

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

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: 001-36383

Five9, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

94-3394123

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

**3001 Bishop Drive, Suite 350
San Ramon, CA 94583**

(Address of Principal Executive Offices) (Zip Code)

(925) 201-2000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, par value \$0.001 per share	FIVN	The NASDAQ Global Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes: No:

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 April 26, 2024, there were 73,867,985 shares of the Registrant's common stock, par value \$0.001 per share, outstanding.

FIVE9, INC.

FORM 10-Q

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	2
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements	4
Condensed Consolidated Balance Sheets (Unaudited)	4
Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)	5
Condensed Consolidated Statements of Stockholder' Equity (Unaudited)	6
Condensed Consolidated Statements of Cash Flows (Unaudited)	8
Notes to Condensed Consolidated Financial Statements (Unaudited)	9
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Overview	29
Key Operating and Non-GAAP Financial Performance Metrics	30
Key Components of Our Results of Operations	32
Results of Operations for the Three Months Ended March 31, 2024 and 2023	33
Liquidity and Capital Resources	36
Critical Accounting Policies and Estimates	38
Recent Accounting Pronouncements	38
Contractual and Other Obligations	38
ITEM 3. Quantitative and Qualitative Disclosure about Market Risk	40
ITEM 4. Controls and Procedures	41
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	42
ITEM 1A. Risk Factors	42
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
ITEM 3. Defaults Upon Senior Securities	43
ITEM 4. Mine Safety Disclosures	44
ITEM 5. Other Information	44
ITEM 6. Exhibits	45
SIGNATURES	46

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve substantial risks and uncertainties. These statements reflect the current views of our senior management with respect to our future events, strategies and financial trends and performance. These forward-looking statements include statements with respect to our business, expenses, strategies, losses, growth plans, product and client initiatives, market growth projections, and our industry. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “should,” “anticipate” and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. These factors include the information under the caption "Risk Factors" set forth in Part 1, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and Part II, Item 1A, of this Quarterly Report, which we encourage you to carefully read, and include the following:

- adverse economic conditions, including the impact of macroeconomic deterioration, including continued inflation, increased interest rates, supply chain disruptions, decreased economic output and fluctuations in currency rates, the impact of the Russia-Ukraine conflict, the impact of the conflict in Israel, and other factors, may continue to harm our business;
- if we are unable to attract new clients or sell additional services and functionality to our existing clients, our revenue and revenue growth will be harmed;
- if our existing clients terminate their subscriptions or reduce their subscriptions and related usage, or fail to grow subscriptions at the rate they have in the past or that we might expect, our revenues and gross margins will be harmed, and we will be required to spend more money to grow our client base;
- because a significant percentage of our revenue is derived from existing clients, downturns or upturns in new sales will not be immediately reflected in our operating results and may be difficult to discern;
- if we fail to manage our technical operations infrastructure, our existing clients may experience service outages, our new clients may experience delays in the deployment of our solution and we could be subject to, among other things, claims for credits or damages;
- we have established, and are continuing to increase, our network of technology solution distributors and resellers to sell our solution; our failure to effectively develop, manage, and maintain this network could materially harm our revenues;
- our quarterly and annual results may fluctuate significantly, including as a result of the timing and success of new product and feature introductions by us, may not fully reflect the underlying performance of our business and may result in decreases in the price of our common stock;
- if we are unable to attract and retain highly skilled leaders and other employees, our business and results of operations may be adversely affected;
- our historical growth may not be indicative of our future growth, and even if we continue to grow rapidly, we may fail to manage our growth effectively;
- failure to adequately retain and expand our sales force will impede our growth;
- further development of our AI solutions may not be successful and may result in reputational harm and our future operating results could be materially harmed;
- the AI technology and features incorporated into our solution include new and evolving technologies that may present both legal and business risks;
- the use of AI by our workforce may present risks to our business;
- the contact center software solutions market is subject to rapid technological change, and we must develop and sell incremental and new solutions in order to maintain and grow our business;
- our growth depends in part on the success of our strategic relationships with third parties and our failure to successfully maintain, grow and manage these relationships could harm our business;
- the markets in which we participate involve a high number of competitors that is continuing to increase, and if we do not compete effectively, our operating results could be harmed;
- we continue to expand our international operations, which exposes us to significant macroeconomic and other risks;

