years. For RSUs subject to graded vesting, the Company recognizes compensation cost on a straight-line basis over the service period for the entire award.

Performance-Based Restricted Stock Units

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

During the year ended December 31, 2022, the Company granted 720,064 PSUs to members of its management pursuant to the 2016 Plan. There were 157,819 PSUs that vested during the year ended December 31, 2022. The PSUs, other than those modified on February 9, 2022 as described above, generally vest based on the Company achieving certain revenue growth thresholds which ranged from 20% to 40% compounded annual growth for grants through 2020 and 15% to 35% compounded annual growth for grants starting in 2021 over a measurement period of two years for the first 50% of PSUs and three years for the remaining PSUs. The vesting of the PSUs is subject to the employee's continued employment with the Company through the date of achievement. During the year ended December 31, 2022, the share price of the Company's common stock on the date of issuance of the PSUs ranged from \$25.50 to \$55.31 per share. The fair value is based on the value of the Company's common stock at the date of issuance and the probability of achieving the performance metric. Compensation cost is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions. The weighted-average grant date fair value of PSUs granted during the years ended December 31, 2022, 2021 and 2020 was \$35.27, \$123.94 and \$119.78, respectively. For the years ended December 31, 2022, 2021 and 2020, the Company recognized \$4.7 million, \$13.0 million and \$21.8 million, respectively, of stock compensation expense in connection with the PSU awards. During the three months ended December 31, 2021 and three months ended March 31, 2022 prior to the PSU modification, as a result of forecasted decreases in the compounded annual growth rate, the Company reduced the expected achievement of performance metrics and recognized a reduction in stock-based compensation expense. This reduction was offset by the incremental compensation expense recognized for the modified PSUs.

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Notes to the Consolidated Financial Statements—(Continued)

As of December 31, 2022, there was \$11.4 million of unrecognized compensation expense related to unvested PSUs which is expected to be recognized over a weighted-average period of approximately 1.65 years. Compensation cost is recognized under the accelerated method and is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions.

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

	Number of Shares
Outstanding at December 31, 2021	1,579,738
Granted	3,641,018
Vested	(843,402)
Forfeited	(1,144,056)
Outstanding at December 31, 2022	<u>3,233,298</u>

There were no tax benefits recognized for the tax deductions from stock options exercised or RSU and PSU awards vested during the years ended December 31, 2022, 2021 and 2020, as tax benefits increased net operating losses which were analyzed for a valuation allowance along with the Company's other deferred tax assets.

Market-Based Grants

During the three months ended March 31, 2022, the Company issued market-based grants, which are payable in cash to partially settle a vendor contract. The grants vest contingent upon the achievement of pre-determined market and service conditions. Cash payment at settlement will range from zero to approximately \$1.3 million based on the Company's total stockholder return ("TSR") relative to the performance of peer companies through September 2023. The market-based grants are classified as a liability on the Company's balance sheet and will be remeasured at each reporting period until settlement. Fair value of the market-based grants at the grant date and as of December 31, 2022 was \$0.4 million and \$0.2 million, respectively. During the year ended December 31, 2022, the Company recognized \$0.2 million of stock compensation expense in connection with these awards.

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

	Year Ended December 31, 2022
Market-Based Grants:	
Expected term (in years)	0.73 - 1.50
Expected volatility	58% - 71%
Risk-free interest rate	1.97% - 4.69%
Dividend rate	0%

Stock-Based Compensation Expense

During 2022, the Company updated the presentation of the allocation of stock-based compensation capitalized for software development. Prior periods have been recast to conform to the current presentation. The Company recorded the total stock-based compensation expense as follows (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Cost of revenue	\$ 5,468	\$ 3,678	\$ 2,966
Sales and marketing	15,917	15,936	15,836
Research and development	9,967	8,717	8,935
General and administrative	16,268	15,764	19,018
Total	<u>\$ 47,620</u>	<u>\$ 44,095</u>	<u>\$ 46,755</u>

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

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Notes to the Consolidated Financial Statements—(Continued)

