UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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)**	**26-2919312** **(I.R.S. Employer Identification No.)**
25 Corporate Drive, Suite 400 **Burlington, Massachusetts** **(Address of principal executive offices)**	**01803** **(Zip Code)**

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2018, the registrant had 29,651,516 shares of common stock issued and outstanding.

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

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

	As of September 30, 2018	As of December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 76,271	$ 102,754
Restricted cash	23	297
Short-term investments	26,856	42,908
Accounts receivable, net	37,033	31,699
Prepaid expenses	5,353	2,563
Deferred costs	5,842	2,429
Other current assets	3,426	811
Total current assets	154,804	183,461
Property and equipment, net	2,918	2,796
Capitalized software development costs, net	12,734	10,005
Goodwill	53,132	31,328
Intangible assets, net	22,000	8,634
Deferred costs	8,747	—
Other assets	253	189
Total assets	$ 254,588	$ 236,413
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,141	$ 2,446
Accrued payroll and employee related liabilities	14,531	11,111
Accrued expenses	3,090	1,825
Deferred revenue	82,263	70,090
Note payable	432	—
Contingent liabilities	—	682
Other current liabilities	1,242	808
Total current liabilities	105,699	86,962
Long-term liabilities:		
Deferred revenue, noncurrent	6,376	2,982
Convertible senior notes	92,916	89,481
Deferred tax liabilities	885	482
Other long term liabilities	989	515
Total liabilities	206,865	180,422
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.001, 10,000,000 shares authorized, no shares issued or outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 29,625,465 and 28,330,460 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	29	28
Additional paid-in capital	187,909	164,995
Accumulated deficit	(137,865)	(109,252)
Accumulated other comprehensive income (loss)	(2,350)	220
Total stockholders' equity	47,723	55,991
Total liabilities and stockholders' equity	$ 254,588	$ 236,413

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	$ 38,925	$ 27,312	$ 105,266	$ 75,177
Cost of revenue	12,296	8,076	33,488	22,969
Gross profit	26,629	19,236	71,778	52,208
Operating expenses:				
Sales and marketing	16,348	11,626	51,303	33,589
Research and development	10,350	5,626	30,548	16,082
General and administrative	7,130	6,375	23,609	16,640
Total operating expenses	33,828	23,627	105,460	66,311
Operating loss	(7,199)	(4,391)	(33,682)	(14,103)
Other income (expense), net:				
Interest and investment income	460	106	1,316	234
Interest expense	(1,592)	(2)	(4,736)	(5)
Other expense, net	(33)	(23)	(237)	(61)
Total other (expense) income, net	(1,165)	81	(3,657)	168
Loss before income taxes	(8,364)	(4,310)	(37,339)	(13,935)
(Provision for) benefit from income taxes	(86)	79	(371)	65
Net loss	$ (8,450)	$ (4,231)	$ (37,710)	$ (13,870)
Net loss per share attributable to common stockholders:				
Basic	$ (0.29)	$ (0.15)	$ (1.30)	$ (0.50)
Diluted	$ (0.29)	$ (0.15)	$ (1.30)	$ (0.50)
Weighted-average common shares outstanding:				
Basic	29,460,156	28,100,172	28,918,304	27,719,519
Diluted	29,460,156	28,100,172	28,918,304	27,719,519

See accompanying notes to condensed consolidated financial statements.

EVERBRIDGE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net loss	$ (8,450)	$ (4,231)	$ (37,710)	$ (13,870)
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of taxes	81	197	(2,570)	323
Total comprehensive loss	$ (8,369)	$ (4,034)	$ (40,280)	$ (13,547)

See accompanying notes to condensed consolidated financial statements.

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated— other comprehensive income (loss)	Total
	Shares	Par value				
Balance at December 31, 2017	28,330,460	$ 28	$ 164,995	$ (109,252)	$ 220	$ 55,991
Cumulative effect of adoption of ASU 2014-09, net of taxes	—	—	—	9,097	—	9,097
Stock-based compensation	—	—	20,257	—	—	20,257
Vesting of restricted stock units	671,131	—	—	—	—	—
Restricted stock units withheld to settle employee tax withholding liability	(154,469)	—	(7,921)	—	—	(7,921)
Exercise of stock options	703,826	1	8,820	—	—	8,821
Issuance of shares under employee stock purchase plan	74,517	—	1,758	—	—	1,758
Other comprehensive income	—	—	—	—	(2,570)	(2,570)
Net loss	—	—	—	(37,710)	—	(37,710)
Balance at September 30, 2018	29,625,465	$ 29	$ 187,909	$ (137,865)	$ (2,350)	$ 47,723

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Net loss	$ (37,710)	$ (13,870)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,172	7,646
Amortization of deferred costs	3,928	4,140
Loss on disposal of assets	112	15
Deferred income taxes	101	62
Accretion of interest on convertible senior notes	3,435	—
Non-cash investment income	(308)	(74)
Provision for doubtful accounts and sales reserve	158	588
Change in fair value of contingent consideration	(250)	—
Stock-based compensation	20,007	4,838
Increase (decrease) in operating assets and liabilities:		
Accounts receivable	1,524	(3,591)
Prepaid expenses	(2,439)	(1,552)
Deferred costs	(6,991)	216
Other assets	(1,584)	(5,336)
Accounts payable	(113)	820
Accrued payroll and employee related liabilities	2,109	2,263
Accrued expenses	(621)	(54)
Deferred revenue	7,237	7,801
Other liabilities	457	467
Net cash (used in) provided by operating activities	(776)	4,379
Cash flows from investing activities:		
Capital expenditures	(855)	(1,337)
Proceeds from sale leaseback	—	794
Payments for acquisition of business, net of acquired cash	(35,857)	(21,235)
Purchase of short-term investments	(57,709)	(29,955)
Maturities of short-term investments	74,069	6,000
Additions to intangibles	(184)	—
Additions to capitalized software development costs	(6,722)	(4,586)
Net cash used in investing activities	(27,258)	(50,319)
Cash flows from financing activities:		
Restricted stock units withheld to settle employee tax withholding liability	(7,921)	—
Principal payments on capital leases	(61)	—
Payment of contingent consideration	(431)	(3,750)
Payment on note payable	(59)	—
Proceeds from follow on offering, net	—	10,444
Payments of public offering costs	—	(872)
Payments of debt issuance costs	(84)	(40)
Proceeds from employee stock purchase plan	1,758	1,540
Proceeds from stock option exercises	8,821	2,087
Net cash provided by financing activities	2,023	9,409
Effect of exchange rates on cash and cash equivalents	(746)	(309)
Net decrease in cash, cash equivalents and restricted cash	(26,757)	(36,840)
Cash, cash equivalents and restricted cash—beginning of period	103,051	60,765
Cash, cash equivalents and restricted cash—end of period	$ 76,294	$ 23,925
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 771	$ —
Taxes, net of refunds received	43	25
Supplemental disclosure of non-cash activities:		
Capitalized assets included in accounts payable and accrued expenses	278	24
Debt issuance costs included in accounts payable and accrued expenses	—	100
Note payable issued for asset acquisition	52	—
Stock-based compensation capitalized for software development	250	34

See accompanying notes to condensed consolidated financial statements.

Everbridge, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

(1) Business and Nature of Operations

Everbridge, Inc., a Delaware corporation (together with its wholly-owned subsidiaries, referred to as Everbridge or the Company), is a global software company that provides critical communications and enterprise safety applications that enable customers to automate and accelerate the process of keeping people safe and businesses running during critical events. The Company's SaaS-based platform enables the Company's customers to quickly and reliably deliver messaging to a large group of people during critical situations. The Company's enterprise applications, such as Mass Notification, Incident Management, IT Alerting, Safety Connection, Community Engagement, Secure Messaging, Crisis Commander and Visual Command Center, automate numerous critical communications processes. The Company generates revenue primarily from subscription fees to the Company's enterprise applications. The Company has operations in the United States, Norway, India, the Netherlands, Sweden, England and China.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP and applicable rules and regulations of the Securities and Exchange Commission, or the SEC, regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The condensed consolidated balance sheet as of December 31, 2017, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by GAAP on an annual reporting basis.

Certain reclassifications have been made to conform prior-year amounts to the current-year presentation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year 2018 or any future period.

Effective January 1, 2018, the Company adopted the requirements of Accounting Standards Update ASU, No. 2014-09, Revenue from Contracts with Customers, as discussed in this Note 2 and Note 15.

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with 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, allowances for doubtful accounts, the fair value of assets acquired and liabilities assumed in business combinations, 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 and certain market-based performance equity awards.

Concentrations of Credit and Business Risk

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

The Company maintains cash balances at several banks. Accounts located in the United States are insured by the Federal Deposit Insurance Corporation, or 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, Sweden and the United Kingdom and are generally denominated in U.S. dollars, Norwegian Krone, Swedish Kronor or British Pounds. Each reporting period, the Company reevaluates each customer's ability to satisfy credit obligations and maintains an allowance for doubtful accounts based on the evaluations. No single customer comprised more than 10% of the Company's total revenue or accounts receivable for the three and nine months ended September 30, 2018 and 2017.

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 and cash equivalents are recorded at cost, which approximates fair value. As of September 30, 2018, $47.8 million of the Company's cash equivalents were invested in money market funds.

Short-Term Investments

Short-term investments consist of highly liquid investments, primarily commercial paper, U.S. Treasury and U.S. agency securities, with maturities over three months from the date of purchase and less than 12 months from the date of the balance sheet. Debt securities, money market funds and U.S. agency bonds that the Company has the ability and positive intent to hold to maturity are carried at amortized cost, which approximates fair value. Short-term investments of $26.9 million and $42.9 million at September 30, 2018 and December 31, 2017, respectively, were classified as held-to-maturity and primarily comprised of U.S. treasury and U.S. government and agency securities. All held-to-maturity securities at September 30, 2018 have maturity dates within one year.

Significant Accounting Policies

Except for the accounting policies for revenue recognition and deferred commissions that were updated, as set forth below, as a result of adopting ASU No. 2014-09, there have been no changes to the Company's significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 12, 2018, that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Revenue Recognition

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

The Company determines revenue recognition through the following steps:

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

Subscription Services Revenues

Subscription services revenues primarily consist of fees that provide customers access to one or more of the Company's hosted applications for critical communications and enterprise safety applications, 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 contracts generally provide 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 are billed on a time and materials basis and 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 of the contract performed.

Contracts with Multiple Performance Obligations

Some 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. 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 its contracts, the applications sold, customer demographics, geographic locations, and the number and types of users within its contracts.