- security breaches and improper access to, use of, or disclosure of our data or our clients' data, or other cyber attacks on our systems, could result in litigation and regulatory risk, harm our reputation, our business or financial results;
- we may acquire other companies, or technologies or be the target of strategic transactions, or be impacted by transactions by other companies, which could divert our management's attention, result in additional dilution to our stockholders or use a significant amount of our cash resources and otherwise disrupt our operations and harm our operating results;
- we sell our solution to larger organizations that require longer sales and implementation cycles and often demand more configuration and integration services or customized features and functions that we may not offer, any of which could delay or prevent these sales and harm our growth rates, business and operating results;
- we rely on third-party telecommunications and internet service providers to provide our clients and their customers with telecommunication services and connectivity to our cloud contact center software and any failure by these service providers to provide reliable services could cause us to lose clients and subject us to claims for credits or damages, among other things;
- we have a history of losses and we may be unable to achieve or sustain profitability;
- our stock price has been volatile, may continue to be volatile and may decline, including due to factors beyond our control;
- we may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs;
- failure to comply with laws and regulations could harm our business and our reputation; and
- we may not have sufficient cash to service our convertible senior notes and repay such notes, if required.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in, or incorporated into, this report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may differ materially from what we anticipate. You should not place undue reliance on our forward-looking statements. Any forward-looking statements you read in this report reflect our views only as of the date of this report with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We undertake no obligation to update any forward-looking statements made in this report to reflect events or circumstances after the date of this report or to reflect new information or the occurrence of unanticipated events, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

FIVE9, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	March 31, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 240,190	\$ 143,201
Marketable investments	843,212	587,096
Accounts receivable, net	103,157	97,424
Prepaid expenses and other current assets	35,627	34,622
Deferred contract acquisition costs, net	67,169	61,711
Total current assets	1,289,355	924,054
Property and equipment, net	113,640	108,572
Operating lease right-of-use assets	36,215	38,873
Finance lease right-of-use assets	4,108	4,564
Intangible assets, net	35,675	38,323
Goodwill	227,269	227,412
Other assets	16,668	16,199
Deferred contract acquisition costs, net — less current portion	148,408	136,571
Total assets	\$ 1,871,338	\$ 1,494,568
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 25,671	\$ 24,399
Accrued and other current liabilities	79,185	62,131
Operating lease liabilities	9,880	10,731
Finance lease liabilities	1,791	1,767
Deferred revenue	67,019	68,187
Total current liabilities	183,546	167,215
Convertible senior notes	1,160,972	742,125
Operating lease liabilities — less current portion	34,207	36,378
Finance lease liabilities — less current portion	2,414	2,877
Other long-term liabilities	6,601	7,888
Total liabilities	1,387,740	956,483
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock	74	73
Additional paid-in capital	895,754	942,280
Accumulated other comprehensive (loss) income	(303)	582
Accumulated deficit	(411,927)	(404,850)
Total stockholders' equity	483,598	538,085
Total liabilities and stockholders' equity	\$ 1,871,338	\$ 1,494,568

See accompanying notes to the unaudited condensed consolidated financial statements.

FIVE9, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS**

(Unaudited, in thousands, except per share data)

	Three Months Ended	
	March 31, 2024	March 31, 2023
Revenue	\$ 247,010	\$ 218,439
Cost of revenue	114,530	104,756
Gross profit	132,480	113,683
Operating expenses:		
Research and development	41,518	38,108
Sales and marketing	81,109	76,314
General and administrative	30,548	28,258
Total operating expenses	153,175	142,680
Loss from operations	(20,695)	(28,997)
Other income (expense), net:		
Interest expense	(2,567)	(1,845)
Gain on early extinguishment of debt	6,615	—
Interest income and other	10,559	4,121
Total other income (expense), net	14,607	2,276
Loss before income taxes	(6,088)	(26,721)
Provision for income taxes	989	527
Net loss	\$ (7,077)	\$ (27,248)
Net loss per share:		
Basic and diluted	\$ (0.10)	\$ (0.38)
Shares used in computing net loss per share:		
Basic and diluted	73,488	71,259
Comprehensive Loss:		
Net loss	\$ (7,077)	\$ (27,248)
Other comprehensive (loss) income	(885)	1,727
Comprehensive loss	\$ (7,962)	\$ (25,521)

See accompanying notes to the unaudited condensed consolidated financial statements.