(12) Basic and Diluted Net Loss per Share

The following table summarizes the computations of basic loss per share and diluted loss per share. Basic net loss per 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. The Company uses the if converted method for convertible senior notes for calculating any potential dilutive effect on diluted loss per share. (In thousands, except share and per share data)

	Year Ended December 31,		
	2022	2021	2020
Net loss	\$ (61,174)	\$ (94,796)	\$ (93,396)
Dilutive effect of convertible notes, net of tax	(18,890)	—	—
Adjusted net loss	<u>\$ (80,064)</u>	<u>\$ (94,796)</u>	<u>\$ (93,396)</u>
Weighted-average common stock outstanding — basic	39,680,440	37,962,793	34,581,144
Dilutive potential common shares related to convertible notes	5,903,019	—	—
Weighted-average common stock outstanding — diluted	<u>45,583,459</u>	<u>37,962,793</u>	<u>34,581,144</u>
Basic loss per share	\$ (1.54)	\$ (2.50)	\$ (2.70)
Diluted loss per share	\$ (1.76)	\$ (2.50)	\$ (2.70)

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

	Year Ended December 31,		
	2022	2021	2020
Convertible senior notes	—	6,080,480	6,371,882
Stock-based compensation grants	3,375,500	1,737,478	1,699,562
Total	<u>3,375,500</u>	<u>7,817,958</u>	<u>8,071,444</u>

In connection with the issuance of the 2026 Notes in March 2021, the Company paid \$35.1 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the 2026 Notes. In connection with the issuance of the 2024 Notes in December 2019, the Company paid \$44.9 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the 2024 Notes. In connection with the issuance of the 2022 Notes in November 2017, the Company paid \$12.9 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the 2022 Notes. In March 2021 and December 2019, the Company partially terminated capped call options related to the 2022 Notes and received \$10.6 million and \$5.8 million, respectively. In March 2021, the Company also modified a capped call agreement entered into in connection with the 2022 Notes and recognized modification expense of \$0.2 million in loss on extinguishment of convertible notes and capped call modification on the consolidated statement of operations. In November 2022, the Company received \$1.3 million in cash and 22,914 in the Company's shares as final settlement of the capped call options. The capped call option agreements are excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

Reserve for Unissued Shares of Common Stock

The Company is required to reserve and keep available out of its authorized but unissued shares of common stock such number of shares sufficient for the exercise of all shares granted and available for grant under the Company's 2008 Equity Incentive Plan, 2016 Plan, 2016 ESPP and 2022 Inducement Plan. The amount of such shares of the Company's common stock reserved for these purposes at December 31, 2022 was 6.6 million shares. Additionally, the Company is required to reserve and keep available out of its authorized but unissued shares of common stock shares that become issuable pursuant to the terms of the 2026 Notes and 2024 Notes.

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

(13) Income Taxes

The components of loss before income taxes are as follows (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Domestic	\$ (30,297)	\$ (90,584)	\$ (72,164)
Foreign	(33,275)	(16,791)	(23,499)
Total	<u>\$ (63,572)</u>	<u>\$ (107,375)</u>	<u>\$ (95,663)</u>

For purposes of reconciling the Company's provision for income taxes at the statutory rate and the Company's provision (benefit) for income taxes at the effective tax rate, a notional 21% tax rate was applied as follows (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Income tax at federal statutory rate	\$ (13,350)	\$ (22,549)	\$ (20,089)
Increase (decrease) in tax resulting from:			
State income tax expense, net of federal tax effect	658	(5,018)	(3,763)
Nondeductible permanent items	1,169	(87)	1,659
Executive compensation	746	4,885	6,020
Global Intangible Low-Taxed Income	3,055	—	—
Foreign rate differential	(638)	(1,060)	(156)
Gain on extinguishment of debt	—	(2,123)	—
Adoption of ASU 2020-06	(70,503)	—	—
Tax rate change	(3)	(1,039)	—
Adjustment to deferred taxes	1,980	817	(3,190)
Change in valuation allowance	67,450	23,262	25,339
Uncertain tax positions	(423)	165	151
Nonqualified stock option and performance award shortfall (windfall) upon exercise	7,745	(9,352)	(8,608)
Other	(284)	(480)	370
Total	<u>\$ (2,398)</u>	<u>\$ (12,579)</u>	<u>\$ (2,267)</u>

The difference between the statutory federal income tax rate and the Company's effective tax rate in 2022, 2021 and 2020 is primarily attributable to the effect of state income taxes, difference between the U.S. and foreign tax rates, non-deductible officer compensation, share-based compensation, true up of deferred taxes, other non-deductible permanent items, and change in valuation allowance. In addition, the Company's foreign subsidiaries are subject to varied applicable statutory income tax rates for the periods presented.