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 doubtful accounts, which is not material. Other receivables represent unbilled receivables related to subscription and professional services contracts.

Deferred Costs

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions related to initial contracts are deferred and then amortized on a straight-line basis over a period of benefit that the Company has determined to be four years. 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. Amortization of deferred commissions is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

Deferred Revenue

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

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

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers ("Topic 606")*. Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition ("Topic 605"), and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Company refers to Topic 606 and Subtopic 340-40 as the "new revenue standard" or "ASC 606."

The Company adopted the requirements of the new revenue standard as of January 1, 2018, utilizing the modified retrospective method of transition. Adoption of the new revenue standard resulted in changes to the Company's accounting policies for revenue recognition and deferred commissions as detailed below. The Company applied the new standard using a practical expedient where the consideration allocated to the remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue for all reporting periods presented before the date of the initial application is not disclosed.

Based on the results of the Company's evaluation, the adoption of the new revenue standard did not have a material impact on its revenue for the three or nine months ended September 30, 2018. The primary impact of adopting the new revenue standard relates to the deferral of incremental commission costs of obtaining subscription contracts. Under Topic 605, the Company deferred only direct and incremental commission costs to obtain a contract and amortized those costs over one year. Under the new revenue standard, the Company defers all incremental commission costs to obtain the contract. The Company amortizes these costs over a period of benefit that the Company has determined to be four years. Adoption of the new revenue standard 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 the new revenue standard, see Note 15.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which provides additional guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update provide new guidance to determine when an integrated set of assets and activities (collectively referred to as a ''set'') is not a business. The new guidance requires that, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The new guidance reduces the number of transactions that need to be evaluated as a business. The Company adopted this amendment as of January 1, 2018. The adoption of ASU 2017-01 did not have a material impact on the Company's financial statements for the three or nine months ended September 30, 2018.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows, Restricted Cash (Topic 230), which requires that a statement of cash flows explain the change during the period for the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective for the fiscal year beginning January 1, 2018. The Company adopted ASU No. 2016-18 retrospectively, effective January 1, 2018. The adoption of ASU 2016-08 did not have a material impact on the Company's financial statements for the period ended September 30, 2018 and September 30, 2017, respectively.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments (Topic 230), which addresses eight specific cash flow issues to reduce the diversity in practice for appropriate classification on the statement of cash flows. The Company adopted this guidance during the first quarter of 2018, and there was no significant effect of the standard on its condensed consolidated financial statements.

Recently Issued Accounting Guidance Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*, to require lessees to recognize the assets and liabilities on the balance sheet for the rights and obligations created by most leases and continue to recognize expenses on the income statements over the lease term. It will also require disclosure designed to give financial statement users information on the amount, timing, and uncertainly of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. As a result of this new standard, the Company expects to record a lease commitment liability and corresponding right-of-use asset for our leases designated as operating leases in Note 16, "Commitments and Contingencies," upon adoption. The Company currently plans to adopt the standard using the transition method provided by ASC Update No. 2018-11, *Leases* (Topic 842): *Targeted Improvements*. Under this method, the Company plans to initially apply the new leasing rules on January 1, 2019, and recognize the cumulative effect of initially applying the standard as an adjustment to the Company's opening balance of retained earnings, rather than at the earliest comparative period presented in the financial statements. While the Company is still in the process of determining the effect that the new standard will have on its financial position and results of operations, the Company expects to recognize additional assets and corresponding liabilities on its consolidated balance sheets, as a result of its operating lease portfolio as it exists at the date the Company adopts the new standard on January 1, 2019.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act of 2017. The new standard is effective for the Company beginning on January 1, 2019, with early adoption permitted. The Company will adopt ASU 2018-02 effective January 1, 2019. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

Other accounting standard updates effective for interim and annual periods beginning after December 31, 2018 are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

(3) Accounts Receivable, Net

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

	As of September 30, 2018	As of December 31, 2017
Accounts receivable	$ 37,853	$ 32,662
Allowance for doubtful accounts	(820)	(963)
Net accounts receivable	$ 37,033	$ 31,699

Bad debt expense was $0.1 million and $0.2 million for the three months ended September 30, 2018 and 2017, respectively. Bad debt expense was $0.1 million and $0.6 million for the nine months ended September 30, 2018 and 2017, respectively.

The following table summarizes the changes in the allowance for doubtful accounts (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	$ (716)	$ (610)	$ (863)	$ (374)
Additions	(134)	(195)	(25)	(484)
Write-offs	30	11	68	64
Balance, end of period	$ (820)	$ (794)	$ (820)	$ (794)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	$ (209)	$ (116)	$ (100)	$ (45)
Additions	—	(24)	(133)	(104)
Write-offs	69	15	93	24
Balance, end of period	$ (140)	$ (125)	$ (140)	$ (125)

As a result of the adoption of the new revenue standard, the Company reclassified its sales reserve from a current asset to a current liability within the consolidated financial statements, effective January 1, 2018.

(4) Property and Equipment, Net

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

	Useful life in years	As of September 30, 2018	As of December 31, 2017
Furniture, equipment and leasehold improvements	5	$ 1,956	$ 1,854
System hardware	5	1,404	1,623
Office computers	3	3,574	2,586
Computer and system software	3	1,385	1,193
		8,319	7,256
Less accumulated depreciation and amortization		(5,401)	(4,460)
Property and equipment, net		$ 2,918	$ 2,796

Depreciation and amortization expense for property and equipment was $0.5 million and $0.4 million for the three months ended September 30, 2018 and 2017, respectively. Depreciation and amortization expense for property and equipment was $1.4 million and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively.

(5) Capitalized Software Development Costs

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

	Gross carrying amount	Amortization period	As of September 30, 2018 Accumulated amortization	Net carrying amount
Capitalized software development costs	$ 43,915	3 years	$ (31,181)	$ 12,734
Total capitalized software development costs	$ 43,915		$ (31,181)	$ 12,734

	Gross carrying amount	Amortization period	As of December 31, 2017 Accumulated amortization	Net carrying amount
Capitalized software development costs	$ 36,899	3 years	$ (26,894)	$ 10,005
Total capitalized software development costs	$ 36,899		$ (26,894)	$ 10,005

The Company capitalized software development costs of $7.0 million and $4.6 million for the nine months ended September 30, 2018 and 2017, respectively. The Company capitalized software development costs of $2.7 million and $1.5 million for the three months ended September 30, 2018 and 2017, respectively.

Amortization expense for capitalized software development costs was $1.5 million and $1.2 million for the three months ended September 30, 2018 and 2017, respectively. Amortization expense for capitalized software development was $4.3 million and $3.7 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization of capitalized software development costs is classified within cost of revenue in the consolidated statements of operations.

The expected amortization of capitalized software development costs, as of September 30, 2018, for each of the following years is as follows (in thousands):

	Amounts
2018 (for the remaining three months)	$ 1,751
2019	5,775
2020	3,778
2021	1,430
	$ 12,734

(6) Fair Value Measurements

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

Certain assets, including long-lived assets, goodwill and intangible assets are also subject to measurement at fair value on a non-recurring basis if they are deemed to be impaired as a result of an impairment review. For the nine months ended September 30, 2018 and year ended December 31, 2017, no impairments were identified.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017 by level within the fair value hierarchy. Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	As of September 30, 2018			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in thousands)			
Assets:				
Cash equivalents:				
Money market funds	$ 47,747	—	—	$ 47,747
U.S. treasury securities	—	14,987	—	14,987
U.S. government and agency securities	—	4,989	—	4,989
Short-term investments:				
U.S. treasury securities	—	1,490	—	1,490
U.S. government and agency securities	—	25,366	—	25,366
Total financial assets	**$ 47,747**	**$ 46,832**	**$ —**	**$ 94,579**

	As of December 31, 2017			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in thousands)			
Assets:				
Cash equivalents:				
Money market funds	$ 35,521	—	—	$ 35,521
U.S. treasury securities	—	11,974		11,974
U.S. government and agency securities	—	50,352	—	50,352
Short-term investments:				
U.S. treasury securities	—	12,972	—	12,972
U.S. government and agency securities	—	29,936	—	29,936
Total financial assets	**$ 35,521**	**$ 105,234**	**$ —**	**$ 140,755**
Liabilities:				
Contingent consideration	—	—	$ 682	$ 682
Total financial liabilities	**$ —**	**$ —**	**$ 682**	**$ 682**

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

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

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

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

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

The Company’s assets that are measured by management at fair value on a recurring basis are generally classified within Level 1 or Level 2 of the fair value hierarchy. The Company did not have any transfers into and out of Level 1 or Level 2 during the nine months ended September 30, 2018.

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. At September 30, 2018 the Company's Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities.

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

		Amount
Fair Value at December 31, 2017	**$**	**682**
Foreign currency translation		(1)
Change in fair value		(250)
Payments made during the year		(431)
Balance at September 30, 2018	**$**	—

The Company estimates the fair value of the convertible senior notes based on their last actively traded prices (Level 1) or market-observable inputs (Level 2). As of September 30, 2018 and December 31, 2017 the fair value of the convertible senior notes was determined to be $204.3 million and $126.9 million, respectively, and the carrying value of the notes was $92.9 million and $89.5 million, respectively.

(7) Goodwill and Intangible Assets, Net

Goodwill was $53.1 million and $31.3 million as of September 30, 2018 and December 31, 2017, respectively. There were no impairments recorded against goodwill during the nine months ended September 30, 2018 and for the year ended December 31, 2017. The following table displays the changes in the gross carrying amount of goodwill (in thousands):

		Amount
Balance at December 31, 2017	**$**	**31,328**
Foreign currency translation		(1,090)
Increase due to acquisitions		22,894
Balance at September 30, 2018	**$**	**53,132**

Intangible assets consisted of the following (in thousands):

			As of September 30, 2018	
	Gross carrying amount	Weighted average life (years)	Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	$ 5,736	3.03	$ (3,006)	$ 2,730
Tradenames	3,253	4.43	(1,318)	1,935
Non-compete	240	2.00	(200)	40
Customer relationships	23,836	5.00	(6,541)	17,295
Total intangible assets	$ 33,065		$ (11,065)	$ 22,000

			As of December 31, 2017	
	Gross carrying amount	Weighted average life (years)	Accumulated amortization	Net carrying amount
Amortizable intangible assets:				
Developed technology	$ 4,065	3.04	$ (2,017)	$ 2,048
Tradenames	2,495	5.18	(701)	1,794
Non-compete	240	2.00	(110)	130
Customer relationships	8,556	5.00	(3,894)	4,662
Total intangible assets	$ 15,356		$ (6,722)	$ 8,634

Amortization expense for intangible assets was $1.9 million and $0.9 million for the three months ended September 30, 2018 and 2017, respectively. Amortization expense for intangible assets was $4.5 million and $2.4 million for the nine months ended September 30, 2018 and 2017, respectively.