FIVE9, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited, in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2022	71,047	\$ 71	\$ 635,668	\$ (2,688)	\$ (323,086)	\$ 309,965
Issuance of common stock upon exercise of stock options	139	—	3,125	—	—	3,125
Issuance of common stock upon vesting of restricted stock units	358	1	—	—	—	1
Stock-based compensation	—	—	51,516	—	—	51,516
Other comprehensive income	—	—	—	1,727	—	1,727
Net loss	—	—	—	—	(27,248)	(27,248)
Balance as of March 31, 2023	<u>71,544</u>	<u>\$ 72</u>	<u>\$ 690,309</u>	<u>\$ (961)</u>	<u>\$ (350,334)</u>	<u>\$ 339,086</u>
Balance as of December 31, 2023	73,317	\$ 73	\$ 942,280	\$ 582	\$ (404,850)	\$ 538,085
Issuance of new capped calls associated with the 2029 convertible senior notes	—	—	(93,438)	—	—	(93,438)
Partial termination of existing capped calls associated with the 2025 convertible senior notes	—	—	539	—	—	539
Issuance of common stock upon exercise of stock options	14	—	386	—	—	386
Issuance of common stock upon vesting of restricted stock units	518	1	—	—	—	1
Stock-based compensation	—	—	45,987	—	—	45,987
Other comprehensive loss	—	—	—	(885)	—	(885)
Net loss	—	—	—	—	(7,077)	(7,077)
Balance as of March 31, 2024	<u>73,849</u>	<u>\$ 74</u>	<u>\$ 895,754</u>	<u>\$ (303)</u>	<u>\$ (411,927)</u>	<u>\$ 483,598</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

FIVE9, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended	
	March 31, 2024	March 31, 2023
Cash flows from operating activities:		
Net loss	\$ (7,077)	\$ (27,248)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	12,183	11,347
Amortization of operating lease right-of-use assets	3,323	2,934
Amortization of deferred contract acquisition costs	16,269	12,423
Accretion of discount on marketable investments	(4,935)	(1,863)
Provision for credit losses	352	317
Stock-based compensation	44,684	50,743
Amortization of discount and issuance costs on convertible senior notes	1,074	908
Gain on early extinguishment of debt	(6,615)	—
Deferred taxes	248	59
Other	(286)	439
Changes in operating assets and liabilities:		
Accounts receivable	(6,085)	(908)
Prepaid expenses and other current assets	(1,003)	(2,307)
Deferred contract acquisition costs	(33,565)	(20,665)
Other assets	(781)	(4,231)
Accounts payable	1,279	1,557
Accrued and other current liabilities	15,832	7,725
Deferred revenue	(1,452)	181
Other liabilities	(1,092)	2,001
Net cash provided by operating activities	32,353	33,412
Cash flows from investing activities:		
Purchases of marketable investments	(524,865)	(140,892)
Proceeds from sales of marketable investments	12,517	—
Proceeds from maturities of marketable investments	260,619	76,940
Purchases of property and equipment	(11,951)	(9,928)
Capitalization of software development costs	(3,242)	(1,806)
Cash paid to acquire Aceyus, Inc.	99	—
Net cash used in investing activities	(266,823)	(75,686)
Cash flows from financing activities:		
Proceeds from issuance of 2029 convertible senior notes, net of issuance costs	728,873	—
Payments for capped call transactions associated with the 2029 convertible senior notes	(93,438)	—
Repurchase of a portion of 2025 convertible senior notes, net of costs	(304,485)	—
Cash received from partial termination of capped calls associated with the 2025 convertible senior notes	539	—
Proceeds from exercise of common stock options	386	3,125
Payment of finance lease liabilities	(479)	—
Net cash provided by financing activities	331,396	3,125
Net increase (decrease) in cash, cash equivalents and restricted cash	96,926	(39,149)
Cash, cash equivalents and restricted cash:		
Beginning of period	144,842	180,987
End of period	\$ 241,768	\$ 141,838
Supplemental disclosures of cash flow data:		
Cash paid for interest	\$ 458	\$ 2
Cash paid for income taxes	\$ 12	\$ 32
Non-cash investing and financing activities:		
Property and equipment unpaid at period-end	\$ 9,335	\$ 8,310
Stock-based compensation included in capitalized software development costs	\$ 1,303	\$ 773
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Condensed Consolidated Balance Sheets - Beginning of Period:		
Cash and cash equivalents	\$ 143,201	\$ 180,520
Restricted cash in other assets	1,641	467
Total cash, cash equivalents and restricted cash	\$ 144,842	\$ 180,987
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Condensed Consolidated Balance Sheets - End of Period:		
Cash and cash equivalents	\$ 240,190	\$ 141,359
Restricted cash in other assets	1,578	479
Total cash, cash equivalents and restricted cash	\$ 241,768	\$ 141,838