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

	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	\$ 129	\$ 67	\$ 353
State	395	49	94
Foreign	2,151	212	492
	<u>2,675</u>	<u>328</u>	<u>939</u>
Deferred:			
Federal	(48,545)	(20,181)	(15,835)
State	(17,404)	(7,634)	(6,115)
Foreign	(6,574)	(8,354)	(6,595)
	<u>(72,523)</u>	<u>(36,169)</u>	<u>(28,545)</u>
Change in valuation allowance	67,450	23,262	25,339
Total	<u>\$ (2,398)</u>	<u>\$ (12,579)</u>	<u>\$ (2,267)</u>

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

The net deferred tax assets (liabilities) are comprised of the following (in thousands):

	As of December 31,	
	2022	2021
Deferred tax assets		
Lease liability	\$ 6,094	\$ 5,945
Tax credits	185	195
Accrued expenses	3,222	3,632
Deferred revenue	1,800	2,882
Net operating loss carryforward	94,817	114,625
Other assets	7,119	10,247
Property and equipment	—	106
Intangible assets	22,843	2,662
Valuation allowance	(85,392)	(56,252)
Total net deferred tax assets	<u>50,688</u>	<u>84,042</u>
Deferred tax liabilities		
Deferred commissions	(7,193)	(6,234)
Intangible assets	(44,568)	(50,443)
Property and equipment	(550)	—
Debt discount	—	(38,156)
Right-of-use asset	(4,609)	(5,160)
Other	(4)	(131)
Total deferred tax liabilities	<u>(56,924)</u>	<u>(100,124)</u>
Total deferred income tax liabilities	<u>\$ (6,236)</u>	<u>\$ (16,082)</u>

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized based on an assessment of positive and negative evidence, including estimates of future taxable income necessary to realize future deductible amounts. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2022. Such objective evidence limits the ability to consider other subjective evidence such as its projections for future growth. On the basis of this evaluation, at December 31, 2022 and 2021, a valuation allowance of \$85.4 million and \$56.3 million, respectively, has been recorded.

As of December 31, 2022, the Company has accumulated federal and state net operating loss (“NOL”) carryforwards of \$282.6 million and \$238.1 million, respectively. Of the \$282.6 million of federal NOL carryforwards, \$40.6 million was generated before January 1, 2018 and is subject to the 20-year carryforward period (“pre-Tax Act losses”). The remaining \$242.1 million (“post-Tax Act losses”) can be carried forward indefinitely but is subject to the 80% taxable income limitation. Of the \$238.1 million of state NOL carryforwards, \$23.4 million can be carried forward indefinitely. The pre-Tax Act U.S. federal and state net operating loss carryforwards will expire in varying amounts through 2042. The Company completed a Section 382 study for the period through November 7, 2022 and determined that a Section 382 ownership change occurred on December 31, 2017 subjecting all pre-Tax Act losses to a utilization limitation; however, such limitation is not expected to result in NOLs expiring unused. Any future annual limitation may result in the expiration of NOLs before utilization. Included in the Company’s NOLs are federal and state NOLs of \$46.8 million and \$34.4 million, respectively, from various acquisitions which are subject to limitations under Section 382. The Company also completed a Section 382 study for xMatters, Inc., a wholly owned subsidiary of the Company. As a result of the study, the Company determined that out of total federal NOLs of \$64.0 million, \$0.9 million of federal NOLs generated by xMatters, Inc. prior to May 7, 2021 would not be available for utilization due to ownership changes experienced by xMatters, Inc.