The expected amortization of the intangible assets, as of September 30, 2018, for each of the next five years and thereafter is as follows (in thousands):

		Amounts
2018 (for the remaining three months)	$	1,880
2019		6,428
2020		5,044
2021		4,556
2022		3,251
Thereafter		841
	$	22,000

(8) Acquisitions

2018 Acquisitions

The Company accounted for the acquisitions of Unified Messaging Systems ASA, Respond B.V. and PlanetRisk, Inc. using the acquisition method of accounting for business combinations under ASC 805, *Business Combinations*. The total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date.

As the Company finalizes its estimation of the fair value of the assets acquired and liabilities assumed, additional adjustments may be recorded during the measurement period (a period not to exceed 12 months). 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. The finalization of the acquisition accounting assessment may result in a change in the valuation of the deferred tax assets, intangibles assets, goodwill, deferred revenue and deferred tax liabilities, which could have a material impact on the Company's results of operations and financial position.

Unified Messaging Systems ASA

On April 3, 2018, the Company acquired Unified Messaging Systems ASA, or UMS, in exchange for cash consideration of $31.9 million, net of cash acquired. UMS is an industry leader in the area of critical communication and population alerting systems and is headquartered in Oslo, Norway. The Company acquired UMS for its customer base and to complement some of the existing facets of the Company's business with existing customers.

The following table summarizes the allocation of the purchase consideration and the Company's preliminary estimate of acquisition date fair values of the assets acquired and the liabilities assumed for the acquisition of UMS made by the Company. The following table also summarizes the aggregate consideration for UMS as of September 30, 2018 (in thousands):

	UMS
Assets acquired	
Accounts receivable	3,834
Other assets	1,383
Property and equipment	27
Trade names	520
Acquired technology	1,460
Customer relationships	13,800
Goodwill	20,201
Total assets acquired	$ 41,225
Liabilities assumed	
Accounts payable and accrued expenses	3,981
Deferred revenue	5,210
Other liabilities	150
Net assets acquired	$ 31,884
Consideration paid	
Cash paid, net of cash acquired	31,884
Total	$ 31,884

The weighted average useful life of all identified acquired intangible assets is 4.68 years. The weighted average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 5.0 years and 1.0 years, respectively. Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method and the estimated useful lives of one to five years. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets.

As a result of the acquisition, the Company recorded $20.2 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of UMS's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of UMS 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 UMS acquisition is not deductible for income tax purposes.

For the three and nine months ended September 30, 2018, the Company incurred transaction costs of none and $0.4 million, respectively, in connection with the UMS acquisition, which were expensed as incurred and included in general and administrative expenses within the accompanying consolidated statements of operations.

PlanetRisk, Inc.

On May 1, 2018, the Company acquired certain assets from PlanetRisk, Inc., or PlanetRisk, in exchange for cash consideration of $2.0 million. PlanetRisk is a provider of data analytics and visualization solutions and is headquartered in Tysons Corner, Virginia. The Company acquired these assets from PlanetRisk for its customer base and to complement some of the existing facets of the Company's business with existing products.

The following table summarizes the allocation of the purchase consideration and the Company's preliminary estimate of acquisition date fair values of the assets acquired and the liabilities assumed for the acquisition of PlanetRisk made by the Company. The following table also summarizes the aggregate consideration for PlanetRisk as of September 30, 2018 (in thousands):

		PlanetRisk
Assets acquired		
Accounts receivable		2,862
Property and equipment		488
Acquired technology		160
Customer relationships		1,100
Goodwill		1,205
Total assets acquired	$	5,815
Liabilities assumed		
Accounts payable and accrued expenses		694
Deferred revenue		2,810
Other liabilities		290
Net assets acquired	$	2,021
Consideration paid		
Cash paid, net of cash acquired		2,021
Total	$	2,021

The weighted average useful life of all identified acquired intangible assets is 4.75 years. The weighted average useful lives for acquired technologies and customer relationships are 3.0 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 and the estimated useful lives of three to five years. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets.

As a result of the acquisition, the Company recorded $1.2 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of PlanetRisk's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of PlanetRisk 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 PlanetRisk acquisition is deductible for income tax purposes.

For the three and nine months ended September 30, 2018, the Company incurred transaction costs of none and $0.1 million, respectively, in connection with the PlanetRisk acquisition, which were expensed as incurred and included in general and administrative expenses within the accompanying consolidated statements of operations.

Respond Acquisition

On May 18, 2018, the Company acquired Respond B.V., or Respond, in exchange for current cash consideration of $2.0 million, net of cash acquired and issued a note to be paid one year after the transaction date in the amount of $0.4 million, for a total purchase price of $2.3 million. Respond is a provider of critical communication solutions and is headquartered in the Netherlands. The Company acquired Respond for its customer base and to complement some of the existing facets of the Company's business with its existing customers.

The following table summarizes the allocation of the purchase consideration and the Company's preliminary estimate of acquisition date fair values of the assets acquired and the liabilities assumed for the acquisition of Respond made by the Company. The following table also summarizes the aggregate consideration for Respond as of September 30, 2018 (in thousands):

		Respond
Assets acquired		
Accounts receivable		86
Other assets		87
Property and equipment		19
Trade names		80
Acquired technology		160
Customer relationships		1,100
Goodwill		1,488
Total assets acquired	$	3,020
Liabilities assumed		
Accounts payable and accrued expenses		208
Deferred revenue		220
Other liabilities		257
Net assets acquired	$	2,335
Consideration paid		
Cash paid, net of cash acquired		1,952
Note payable		383
Total	$	2,335

The weighted average useful life of all identified acquired intangible assets is 4.63 years. The weighted average useful lives for acquired technologies, customer relationships and trade names are 3.0 years, 5.0 years and 1.0 years, respectively. Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method and the estimated useful lives of one to five years. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets.

As a result of the acquisition, the Company recorded $1.5 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of Respond's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of Respond 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 Respond acquisition is not deductible for income tax purposes.

For the three and nine months ended September 30, 2018, the Company incurred transaction costs of none and $0.1 million, respectively, in connection with the Respond acquisition, which were expensed as incurred and included in general and administrative expenses within the accompanying consolidated statements of operations.

Neither the investment in the assets nor the results of operations of the three combined acquisitions were significant to the Company's consolidated financial position or results of operations, and thus pro forma information is not presented.

2017 Acquisitions

IDV Solutions

On January 27, 2017, the Company acquired IDV Solutions, or IDV, in exchange for current cash consideration of $21.2 million, net of cash acquired and the fair value of contingent future consideration. As a result of the acquisition, the Company recorded $21.2 million of goodwill. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities with respect to the integration of IDV's products with the Company's other solutions. The Company believes that the factors listed above in relation to the purchase of IDV 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 IDV acquisition was deductible for income tax purposes. The operations of the IDV business are included in the Company's operating results since the date of acquisition.

Unaudited Pro Forma Financial Information

The following unaudited pro forma statement of operations data presents the results of the Company's acquisition of IDV completed during the year ended December 31, 2017, assuming that the business acquisition was completed during 2017 and had occurred on January 1, 2017. The unaudited pro forma statement of operations data below includes adjustments for additional amortization expense related to acquired intangible assets and depreciation assuming the 2017 acquisitions had occurred on January 1, 2017.

	Revenue	Net income (loss)
Results of acquired business included in the nine months ended (in thousands):		
From the acquisition date to September 30, 2017	$ 4,900	$ (2,274)
For the nine months ended September 30, 2017 pro forma	$ 5,437	$ (2,419)

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Basic and diluted earnings per share pro forma	$ (0.02)	$ (0.09)

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated at January 1, 2017 nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable.

(9) Convertible Senior Notes

In November 2017, the Company issued $115.0 million aggregate principal amount of 1.50% convertible senior notes, or the Notes, due November 1, 2022, unless earlier repurchased by the Company or converted by the holder pursuant to their terms. Interest is payable semiannually in arrears on May 1 and November 1 of each year, commencing on May 1, 2018.

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

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

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

Prior to the close of business on the business day immediately preceding May 1, 2022, the Notes will be convertible at the option of holders during certain periods, only upon satisfaction of certain conditions set forth below. On or after May 1, 2022, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at the conversion rate at any time regardless of whether the conditions set forth below have been met.

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

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2018 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

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

Based on the market price of the Company's common stock during the 30 trading days preceding September 30, 2018, the Notes are convertible at the option of the debt holder as of September 30, 2018. No debt holders have exercised their right for conversion as of September 30, 2018. The Notes are classified as long-term on the consolidated balance sheet as of September 30, 2018 as it's the Company's intent to settle all of the debt at maturity.

The Notes consist of the following (in thousands):

	As of	
	September 30, 2018	December 31, 2017
Liability component:		
Principal	$ 115,000	$ 115,000
Less: debt discount, net of amortization	(22,084)	(25,519)
Net carrying amount	$ 92,916	$ 89,481
Equity component (a)	22,094	22,094

a) Recorded in the consolidated balance sheet within additional paid-in capital, net of $0.8 million transaction costs in equity as of December 31, 2017.

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

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
1.50% coupon	$ 432	$ 1,301
Amortization of debt discount and transaction costs	1,160	3,435
	$ 1,592	$ 4,736

As of September 30, 2018 and December 31, 2017, the fair value of the 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 Notes in an over-the-counter market (Level 2), and carrying value of debt instruments (carrying value excludes the equity component of the Company's convertible notes classified in equity) were as follows (in thousands):

	September 30, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible senior notes	$ 204,344	$ 92,916	$ 126,931	$ 89,481

In connection with the issuance of the Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and others. The capped call transactions are expected to reduce potential dilution of earnings per share upon conversion of the Notes. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the Notes, with an initial strike price of approximately $33.71 per share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately $47.20. The capped calls cover, subject to anti-dilution adjustments, approximately 2,436,570 shares of common stock. The cost of the purchased capped calls of $12.9 million was recorded to shareholders' equity as of December 31, 2017 and will not be re-measured.

Based on the closing price of the Company's common stock of $57.64 on September 28, 2018, the if-converted value of the Notes was more than their respective principal amounts.

(10) Stockholders' Equity

Preferred Stock

As of September 30, 2018, the Company had authorized 10,000,000 shares of preferred stock, par value $0.001, of which no shares were outstanding.