As of December 31, 2022 and 2021, the Company had combined foreign net operating loss carry-forwards available to reduce future taxable income of approximately \$85.3 million and \$75.9 million, respectively. As of December 31, 2022 and 2021, valuation allowances of \$82.5 million and \$74.1 million, respectively, had been recorded against the related deferred tax assets for those loss carry-forwards that are not more likely than not to be fully utilized in reducing future taxable income.

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

The following changes occurred in the amount of unrecognized tax benefits (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Beginning balance of unrecognized tax benefits	\$ 1,490	\$ 748	\$ 597
Increases for current year tax positions	127	138	131
Increases (decreases) for prior year tax positions	(577)	577	—
Ending balance (excluding interest and penalties)	1,040	1,463	728
Interest and penalties	27	27	20
Total	<u>\$ 1,067</u>	<u>\$ 1,490</u>	<u>\$ 748</u>

For the year ended December 31, 2022, 2021 and 2020, the Company has recorded income tax (benefit) expense of (\$423,000), \$165,000 and \$151,000, respectively, related to uncertain tax positions. The Company's policy is to recognize potential interest and penalties related to unrecognized tax benefits associated with uncertain tax positions, if any, in the income tax provision. At December 31, 2022, 2021 and 2020, the Company had accrued \$27,000, \$27,000 and \$20,000, respectively, in interest and penalties related to uncertain tax positions.

The Company is subject to taxation in the United States and various states along with other foreign countries. The Company has not been notified that it is under audit by the IRS or any state, however, due to the presence of NOL carryforwards, all the income tax years remain open for examination in each of these jurisdictions. The Company has been notified of an income tax examination by the Chinese tax authorities during the first quarter of 2022. There are no other audits in any other foreign jurisdictions. The Company does not believe that it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

Deferred income taxes have not been provided for undistributed earnings of the Company's consolidated foreign subsidiaries because of the Company's intent to reinvest such earnings indefinitely in active foreign operations. At December 31, 2022, the Company had \$18.3 million in unremitted earnings that were permanently reinvested related to its consolidated foreign subsidiaries.

(14) Segment information

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

(15) Revenue Recognition

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

Primary Geographic Markets	Year Ended December 31,		
	2022	2021	2020
North America	\$ 318,348	\$ 276,677	\$ 211,254
International	113,544	91,756	59,887
Total	<u>\$ 431,892</u>	<u>\$ 368,433</u>	<u>\$ 271,141</u>

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

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

	Year Ended December 31,		
	2022	2021	2020
Subscription services	\$ 384,617	\$ 327,047	\$ 242,651
Professional services	29,252	26,022	20,410
Software licenses and other	18,023	15,364	8,080
Total	<u>\$ 431,892</u>	<u>\$ 368,433</u>	<u>\$ 271,141</u>

Contract Assets

The Company does not have material amounts of contract assets since revenue is recognized as control of goods is transferred or as services are performed. There are a small number of professional services that may occur over a period of time, but that period of time is generally very short in duration. Any contract assets that may arise are recorded in other assets in the Company's consolidated balance sheet net of an allowance for credit losses.

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 \$16.2 million and \$15.8 million as of December 31, 2022 and 2021, respectively. Noncurrent deferred costs, which primarily consist of deferred sales commissions, were \$21.4 million and \$17.0 million as of December 31, 2022 and 2021, respectively. During the years ended December 31, 2022, 2021 and 2020, amortization expense for the deferred costs was \$18.3 million, \$14.4 million and \$12.6 million, respectively. There was no impairment loss in relation to the costs capitalized.

Deferred Revenue

For the years ended December 31, 2022, 2021 and 2020, \$214.8 million, \$157.6 million and \$123.3 million, respectively, of subscription services, license and other revenue was recognized and was included in the deferred revenue balances at the beginning of the respective period.

For the years ended December 31, 2022, 2021 and 2020, \$6.8 million, \$8.6 million and \$6.6 million, respectively, of professional services revenue was recognized and was included in the deferred revenue balance at the beginning of the period.