Common Stock

As of September 30, 2018, the Company had authorized 100,000,000 shares of common stock, par value $0.001. Holders of common stock are entitled to one vote per share. At September 30, 2018 and December 31, 2017, there were 29,625,465 and 28,330,460 shares of common stock issued and outstanding, respectively.

(11) Stock Plans and Stock-Based Compensation

The Company's 2016 Equity Incentive Plan, or 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. A total of 3,893,118 shares of the Company's common stock were initially reserved for issuance under the 2016 Plan, which is the sum of (1) 2,000,000 shares, (2) the number of shares reserved for issuance under the Company's 2008 Equity Incentive Plan or the 2008 Plan, at the time the 2016 Plan became effective (up to a maximum of 42,934 shares) and (3) shares subject to stock options or other stock awards granted under the 2008 Plan that would have otherwise returned to the Company's 2008 Plan (up to a maximum of 1,850,184 shares). The number of shares of common stock reserved for issuance under the 2016 Plan will automatically increase on January 1 of each year, beginning on January 1, 2017, 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.

As a result of the adoption of the 2016 Plan, no further grants may be made under the 2008 Plan. The 2008 Plan provided for the grant of stock options to the Company's employees, directors and consultants. Stock option awards were granted with an exercise price equal to the fair market value of the Company's common stock at the date of grant as determined by the Company's board of directors. The option awards generally vested over four years and were exercisable any time after vesting. The stock options expire ten years after the date of grant. As of September 30, 2018 there were an aggregate of 6,890,701 shares reserved for issuance under the 2008 Plan and the 2016 Plan and 1,477,556 available to be issued under the 2016 Plan.

2016 Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan, or the 2016 ESPP, became effective on September 15, 2016. A total of 500,000 shares of the Company's common stock were initially reserved for issuance under the 2016 Plan. The number of shares reserved for issuance under the 2016 ESPP will automatically increase on January 1 of each year, beginning on January 1, 2017, 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. Except for the initial offering period, the 2016 ESPP provides for separate six-month offering periods beginning each March and September of each fiscal year.

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

For the nine months ended September 30, 2018 and 2017, 74,477 and 128,786 shares of common stock were purchased under the 2016 ESPP, respectively. The 2016 ESPP is considered compensatory for purposes of stock-based compensation expense. The Company recorded stock-based compensation expense of $0.2 million and $0.2 million for the three months ended September 30, 2018 and 2017, respectively. The Company recorded stock-based compensation expense of $0.5 million and $0.3 million for the nine months ended September 30, 2018 and 2017, respectively.

Stock Options

The Company recorded stock-based compensation expense of $0.8 million and $1.2 million for the three months ended September 30, 2018 and 2017, respectively. The Company recorded stock-based compensation expense of $4.7 million and $3.2 million for the nine months ended September 30, 2018 and 2017, respectively.

The total intrinsic value of options exercised for the nine months ended September 30, 2018 was $23.1 million. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each option. Based on the fair market value of the Company's common stock at September 30, 2018, the total intrinsic value of all outstanding options was $65.0 million.

The fair value of stock option grants and ESPP are determined using the Black-Scholes option pricing model with the following weighted average assumptions. In addition, the fair value per share on grant date is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Employee Stock Options:				
Market price per share on grant date	$58.75	$23.17 - $23.60	$33.06 - $58.75	$18.05 - $24.87
Expected term (in years)	6.00	6.00	6.00	6.00 - 6.11
Expected volatility	45%	60%	45% - 50%	60%
Risk-free interest rate	2.72%	1.82% - 1.93%	2.72% - 2.98%	1.82% - 2.47%
Dividend rate	0%	0%	0%	0%
Employee Stock Purchase Plan:				
Expected term (in years)	0.50	0.50	0.50	0.50
Expected volatility	45% - 50%	60%	45% - 60%	60%
Risk-free interest rate	1.89% - 2.33%	1.18%	1.18% - 2.33%	0.45% - 1.18%
Dividend rate	0%	0%	0%	0%

(1) The expected term represents the period that the stock-based compensation awards are expected to be outstanding. Since the Company did not have sufficient historical information to develop reasonable expectations about future exercise behavior, the Company used the simplified method to compute expected term, which reflects the average of the time-to-vesting and the contractual life;

(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 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 options; and

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

Total unrecognized compensation cost related to nonvested stock options was approximately $14.6 million as of September 30, 2018, and is expected to be recognized over a weighted average period of 2.8 years.

A summary of activities under the 2008 Plan and the 2016 Plan is shown as follows for the year ended December 31, 2017 and the nine months ended September 30, 2018:

	Stock options outstanding	Weighted average exercise price
Outstanding at December 31, 2016	1,884,425	$ 10.02
Granted	1,096,881	22.84
Exercised	(497,175)	5.77
Forfeited	(43,841)	15.60
Outstanding at December 31, 2017	2,440,290	16.55
Granted	557,896	35.01
Exercised	(703,826)	12.53
Forfeited	(457,689)	22.38
Outstanding at September 30, 2018	1,836,671	$ 22.24

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

Stock options outstanding, and options exercisable and vested are as follows:

Outstanding as of September 30, 2018	Remaining contractual life (years)	Weighted average exercise price	Exercisable as of September 30, 2018	Remaining contractual life (years)	Weighted average exercise price
1,836,671	8.13	$ 22.24	515,735	6.89	$ 13.51

Outstanding as of December 31, 2017	Remaining contractual life (years)	Weighted average exercise price	Exercisable as of December 31, 2017	Remaining contractual life (years)	Weighted average exercise price
2,440,290	8.28	$ 16.55	748,148	7.00	$ 10.39

Vested and nonvested stock option activity was as follows:

	Vested		Nonvested	
	Options outstanding	Weighted average exercise price	Options outstanding	Weighted average exercise price
Outstanding at September 30, 2018	515,735	$ 13.51	1,320,936	$ 25.65
Outstanding at December 31, 2017	748,148	$ 10.39	1,692,142	$ 19.27

Restricted Stock Units

The Company has granted 555,364 restricted stock units, or RSUs, to members of its senior management and certain other employees pursuant to the 2016 Plan since inception. 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. During the three and nine months ended September 30, 2018 the Company recorded $2.4 million and $4.4 million, respectively, of stock-based compensation related to the RSUs that had been issued to-date. $0.4 million of stock-based compensation expense was recorded for the three and nine months ended September 30, 2017, respectively. There were 138,155 RSUs that vested during the nine months ended September 30, 2018. There were no RSUs that vested during the nine months ended September 30, 2017.

As of September 30, 2018, there was $12.4 million of unrecognized compensation expense related to unvested employee RSU awards which is expected to be recognized over a weighted-average period of approximately 2.43 years. For RSUs subject to graded vesting, the Company recognizes compensation cost on a straight-line basis over the service period for the entire award.

Performance-Based Restricted Stock Units

As of September 30, 2018, the Company has granted 93,362 performance-based restricted stock units, or PSUs, to members of its management pursuant to the 2016 Plan. The PSUs vest based on the Company achieving certain revenue growth thresholds which range from 20% to 40% compounded annual growth over a measurement period of two years for the first 50% of each grant of PSU's and three years for the remaining PSUs. The vesting of the PSU's is subject to the employee's continued employment with the Company through the date of achievement. The share price of the Company's common stock on the date of issuance of the PSUs ranged from $43.86 to $58.75per share. 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. The Company has assessed the probability of achievement of the award at 100% based on past performance of achievement of the performance metric. Compensation cost is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions. For the three and nine months ended September 30, 2018, the Company recognized $0.2 million and $0.4 million, respectively, for stock compensation expense in connection with these awards. No stock-based compensation expense was recorded for the three and nine months ended September 30, 2017, respectively.

As of September 30, 2018, there was $4.8 million of unrecognized compensation expense related to unvested PSUs that would be recognized if all of the performance targets were met, which is expected to be recognized over a weighted-average period of approximately 2.75 years. The Company recognizes compensation cost on a straight-line basis over the service period for the entire award.

None of the PSUs had vested as of September 30, 2018.

Market-Based Restricted Stock Units

The Company has granted 560,015 market-based restricted stock units, or market-based RSUs, to members of its senior management and certain other employees pursuant to the 2016 Plan. The market-based RSUs vest based on the Company achieving certain stock price thresholds, which range from $35 per share to $65 per share for 30 consecutive trading days as reported by The Nasdaq Stock Market, LLC, subject to the employee's continued employment with the Company through the date of achievement. The share price of the Company's common stock on the date of issuance of the market-based RSUs was $23.16 - $51.99 per share. The fair value is based on values calculated under the Monte Carlo simulation model on the grant date. The key estimates used in the Monte-Carlo simulation were a risk-free rate of 2.26% - 2.85%, dividend yield of zero, expected term of 10 years and volatility of 50% - 60%. Compensation cost is not adjusted in future periods for subsequent changes in the expected outcome of market related conditions. For the three and nine months ended September 30, 2018, the Company recognized $0.1 million and $10.3 million, respectively, of stock compensation expense in connection with these awards. $1.0 million of stock-based compensation expense was recorded for the three and nine months ended September 30, 2017, respectively.

As of September 30, 2018, there was $0.1 million of unrecognized compensation expense related to unvested market based RSUs which is expected to be recognized over a weighted-average period of approximately 0.3 years. The Company recognizes compensation cost on a straight-line basis over the service period for the entire award.

There were 191,547 and 543,825 market-based RSUs which had vested during the three and nine months ended September 30, 2018. None of the market-based RSUs had vested during the three and nine months ended September 30, 2017.

A summary of activity in connection with the Company's RSUs, market-based RSUs and PSUs for the nine-month period ended September 30, 2018 is as follows:

	Number of Shares
Outstanding as of December 31, 2017	784,000
Granted	424,741
Vested	(681,980)
Forfeited	(4,313)
Outstanding as of September 30, 2018	522,448

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	$ 312	$ 141	$ 1,877	$ 266
Sales and marketing	1,180	691	7,147	1,250
Research and development	1,091	416	5,606	738
General and administrative	958	1,555	5,627	2,618
Total	$ 3,541	$ 2,803	$ 20,257	$ 4,872

(12) Basic and Diluted Net Loss per Share

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

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

	As of September 30,	
	2018	2017
Stock options	1,836,671	2,469,553
Convertible senior notes	3,411,199	—
Non-vested performance-based restricted stock units	93,362	—
Non-vested market-based restricted stock units	11,877	286,000
Non-vested restricted stock units	417,209	286,000
Total	5,770,318	3,041,553

The Company is required to reserve and keep available from the Company's authorized but unissued shares of common stock a number of shares equal to the number of shares subject to outstanding awards under the 2008 Plan and the number of shares reserved for issuance under each of the 2016 Plan and 2016 ESPP.

The amount of such shares of the Company's common stock reserved for these purposes at September 30, 2018 is as follows:

	Number of Shares
Stock options issued and outstanding	1,836,671
Additional shares available for grant under equity plans	2,174,253
Total	4,010,924

In connection with the issuance of the 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 Notes. 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.

(13) Income Taxes

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

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual tax rate changes, the Company makes a cumulative adjustment in that quarter.

For the three months ended September 30, 2018 and 2017, the Company recorded a provision for income taxes of $86,000 and a benefit of $79,000, respectively, resulting in an effective tax rate of 1.03% and a benefit of 1.83%, respectively. For the nine months ended September 30, 2018 and 2017, the Company recorded a provision for income taxes of $371,000 and a tax benefit of $65,000, respectively, resulting in an effective tax rate of 0.99% and benefit of 0.47%, respectively. During the current year periods, the effective tax rate is lower than the statutory federal tax rate as the Company was not able to benefit from its net operating losses due to its full valuation allowance.

As of September 30, 2018, the Company had gross tax-effected unrecognized tax benefits of $0.5 million, of which $0.4 million, if recognized, would favorably impact the effective tax rate. The Company's existing tax positions will continue to generate an increase in unrecognized tax benefits in subsequent periods. The Company's policy is to record interest and penalties related to unrecognized tax benefits as income tax expense. During the three and nine months ended September 30, 2018 and 2017, the amounts recorded related to the accrual of interest and penalties were immaterial in each period.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. The new tax legislation contains several key tax provisions including the reduction of the U.S. corporate income tax rate to 21% effective January 1, 2018 as well as a variety of other changes including the limitation of tax deductibility of the interest expense, allowing for immediate expensing of certain qualified property and creating a territorial tax system. ASC 740 requires us to recognize the effect of the tax law changes in the period of enactment. However, in January 2018, the SEC issued Staff Accounting Bulletin No. 118 to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act of 2017. The accounting for all items is expected to be complete when the Company's 2017 U.S. corporate income tax return is filed in October of 2018. Any differences between what was previously recorded and the final tax return amounts or estimates made for subsequent quarters are not expected to be material.

(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, or CODM, who is the Company's chief executive officer, in deciding how to allocate resources and assess the Company's financial and operational performance. While the Company has applications that address multiple use cases, all of the Company's applications operate on and leverage a similar technology platform and are deployed and sold in a similar 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

On January 1, 2018, the Company adopted the new revenue standard and applied it to all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to the Company's consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard was as follows (in thousands):

	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
BALANCE SHEET			
ASSETS			
Accounts receivable, net	$ 31,699	$ 100	$ 31,799
Deferred cost	2,429	2,132	4,561
Deferred cost (non-current)	—	6,965	6,965
LIABILITIES AND STOCKHOLDERS' EQUITY			
Other current liabilities	$ 808	$ 100	$ 908
Deferred revenue	73,072	—	73,072
Accumulated deficit	(109,252)	9,097	(100,155)

The impact of the adoption of the new revenue standard on the Company's consolidated balance sheet and consolidated statement of operations was as follows (in thousands):

	September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
BALANCE SHEET			
ASSETS			
Accounts receivable, net	$ 37,033	$ 36,893	$ 140
Deferred cost	5,842	4,361	1,481
Deferred cost (non-current)	8,747	—	8,747
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deferred revenue (current and non-current)	88,639	88,639	—
Other current liabilities	1,242	1,102	140
Accumulated deficit	(137,865)	(148,093)	10,228

	For the Three Months Ended September 30, 2018		
	As Reported	Activity Without Adoption of ASC 606	Effect of Change Higher/(Lower)
STATEMENT OF OPERATIONS			
Revenue	$ 38,925	$ 38,925	$ —
Net loss	(8,450)	(8,885)	435

	For the Nine Months Ended September 30, 2018		
	As Reported	Activity Without Adoption of ASC 606	Effect of Change Higher/(Lower)
STATEMENT OF OPERATIONS			
Revenue	$ 105,266	$ 105,266	$ —
Net loss	(37,710)	(38,390)	680

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	For the Nine Months Ended September 30, 2018
United States	$ 90,866
International	14,400
Total	$ 105,266

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017(1)	2018	2017(1)
Subscription services	$ 35,998	$ 26,247	$ 98,327	$ 72,258
Professional services	2,927	1,065	6,939	2,919
Total revenues	$ 38,925	$ 27,312	$ 105,266	$ 75,177

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

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. As of September 30, 2018, the Company had $1.8 million in unbilled receivables related to services performed which were not billed.

Contract Liabilities

The Company's contract liabilities consist of deferred revenue. There are no other material contract liabilities. The Company classifies deferred revenue as current or noncurrent on the consolidated balance sheet on the timing of when it expects to recognize revenue.

Deferred Costs

Deferred costs, which primarily consist of deferred sales commissions on initial contracts sold, were $14.6 million as of September 30, 2018. For the three and nine months ended September 30, 2018, amortization expense for the deferred costs was $1.4 million and $3.9 million, respectively and there was no impairment loss in relation to the costs capitalized. For the three and nine months ended September 30, 2017, amortization expense for the deferred costs based on our policy under Topic 605, was $1.4 million and $4.1 million, respectively.

Deferred Revenue

$29.9 million and $52.7 million of subscription services revenue was recognized during the three and nine months ended September 30, 2018 and was included in the deferred revenue balances at the beginning of the respective period. Professional services revenue recognized in the same period from deferred revenue balances at the beginning of the respective periods was not material.

As of September 30, 2018, approximately $171.1 million of revenue is expected to be recognized from remaining performance obligations.

The Company expects to recognize revenue on approximately $123.7 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

(16) Commitments and Contingencies

(a) Leases

The Company leases office space in Pasadena, California; San Francisco, California; Burlington, Massachusetts; Colchester, England; Windsor, England; Lansing, Michigan, Orlando, Florida, Tysons Corner, Virginia, Norsborg, Sweden, Oslo, Norway, Tilburg, Holland and Beijing, China under operating leases and recognizes escalating rent expense on a straight-line basis over the expected lease term.

Except as set forth below, there were no material changes in the Company's commitments under contractual obligations, as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2017 and related notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. As a result of the acquisitions of UMS and Respond, the Company assumed lease obligations which are included in the table below.

As of September 30, 2018, future minimum lease payments under non-cancelable operating leases are as follows (in thousands):

		Amounts
2018 (for the remaining three months)	$	931
2019		3,344
2020		2,902
2021		2,704
2022		2,070
Thereafter		815
Total minimum lease payments	$	12,766

(b) Rent

Rent expense was \$0.9 million and \$0.8 million for the three months ended September 30, 2018 and 2017, respectively. Rent expense was \$2.6 million and \$1.7 million for the nine months ended September 30, 2018 and 2017, respectively.

(c) Litigation

In the normal course of business, the Company has been subjected to various unasserted claims. The Company does not believe these claims will have a material adverse impact to the financial statements.

(d) Credit Facility

During the quarter ended September 30, 2018, the Company had a revolving line of credit agreement with Western Alliance Bank, which provided for a \$15.0 million revolving secured credit facility that matured on September 28, 2018. During the three and nine months ended September 30, 2018, the Company had no amounts drawn under the credit facility.

As of September 30, 2018, the line of credit expired and no amounts had been drawn under the credit facility.

(e) 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.

(17) Subsequent Events

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (i) our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and (ii) our audited consolidated financial statements and the related notes and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2017 included in our Annual Report on Form 10-K filed with the SEC on March 12, 2018. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would" or the negative or plural of these words or similar expressions or variations and such forward-looking statements include, but are not limited to, statements with respect to our outlook; the impact of new accounting standards; our ability to service our debt; our business strategy, plans and objectives for future operations; and our future financial and business performance. The events described in these forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Everbridge is a global software company that provides enterprise software applications that automate and accelerate organizations' operational response to critical events in order to keep people safe and businesses running faster. During public safety threats such as active shooter situations, terrorist attacks or severe weather conditions, as well as critical business events such as IT outages, cyber-attacks or other incidents such as product recalls or supply-chain interruptions, our SaaS-based platform enables our customers to quickly and reliably aggregate and assess threat data, locate people at risk and responders able to assist, automate the execution of pre-defined communications processes and track progress on executing response plans. Our customers use our platform to identify and assess hundreds of different types of threats to their organizations, people, assets or brand. Our solutions enable organizations to deliver intelligent, contextual messages to, and receive verification of delivery from, hundreds or millions of recipients, across multiple communications modalities such as voice, SMS and e-mail. Our applications enable the delivery of messages in near real-time to more than 100 different communication devices, in over 200 countries and territories, in 15 languages and dialects – all simultaneously. We delivered over 2.0 billion communications in 2017. We automate the process of sending contextual notifications to multiple constituencies and receiving return information on a person's or operation's status so that organizations can act quickly and precisely. Our Critical Event Management platform is comprised of a comprehensive set of software applications that address the full spectrum of tasks an organization has to perform to manage a critical event, including Mass Notification, Incident Management, Safety Connection, IT Alerting, Visual Command Center, Crisis Commander, Community Engagement and Secure Messaging. We believe that our broad suite of integrated, enterprise applications delivered via a single global platform is a significant competitive advantage in the market for Critical Event Management solutions, which we refer to generally as CEM.

Our customer base has grown from 867 customers at the end of 2011 to more than 4,200 customers as of September 30, 2018. As of September 30, 2018, our customers were based in 48 countries and included nine of the 10 largest U.S. cities, eight of the 10 largest U.S.-based investment banks, 25 of the 25 busiest North American airports, six of the 10 largest global consulting firms, six of the 10 largest global auto makers, all four of the largest global accounting firms, four of the 10 largest U.S.-based health care providers and four of the 10 largest U.S.-based health insurers. We provide our applications to customers of varying sizes, including enterprises, small businesses, non-profit organizations, educational institutions and governmental agencies. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, higher education and professional services.