Remaining Performance Obligations

As of December 31, 2022, approximately \$484.2 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 \$294.4 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

As of December 31, 2022, approximately \$14.5 million of revenue is expected to be recognized from remaining performance obligations for professional services contracts. The Company expects to recognize revenue on approximately \$13.0 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

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

(16) Geographic Concentrations

During 2022, the Company updated the following geographic concentration presentation. Prior period has been recast to conform to the current presentation. North America includes United States and Canada and International aggregates international revenues excluding Canada. The majority of the Company's North America revenue is generated in the United States. The majority of the Company's North America property and equipment is located in the United States.

Revenue by location is determined by the billing address of the customer. Approximately 74%, 75% and 78% of the Company's revenue was from the North America for the fiscal years ended December 31, 2022, 2021 and 2020, respectively. No other individual country comprised more than 10% of total revenue for the fiscal years ended December 31, 2022, 2021 and 2020. Property and equipment by geographic location is based on the location of the legal entity that owns the asset. As of December 31, 2022 and 2021, 79% and 81%, respectively, of the Company's property and equipment was located in North America.

(17) Employee Benefit Plan

The Company maintains a 401(k) plan for the benefit of the Company's eligible employees. The plan covers all employees who have attained minimum service requirements. The 401(k) plan allows each participant to contribute up to an amount not to exceed an annual statutory maximum. The Company may, at its discretion, make matching contributions to the 401(k) plan. There was \$2.2 million, \$2.0 million and \$1.7 million cash contributions made to the plan by the Company for the years ended December 31, 2022, 2021 and 2020, respectively. Contribution expense recognized for the 401(k) plan was \$2.0 million, \$1.9 million and \$1.7 million for the years ended December 31, 2022, 2021, and 2020, respectively.

(18) Leases

The Company's leases relate primarily to office facilities that expire on various dates from 2023 through 2031. The terms of the Company's non-cancelable operating lease arrangements typically contain fixed lease payment which increases over the term of the lease at fixed rates, rent holidays and provide for additional renewal periods. Lease expense is recognized over the term of the lease on a straight-line basis. All of the Company's leases are classified as operating leases. The Company has determined that periods covered by options to extend the Company's leases are excluded from the lease term as the Company is not reasonably certain the Company will exercise such options. The Company terminated leases related to the 2022 Strategic Realignment (as defined in Note 20). See Note 20 for details on the 2022 Strategic Realignment.

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

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

	As of December 31,	
	2022	2021
Balance sheet information		
ROU assets	\$ 17,872	\$ 18,160
Lease liabilities, current	\$ 3,797	\$ 6,356
Lease liabilities, non-current	18,742	15,328
Total lease liabilities	\$ 22,539	\$ 21,684
Supplemental data		
Weighted average remaining lease term	6.57 years	4.24 years
Weighted average discount rate	5.68%	5.99%

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

	Year Ended December 31,		
	2022	2021	2020
Cash paid for amounts included in lease liabilities	\$ 7,280	\$ 6,574	\$ 4,891
ROU assets obtained in exchange for new lease obligations	11,850	8,250	5,870

Maturities of lease liabilities as of December 31, 2022 were as follows (in thousands):

Year ending December 31,	
2023	\$ 4,768
2024	3,777
2025	3,301
2026	3,136
2027	2,902
Thereafter	8,291
Total undiscounted lease payments	26,175
Less: imputed interest	(3,636)
Total lease liabilities	\$ 22,539

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

	Year Ended December 31,		
	2022	2021	2020
Operating lease expense	\$ 6,089	\$ 6,383	\$ 5,024
Short-term lease expense ⁽¹⁾	638	832	982
	6,727	7,215	6,006
Less: Sublease income	(155)	(61)	(236)
Total lease expense	\$ 6,572	\$ 7,154	\$ 5,770

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

As of December 31, 2022, the Company does not have any leases that have not yet commenced that create significant rights and obligations.

(19) Commitments and Contingencies

For a summary of the Company's debt and lease obligations, see Notes 9 and 18, respectively.