We sell all of our critical event management and enterprise safety 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 2.3 years as of September 30, 2018, and generally bill and collect payment annually in advance. We derive substantially all of our revenue from subscriptions to our critical event management and enterprise safety applications. Historically, we derived more than 74% of our revenue in each of the last three fiscal years from sales of our Mass Notification application. Over 90% of the revenue that we recognized in each of the eight most recently completed quarters was generated from contracts entered into in prior quarters or renewals of those contracts; the balance of the revenue that we recognized in each such quarter was generated from contracts entered into with new customers or new contracts, other than renewals, entered into with existing customers in such quarter. 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 $38.9 million and $27.3 million for the three months ended September 30, 2018 and 2017, respectively, representing a period-over-period increase of 43%. We generated revenue of $105.3 million and $75.2 million for the nine months ended September 30, 2018 and 2017, respectively, representing a period-over-period increase of 40%. We had net losses of $8.5 million and $4.2 million for the three months ended September 30, 2018 and 2017, respectively. We had net losses of $37.7 million and $13.9 million for the nine months ended September 30, 2018 and 2017, respectively. Our adjusted EBITDA, which is a measure that is not calculated and presented in accordance with generally accepted accounting principles in the United States, or GAAP, was $(3.5) million and $(1.6) million for the nine months ended September 30, 2018 and 2017, respectively. See "Other Metrics" below for a discussion of the limitations of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

As of September 30, 2018 and 2017, 29% and 15% of our customers, respectively, were located outside of the United States and these customers generated 20% and 10% of our total revenue for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017 these customers generated 16% and 10% of our total revenue, 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 and enterprise safety solutions and our ability to effectively compete. In order to further penetrate the market for critical event management and enterprise safety 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.

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 Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financing Accounting Standards Board, or the FASB, issued Accounting Standards Update, or ASU, 2014-09, *Revenue from Contracts with Customers (Topic 606),* or the new revenue standard. The new revenue standard outlines a single, comprehensive model for accounting for revenue from contracts with customers and requires more detailed disclosure to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from such contracts. The new revenue standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. On January 1, 2018, we adopted the new standard under the modified retrospective transition method. This method was applied to contracts that were not complete as of the date of initial application of the new revenue standard.

During the three and nine months ended September 30, 2018, we recognized revenue based on the new revenue standard, but revenue for the three and nine months ended September 30, 2017 was recognized based on Accounting Standards Codification, Topic 605, Revenue Recognition. Therefore, the periods are not directly comparable. See Notes 2 and 15 in the notes to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional discussion of the impact of the adoption of the new revenue standard and changes in accounting policies relating to revenue recognition and deferred commissions.

Components of Results of Operations

Revenue

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

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

We also sell professional services, which primarily consist of fees for deployment and optimization services, as well as training.

Cost of Revenue

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

Operating Expenses

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

Sales and Marketing

Sales and marketing expense primarily consists of employee-related expenses for sales, marketing and public relations employees, including salaries, bonuses, commissions, benefits and stock-based compensation expense. Sales and marketing expense also includes trade show, market research, advertising and other related external marketing expense as well as office and software related costs to support sales. We defer certain sales commissions related to acquiring new customers and amortize these expenses ratably over the period of benefit that we have determined to be four years. We plan to continue to expand our sales and marketing functions to grow our customer base and increase sales to existing customers. This growth will include adding sales personnel and expanding our marketing activities to continue to generate additional leads and build brand awareness. In the near term, we expect our sales and marketing expense to increase on an absolute dollar basis as we hire new sales representatives in the United States and worldwide and grow our marketing staff.

Research and Development

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

General and Administrative

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

Interest and Investment Income

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

Interest Expense

Interest expense consists of interest on our outstanding debt obligations.

Other Income and Expense, Net

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

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenue	$ 38,925	$ 27,312	$ 105,266	$ 75,177
Cost of revenue(1) (2)	12,296	8,076	33,488	22,969
Gross profit	26,629	19,236	71,778	52,208
Operating expenses:				
Sales and marketing(1)(2)	$ 16,348	$ 11,626	$ 51,303	$ 33,589
Research and development(1) (2)	10,350	5,626	30,548	16,082
General and administrative(1) (2)	7,130	6,375	23,609	16,640
Total operating expenses	33,828	23,627	105,460	66,311
Operating loss	(7,199)	(4,391)	(33,682)	(14,103)
Other income (expenses), net	(1,165)	81	(3,657)	168
Loss before income taxes	(8,364)	(4,310)	(37,339)	(13,935)
(Provision for) benefit from income taxes	(86)	79	(371)	65
Net loss attributable to common stockholders	$ (8,450)	$ (4,231)	$ (37,710)	$ (13,870)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	$ 312	$ 141	$ 1,877	$ 266
Sales and marketing	1,180	691	7,147	1,250
Research and development	1,091	416	5,606	738
General and administrative	958	1,555	5,627	2,618
Total	$ 3,541	$ 2,803	$ 20,257	$ 4,872

(2) Includes depreciation and amortization of acquired intangible assets as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	$ 2,087	$ 1,591	$ 5,909	$ 5,372
Sales and marketing	80	78	239	228
Research and development	68	56	204	148
General and administrative	1,609	693	3,820	1,898
Total	$ 3,844	$ 2,418	$ 10,172	$ 7,646

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated Statements of Operations, as a percentage of revenue(1)				
Revenue	100%	100%	100%	100%
Cost of revenue	32%	30%	32%	31%
Gross profit	68%	70%	68%	69%
Operating expenses:				
Sales and marketing	42%	43%	49%	45%
Research and development	27%	21%	29%	21%
General and administrative	18%	23%	22%	22%
Total operating expenses	87%	87%	100%	88%
Operating loss	(18)%	(16)%	(32)%	(19)%
Other income (expenses), net	(3)%	*	(3)%	*
Loss before income taxes	(21)%	(16)%	(35)%	(19)%
(Provision for) benefit from income taxes	*	*	*	*
Net loss attributable to common stockholders	(21)%	(16)%	(35)%	(19)%

(1) Columns may not add up to 100% due to rounding.
* Represents less than 0.5% of revenue.

Comparison of the Three Months Ended September 30, 2018 and 2017

Revenue

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Revenue	$ 38,925	$ 27,312	$ 11,613	42.5%

Revenue increased by $11.6 million for the three months ended September 30, 2018 compared to the same period in 2017. The increase was due to a $11.6 million increase in sales of our historical solutions driven by expansion of our customer base from 3,560 customers as of September 30, 2017 to 4,267 customers as of September 30, 2018, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Cost of revenue	$ 12,296	$ 8,076	$ 4,220	52.3%
Gross margin %	68%	70%		

Cost of revenue increased by $4.2 million for the three months ended September 30, 2018 compared to the same period in 2017. The increase was due to a $1.1 million increase in employee-related costs associated with our increased headcount from 121 employees as of September 30, 2017 to 163 employees as of September 30, 2018. In addition, $2.5 million of the increase was attributed to an increase in hosting, software and messaging costs, $0.5 million increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software and $0.1 million attributed to an increase in office related expenses to support revenue generating activities.

Gross margin percentage decreased due to an increase in amortization of acquired intangible assets and capitalized software and our continued investment in personnel to support our growth.

Operating Expenses

Sales and Marketing Expense

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Sales and marketing	$ 16,348	$ 11,626	$ 4,722	40.6%
% of revenue	42%	43%		

Sales and marketing expense increased by $4.7 million for the three months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a $4.0 million increase in stock compensation and employee-related costs associated with our increased headcount from 206 employees as of September 30, 2017 to 292 employees as of September 30, 2018. The remaining increase was principally the result of a $0.4 million increase in tradeshow costs and a $0.3 million increase in software costs and office related expenses to support the sales team. The impact to commission expense was not material based upon the adoption of ASC 606 for the period beginning January 1, 2018.

Research and Development Expense

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Research and development	$ 10,350	$ 5,626	$ 4,724	84.0%
% of revenue	27%	21%		

Research and development expense increased by $4.7 million for the three months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a $4.4 million increase in stock compensation and employee-related costs associated with our increased headcount from 153 employees as of September 30, 2017 to 236 employees as of September 30, 2018. The remaining increase was principally the result of a $0.6 million increase in hosting costs to support the research and development team and a $0.3 million increase in office related expenses. A total of $1.5 million of internally developed software costs during the three months ended September 30, 2017 and $2.2 million of internally developed software costs during the three months ended September 30, 2018 were capitalized, resulting in a decrease of the expense by $0.7 million in the third quarter of 2018.

General and Administrative Expense

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
General and administrative	$ 7,130	$ 6,375	$ 755	11.8%
% of revenue	18%	23%		

General and administrative expense increased by $0.8 million for the three months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a $0.9 million increase in depreciation and amortization. The remaining increase was due to a $0.6 million increase in transaction cost and professional services attributed to tax and audit services. These cost increases were offset by a $0.7 million decrease in salary and office related expenses.

Other Income (Expense), Net

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Other income (expense), net	$ (1,165)	$ 81	$ (1,246)	(1538.3)%
% of revenue	(3)%	*		

Other expense increased by $1.2 million for the three months ended September 30, 2018 compared to the same period in 2017 as we issued $115.0 million in convertible senior notes in November 2017, resulting in a $1.6 million increase in interest expense. The increase in interest expense was offset by an increase of $0.5 million in interest and investment income as a result of proceeds invested from our public offerings and our convertible note offering.

Comparison of the Nine Months Ended September 30, 2018 and 2017

Revenue

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Revenue	$ 105,266	$ 75,177	$ 30,089	40.0%

Revenue increased by $30.1 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was due to a $30.1 million increase in sales of our historical solutions driven by expansion of our customer base from 3,560 customers as of September 30, 2017 to 4,267 customers as of September 30, 2018, including increased sales to larger organizations with greater numbers of contacts and locations.

Cost of Revenue

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Cost of revenue	$ 33,488	$ 22,969	$ 10,519	45.8%
Gross margin %	68%	69%		

Cost of revenue increased by $10.5 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was due to a $4.0 million increase in employee-related costs associated with our increased headcount from 121 employees as of September 30, 2017 to 163 employees as of September 30, 2018. In addition, $5.6 million of the increase was attributed to an increase in hosting, software and messaging costs, $0.5 million was attributable to an increase in depreciation and amortization expense attributed to our fixed assets, acquired intangibles and capitalized software and $0.4 million was attributable to an increase in office related expenses to support revenue generating activities.

Gross margin percentage decreased due to an increase in amortization of acquired intangible assets and capitalized software.

Operating Expenses

Sales and Marketing Expense

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(dollars in thousands)			
Sales and marketing	$ 51,303	$ 33,589	$ 17,714	52.7%
% of revenue	49%	45%		

Sales and marketing expense increased by $17.7 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a $15.8 million increase in stock compensation and employee-related costs associated with our increased headcount from 206 employees as of September 30, 2017 to 292 employees as of September 30, 2018. The remaining increase was principally the result of a $1.1 million increase in advertising costs, a $0.6 million increase in office related expenses to support revenue generating activities and a $0.2 million increase in software cost and office related expenses to support the sales team. The impact to commission expense was not material based upon the adoption of ASC 606 for the period beginning January 1, 2018.

Research and Development Expense

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change $	Change %
	(dollars in thousands)			
Research and development	$ 30,548	$ 16,082	$ 14,466	90.0%
% of revenue	29%	21%		

Research and development expense increased by $14.5 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a $14.5 million increase in stock compensation and employee-related costs associated with our increased headcount from 153 employees as of September 30, 2017 to 236 employees as of September 30, 2018. The remaining increase was principally the result of a $1.0 million increase in hosting and software cost to support research and development activities and a $0.8 million increase in office related expenses to support research and development activities. A total of $4.7 million of internally developed software costs during the nine months ended September 30, 2017 and $6.5 million of internally developed software costs during the nine months ended September 30, 2018 were capitalized, resulting in a decrease of the expense by $1.8 million in the 2018 period.

General and Administrative Expense

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change $	Change %
	(dollars in thousands)			
General and administrative	$ 23,609	$ 16,640	$ 6,969	41.9%
% of revenue	22%	22%		

General and administrative expense increased by $7.0 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a $4.3 million increase in stock compensation and employee-related costs associated with our increased headcount from 73 employees as of September 30, 2017 to 92 employees as of September 30, 2018. The remaining increase was due to a $1.9 million increase in depreciation and amortization expense attributable to our acquired intangible assets, a $0.4 million increase in transaction costs attributed to our three acquisitions completed in the second quarter of 2018 and a $1.0 million increase in cost to operate as a public company offset by a decrease of $0.4 million in office related expenses to support the administrative team and a $0.3 million decrease in bad debt.

Other Income (Expense), Net

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change $	Change %
	(dollars in thousands)			
Other income (expense), net	$ (3,657)	$ 168	$ (3,825)	(2276.8)%
% of revenue	(3)%	*		

Other expense increased by $3.8 million for the nine months ended September 30, 2018 compared to the same period in 2017 as we issued $115.0 million in convertible senior notes in November 2017, resulting in a $4.7 million increase in interest expense. The increase in interest expense was offset by an increase of $1.1 million in interest and investment income as a result of proceeds invested from our public offerings and our convertible note offering. In addition, we had an increase in other expense of $0.1 million as a result of a loss on disposal of assets.

Other Metrics

We regularly monitor a number of financial and operating metrics in order to measure our current performance and estimate our future performance. Our other business metrics may be calculated in a manner different than similar other business metrics used by other companies.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Adjusted EBITDA	$ 153	$ 807	$ (3,490)	$ (1,646)
Adjusted gross margin	$ 27,330	$ 19,670	$ 74,677	$ 53,799
Free cash flow	$ (2,449)	$ 4,364	$ (8,353)	$ (1,544)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net loss	$ (8,450)	$ (4,231)	$ (37,710)	$ (13,870)
Interest and investment (income) expense, net	1,132	(104)	3,420	(229)
Provision for income taxes	86	(79)	371	(65)
Depreciation and amortization expense	3,844	2,418	10,172	7,646
Stock-based compensation expense	3,541	2,803	20,257	4,872
Adjusted EBITDA	$ 153	$ 807	$ (3,490)	$ (1,646)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
Gross profit	$ 26,629	$ 19,236	$ 71,778	$ 52,208
Amortization of acquired intangibles	389	293	1,022	1,325
Stock-based compensation expense	312	141	1,877	266
Adjusted gross margin	$ 27,330	$ 19,670	$ 74,677	$ 53,799

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
Net cash provided by (used in) operating activities	$ 676	$ 6,738	$ (776)	$ 4,379
Capital expenditures	(441)	(832)	(855)	(1,337)
Capitalized software development costs	(2,684)	(1,542)	(6,722)	(4,586)
Free cash flow	$ (2,449)	$ 4,364	$ (8,353)	$ (1,544)

Additional Supplemental Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain additional supplemental non-GAAP financial measures, including non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP sales and marketing expense, non-GAAP research and development expense, non-GAAP general and administrative expense, non-GAAP total operating expenses, non-GAAP operating loss and non-GAAP net loss, which we collectively refer to as non-GAAP financial measures. These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense and amortization of acquired intangibles. 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 because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact our non-cash expense. We believe that providing non-GAAP financial measures that exclude stock-based compensation expense allow for more meaningful comparisons between our operating results from period to period. We believe that excluding the impact of amortization of acquired intangibles allows for more meaningful comparisons between operating results from period to period as the intangibles are valued at the time of acquisition and are amortized over a period of several years after the acquisition. 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 numbers for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	$ 12,296	$ 8,076	$ 33,488	$ 22,969
Amortization of acquired intangibles	(389)	(293)	(1,022)	(1,325)
Stock-based compensation expense	(312)	(141)	(1,877)	(266)
Non-GAAP cost of revenue	11,595	7,642	30,589	21,378
Gross profit	26,629	19,236	71,778	52,208
Amortization of acquired intangibles	389	293	1,022	1,325
Stock-based compensation expense	312	141	1,877	266
Non-GAAP gross profit	27,330	19,670	74,677	53,799
Non-GAAP gross margin	70.2%	72.0%	70.9%	71.6%
Sales and marketing expense	16,348	11,626	51,303	33,589
Stock-based compensation expense	(1,180)	(691)	(7,147)	(1,250)
Non-GAAP sales and marketing	15,168	10,935	44,156	32,339
Research and development expense	10,350	5,626	30,548	16,082
Stock-based compensation expense	(1,091)	(416)	(5,606)	(738)
Non-GAAP research and development	9,259	5,210	24,942	15,344
General and administrative expense	7,130	6,375	23,609	16,640
Amortization of acquired intangibles	(1,464)	(560)	(3,461)	(1,562)
Stock-based compensation expense	(958)	(1,555)	(5,627)	(2,618)
Non-GAAP general and administrative	4,708	4,260	14,521	12,460
Total operating expenses	33,828	23,627	105,460	66,311
Amortization of acquired intangibles	(1,464)	(560)	(3,461)	(1,562)
Stock-based compensation expense	(3,229)	(2,662)	(18,380)	(4,606)
Non-GAAP total operating expenses	$ 29,135	$ 20,405	$ 83,619	$ 60,143
Operating loss	$ (7,199)	$ (4,391)	$ (33,682)	$ (14,103)
Amortization of acquired intangibles	1,853	853	4,483	2,887
Stock-based compensation expense	3,541	2,803	20,257	4,872
Non-GAAP operating loss	$ (1,805)	$ (735)	$ (8,942)	$ (6,344)
Net loss	$ (8,450)	$ (4,231)	$ (37,710)	$ (13,870)
Amortization of acquired intangibles	1,853	853	4,483	2,887
Stock-based compensation expense	3,541	2,803	20,257	4,872
Non-GAAP net loss	$ (3,056)	$ (575)	$ (12,970)	$ (6,111)

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash from operating activities, along with equity issuances and debt financing arrangements. Our principal source of liquidity is cash and cash equivalents totaling $76.3 million as of September 30, 2018, which includes a portion of the $98.2 million received in November 2017 as a result of our convertible senior notes after deducting debt issuance cost and the cost for the capped call transactions entered into in connection with the note offering. We have generated significant losses since inception and expect to continue to generate losses for the foreseeable future.

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

Credit Facility

During the quarter ended September 30, 2018, we had a revolving line of credit agreement with Western Alliance Bank, which provided for a $15.0 million revolving secured credit facility that matured on September 28, 2018. During the three and nine months ended September 30, 2018, we had no amounts drawn under the credit facility. As of September 30, 2018, the line of credit had expired.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cash, cash equivalents and restricted cash at beginning of period	$ 102,599	$ 33,127	$ 103,051	$ 60,765
Cash provided by (used in) operating activities	676	6,738	(776)	4,379
Cash used in investing activities	(26,494)	(13,503)	(27,258)	(50,319)
Cash (used in) provided by financing activities	(406)	(2,275)	2,023	9,409
Effects of exchange rates on cash	(81)	(162)	(746)	(309)
Cash and cash equivalents at end of period	$ 76,294	$ 23,925	$ 76,294	$ 23,925

Uses of Funds

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

Operating Activities

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

Operating activities used $0.8 million in cash in the nine months ended September 30, 2018, primarily from $0.4 million in cash used in operations as a result of changes in operating assets and liabilities, which was decreased by $37.3 million of non-cash operating expenses and offset by our net loss of $37.7 million. Specifically, we recognized non-cash charges aggregating to $10.2 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment, $20.0 million for stock-based compensation, $3.9 million for amortization of deferred commissions and $3.4 million related to the accretion of interest on our convertible senior notes which was offset by a decrease of $0.3 million for our change in fair value of contingent consideration and $0.3 million of investment income. The change in operating assets and liabilities reflected a $7.2 million increase in deferred revenue, a $1.6 million decrease in accounts receivable, a $2.1 million increase in accrued employee related expenses due to timing of payments to employees, and a $0.5 million increase in other liabilities. These increases were partially offset by a $7.0 million increase in deferred cost, a $0.6 million increase in accrued expenses as a result of timing of payments made to vendors, a $1.6 million increase in prepaid expenses for upfront payments made for prepaid software and insurance, and a $1.6 million increase in other assets.

Operating activities provided $4.4 million in cash in the nine months ended September 30, 2017, primarily from $5.2 million in cash used in operations as a result of changes in operating assets and liabilities, which was increased by $13.1 million of non-cash operating expenses and partially offset by our net loss of $13.9 million. Specifically, we recognized non-cash charges aggregating to $7.6 million for depreciation and amortization of intangible assets, capitalized software development costs and property and equipment and $4.8 million for stock-based compensation and an increase of $0.6 million for our bad debt and sales return provision. The change in operating assets and liabilities reflected a $7.8 million increase in deferred revenue, a $0.8 million increase in accounts payable as a result of timing of payments made to vendors, a $2.3 million increase in accrued employee related expenses due to timing of payments to employees and a $0.5 million increase in other liabilities. These increases were partially offset by a $3.6 million increase in accounts receivable, $1.6 million increase in prepaid expenses for upfront payments made for prepaid software and insurance, and a $1.0 million increase in other assets.

Investing Activities

Our investing activities consist primarily of capital expenditures for capitalized software development costs, business acquisition and property and equipment expenses.