Litigation

In April 2022, certain former shareholders of Anvil filed a claim in the United Kingdom Commercial Court against Everbridge Holdings Limited and Everbridge, Inc. The suit claims that these companies breached certain provisions of the acquisition documents relating to the issuance of Everbridge, Inc. stock, which formed part of the consideration payable for the stock in Anvil. The claimants are seeking damages for losses they purport to have suffered as a result of these alleged breaches.

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

In April 2022, a putative class action lawsuit was filed in the United States District Court for the Central District of California against the Company, Jaime Ellertson, Patrick Brickley, and David Meredith (the Company's former Chief Executive Officer) by Sylebra Capital Partners Master Fund Ltd, Sylebra Capital Parc Master Fund, and Sylebra Capital Menlo Master Fund. (collectively, "Sylebra"). In September 2022, Sylebra filed an amended and restated complaint. The lawsuit alleges violations of the federal securities laws by the Company and certain of its officers and directors arising out of purported misrepresentations in the information the Company provided to investors regarding the Company's organic and inorganic revenue growth, and the status of integrating acquisitions, and the impact of COVID-19 on the Company's business, which allegedly artificially inflated the price of the Company's stock during the period November 4, 2019 to February 24, 2022. The Company is not able to estimate the amount of the loss allegedly suffered by members of the putative class or the amount of legal costs and internal efforts associated with defending the Company and the Company's officers and directors. The Company believes that the allegations and claims made in this lawsuit are wholly without merit and intends to defend the action vigorously. In October 2022, the Company filed a motion to dismiss the lawsuit on various grounds, including failure to plead any actionable misstatement or omission, failure to establish scienter, and failure to meet the pleading requirements of the Private Securities Litigation Reform Act and other applicable law. Even if the Company were to prevail, this litigation could continue to be costly and time-consuming and divert the attention of the Company's management and key personnel from the Company's business operations. During the course of the litigation, the Company anticipates announcements of the results of hearings and motions, and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the market price of the Company's common stock may decline. If the Company is unsuccessful in defending itself in this litigation, this lawsuit could materially and adversely affect the Company's business, financial condition, results of operations and cash flows.

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

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

Employee Contracts

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

(20) Restructuring and Restructuring-Related Activities

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

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

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

In addition to restructuring costs, the Company will also incur costs that do not constitute restructuring under ASC 420, *Exit and Disposal Cost Obligations*, and which the Company instead refers to as business transformation costs. These costs consist primarily of expenditures directly related to the 2022 Strategic Realignment and include employee retention costs, professional fees and investments in automation and technology. The following table provides a summary of the Company's estimates of total pre-tax charges associated with the 2022 Strategic Realignment, by major type of cost, of which approximately \$29 million to \$31 million are expected to result in cash outlays (in millions):

	Total Estimated Amount Expected to be Incurred	
Restructuring charges:		
Workforce	\$ 9	to \$ 9
Facilities-related	5	to 6
Other	—	to —
Business transformation charges	16	to 17
Total restructuring and business transformation charges	<u>\$ 30</u>	to <u>\$ 32</u>

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

	Workforce ⁽¹⁾	Facilities-related ⁽²⁾	Other	Total
Balance at April 1, 2022	\$ —	\$ —	\$ —	\$ —
Charges	7,802	4,200	167	12,169
Charges settled in cash	(6,505)	(3,316)	(167)	(9,988)
Charges settled in non-cash	(3)	(848)	—	(851)
Balance at December 31, 2022	<u>\$ 1,294</u>	<u>\$ 36</u>	<u>\$ —</u>	<u>\$ 1,330</u>

(1) Balance at December 31, 2022 is recorded in accrued payroll and employee related liabilities in the consolidated balance sheet.

(2) Balance at December 31, 2022 is recorded in accrued expenses in the consolidated balance sheet. Charges settled in non-cash relate to the loss on disposal of assets partially offset by derecognizing the ROU asset and liability for lease terminations.

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

	Year Ended December 31, 2022
Restructuring charges	\$ 12,169
Business transformation charges:	
Cost of revenue	953
Sales and marketing	1,053
Research and development	1,014
General and administrative	2,168
Other income (expense), net	1
Total business transformation charges	<u>5,189</u>
Total restructuring and business transformation charges	<u>\$ 17,358</u>