Investing activities used $27.3 million in cash in the nine months ended September 30, 2018, primarily from our purchase of UMS, PlanetRisk and Respond for an aggregate of $35.9 million, purchase of short-term investments of $57.7 million, investment in software development of $6.7 million, our purchase of property and equipment of $0.9 million and a $0.2 million in purchases of intangible assets. This was offset by cash provided of $74.1 million in maturities of our short-term investments.

Investing activities used $50.3 million in cash in the nine months ended September 30, 2017, primarily from our purchase of IDV Solutions, or IDV, for $21.2 million and our investment in software development of $4.6 million, our purchase of property and equipment of $1.3 million and $30.0 million in purchases of short-term investments. This was offset by cash provided of $0.8 million attributed to landlord reimbursements for tenant improvements in our Burlington, Massachusetts office lease and maturities of our short-term investments of $6.0 million.

Financing Activities

Cash generated by financing activities includes proceeds from the issuance of common stock upon the exercise of employee stock options and contributions to our employee stock purchase plan. Cash used in financing activities includes payments for debt issuance costs, note payables, capital leases, contingent payments on acquisitions and employee withholding liabilities from the exercise of market based restricted stock units.

Financing activities provided $2.0 million of cash in the nine months ended September 30, 2018, which reflects proceeds of $1.8 million from the issuance of stock under our employee stock purchase plan and proceeds of $8.8 million from the exercise of stock options. This amount was offset by a $7.9 million payment for employee withholding taxes and $0.4 million of contingent consideration related to our acquisition of IDV.

Financing activities provided $9.4 million of cash in the nine months ended September 30, 2017, which reflects proceeds of $10.4 million from our follow-on public offering, $1.5 million from the issuance of stock under our employee stock purchase plan and proceeds of $2.1 million from the exercise of stock options. This amount was offset by $3.8 million payment for contingent consideration attributed to our purchase of IDV and $0.9 million of costs paid in connection with our follow-on public offerings.

Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

Except for the accounting policies for revenue recognition and deferred commissions that were updated, as set forth below, as a result of adopting ASU No. 2014-09, there have been no changes to our critical accounting policies and estimates described in the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 12, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

Revenue Recognition

We derive our revenues primarily from subscription services and professional services. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

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
- 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 communications and enterprise safety applications, 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. 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 provide 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 are billed on a time and materials basis and 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.

Contracts with Multiple Performance Obligations

Some 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. 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, the applications sold, customer demographics, geographic locations, and the number and types of users within our contracts.

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. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

Recently Issued Accounting Pronouncements

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

Contractual Obligations and Commitments

Except as disclosed in Note 16 of the notes to the condensed consolidated financial statements included in this report, as of September 30, 2018, there were no material changes in our commitments under contractual obligations except for scheduled payments from the ongoing business, as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

Our investment portfolio is exposed to market risk from changes in interest rates. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would change the fair value of our interest sensitive financial instruments by approximately $0.3 million. In addition, if a 100 basis point change in overall interest rates were to occur in 2018, our interest income would not change significantly in relation to amounts we would expect to earn, based on our cash, cash equivalents, and investments as of September 30, 2018.

Changes in interest rates may also impact gains or losses from the conversion of our outstanding convertible senior notes. In November 2017, we issued $115 million in aggregate principal amount of our 1.50% convertible senior notes due 2022, or the Notes. At our election, the Notes are convertible into cash, shares of our common stock, or a combination of cash and shares of our common stock in each case under certain circumstances, including trading price conditions related to our common stock. In the second quarter of 2018, the trading price of our common stock reached a price for a sustained period at 130% above the conversion price of $33.71, resulting in the Notes becoming convertible at the option of the holder during the third quarter of 2018. No Note holders have exercised their right for conversion as of September 30, 2018. Upon conversion, we are required to record a gain or loss for the difference between the fair value of the debt to be extinguished and its corresponding net carrying value. The fair value of the debt to be extinguished depends on our then-current incremental borrowing rate. If our incremental borrowing rate at the time of conversion is higher or lower than the implied interest rate of the Notes, we will record a gain or loss in our consolidated statement of operations during the period in which the Notes are converted. The implicit interest rate for the notes is 6.93%. An incremental borrowing rate that is a hypothetical 100 basis points lower than the implicit interest rate upon conversion of $115 million aggregate principal amount of the Notes would result in a loss of approximately $1.2 million.

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

We had cash and cash equivalents of $76.3 million as of September 30, 2018, 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. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

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, Norwegian Krone and Swedish Kronor. Movements in foreign currencies in which we transact business could significantly affect future net earnings. We do not currently engage in any hedging activity to reduce our potential exposure to currency fluctuations, although we may choose to do so in the future. A hypothetical 10% change in foreign exchange rates during any of the periods presented would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rate.

Inflation Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Management's assessment of disclosure controls and procedures excluded consideration of the internal control over financial reporting of Unified Messaging Systems ASA, or UMS, which we acquired on April 3, 2018, PlanetRisk, Inc., or PlanetRisk, which we acquired on May 1, 2018 and Respond Beheer B.V., or Respond which we acquired on May 18, 2018. This exclusion is consistent with guidance provided by the staff of the SEC that an assessment of a recently acquired business may be omitted from management's report on internal control over financial reporting for up to one year from the date of acquisition, subject to specified conditions.

Changes in Internal Control

In connection with the integration of the Company's recent acquisitions, management is in the process of analyzing and evaluating our internal controls over financial reporting. This process may result in material additions or changes to our internal controls 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 September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks which could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I-Item 1A under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 12, 2018. Except as set forth below, during the three months ended September 30, 2018, there were no material changes to the risk factors that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

As a result of becoming a public company, 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. However, as an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, our auditors have not been required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404. As of the end of our fiscal year ending December 31, 2018 we will qualify as a "large accelerated filer" and, as a result, will cease to qualify as an emerging growth company. As a result, we will be required to have our auditors formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 in connection with our Annual Report for the year ended December 31, 2018.

Our compliance with Section 404 will require 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 Stock 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.

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

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds

None

(c) Issuer Purchase of Equity Securities

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None

Item 6. Exhibits.

3.1(1)	Amended and Restated Certificate of Incorporation of Everbridge, Inc.
3.2(2)	Amended and Restated Bylaws of Everbridge, Inc.
10.1*+	2018 Management Incentive Plan of Everbridge, Inc.
10.2+ (3)	Amendment to Employment Agreement, dated as of July 16, 2018, and between Everbridge, Inc. and Robert Hughes.
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.
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.
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.
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.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-37874), filed with the Securities and Exchange on September 21, 2016, and incorporated herein by reference.
(2) Previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-37874), filed with the Securities and Exchange on September 21, 2016, and incorporated herein by reference.
(3) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37874), filed with the Securities and Exchange on July 20, 2018, and incorporated herein by reference.

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

SIGNATURES

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

	Everbridge, Inc.
Date: November 9, 2018	By: /s/ Jaime Ellertson Jaime Ellertson *Chief Executive Officer and Chairman of the Board of Directors*
Date: November 9, 2018	By: /s/ Kenneth S. Goldman Kenneth S. Goldman *Senior Vice President and Chief Financial Officer*

Exhibit 10.1

Everbridge, Inc.
2018 Management Incentive Plan

Bonus Pool Funding Metrics			
	Plan Target	Minimum Threshold	Weighting
Corporate			
Total Bookings	$ 157,000,000	95%	60%
Revenue	$ 135,000,000	98%	10%
Adj EBITDA	$ 1,000,000	90%	15%
Corporate KBPI's		90%	15%
			100%

Bonus Allocation Metrics (Goal Achievement)	
Team/Department Goal	40%
Individual Goals (2-5)	50%
Development Goal (1)	10%
	100%

Introduction

The 2018 Management Incentive Plan ("The Plan") is designed as an incentive to participants to perform at their most effective level, as a reward for strong performance and as a way of sharing in the success of the Company. The Plan is designed to be self-funded and is incorporated in the business targets and budgets.

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

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

Eligibility for Participation

Designated employees ("Participants") are eligible for inclusion in The Plan for the calendar year January 1, 2018 to December 31, 2018. Participation in The Plan is at the discretion of the Company. Employees considered for participation include management level employees and individual contributors in functions who meet established criteria. Eligibility for participation is not automatic and will be reviewed annually.

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

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

Operation of The Plan

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

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

Performance against business targets will be assessed at the end of the fiscal year once all financial results of the Company have been prepared and approved. Everbridge management will have the discretion to adjust, up or down, any employee's payout based on subjective assessment of the employee's individual performance throughout the year. Any adjustment to individual bonus target will not increase the overall bonus pool funding relative to the level of achievement of the Company.

All metrics will be measured independently. For most Plan elements, a minimum threshold between 85-90% must be achieved for each element to be qualified for payout. If any individual element is not achieved, other elements of the plan may still payout, if the requisite minimum threshold is met.

Payment

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

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

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

- Employees whose eligibility for participation in The Plan begins after January 1, 2018, or
- Employees who are transferred to another position, business unit, department or group within the Company during the plan year and their new position does not qualify them as eligible to participate in The Plan.
- Employees who transfer to a position and become eligible to participate in the Plan during the plan year.

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

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

Contractual Status

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

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

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

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

Validity

The Plan is valid only for the calendar year January 1, 2018 – December 31, 2018. At the expiration of this Plan, Everbridge will establish a new Plan for Participants.

Exhibit 31.1

CERTIFICATIONS

I, Jaime Ellertson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Everbridge, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2018

By: /s/ Jaime Ellertson
Name: Jaime Ellertson
Title: Chief Executive Officer (*Principal Executive Officer*)

Exhibit 31.2

CERTIFICATIONS

I, Kenneth S. Goldman, certify that:

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

Date: November 9, 2018

By: /s/ Kenneth S. Goldman
Name: Kenneth S. Goldman
Title: Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, Jaime Ellertson, Chief Executive Officer of Everbridge, Inc., do hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Everbridge, Inc. for the quarter ended September 30, 2018 (the "Report"):

(1) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Everbridge, Inc. for the period presented herein.

Date: November 9, 2018

By: /s/ Jaime Ellertson
Name: Jaime Ellertson
Title: Chief Executive Officer

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

Exhibit 32.2

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, Kenneth S. Goldman, Senior Vice President and Chief Financial Officer of Everbridge, Inc., do hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Everbridge, Inc. for the quarter ended September 30, 2018 (the "Report"):

(1) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Everbridge, Inc. for the period presented herein.

Date: November 9, 2018

By: /s/ Kenneth S. Goldman
Name: Kenneth S. Goldman
Title: Senior Vice President and Chief Financial Officer

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