See accompanying notes to the unaudited condensed consolidated financial statements.

FIVE9, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Five9, Inc. and its wholly-owned subsidiaries (the “Company”) is a provider of cloud software for contact centers. The Company was incorporated in Delaware in 2001 and is headquartered in San Ramon, California. The Company has offices in Europe, Asia and Australia, which primarily provide research, development, sales, marketing, and client support services.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in 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, 2023. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The significant estimates made by management affect revenue and related reserves, as well as the fair value of assets acquired and liabilities assumed through business combinations and the fair value of performance-based restricted stock units (“PRSU”). Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation. Actual results could differ from those estimates.

Significant Accounting Policies

There have been no material changes from the significant accounting policies previously disclosed in Part II, Item 8, of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2023 as filed with the SEC on February 22, 2024.

Recent Accounting Pronouncements Not Yet Effective

In November 2023, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standard Update (“ASU”) No. 2023-07, *Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures*, which provides updates to qualitative and quantitative reportable segment disclosure requirements, including enhanced disclosures about significant segment expenses and increased interim disclosure requirements, among others. This ASU is effective for the Company’s fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted, and the amendments should be applied retrospectively. The Company is currently evaluating the impact of this ASU on its consolidated financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU requires disclosure of specific categories in the effective tax rate reconciliation and additional information on income taxes paid. This ASU is effective for the Company’s fiscal years beginning after December 15, 2024. Early adoption is permitted and may be adopted on a prospective or retrospective basis. The Company is currently evaluating the impact of this ASU on its consolidated financial statement disclosures.

2. Revenue

Contract Balances

The following table provides information about accounts receivable, net, deferred contract acquisition costs, net, contract assets and contract liabilities from contracts with customers (in thousands):

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Accounts receivable, net	\$ 103,157	\$ 97,424
Deferred contract acquisition costs, net:		
Current	\$ 67,169	\$ 61,711
Non-current	148,408	136,571
Total deferred contract acquisition costs, net	<u>\$ 215,577</u>	<u>\$ 198,282</u>
Contract assets and contract liabilities:		
Contract assets (included in prepaid expenses and other current assets)	\$ 652	\$ 4,106
Contract liabilities (deferred revenue)	(67,019)	(68,187)
Noncurrent contract liabilities (deferred revenue) (included in other long-term liabilities)	<u>(1,066)</u>	<u>(1,350)</u>
Net contract liabilities	<u>\$ (67,433)</u>	<u>\$ (65,431)</u>

The Company receives payments from customers based upon billing cycles. Invoice payment terms are usually 30 days or less. Accounts receivable are recorded when the right to consideration becomes unconditional.

Deferred contract acquisition costs are recorded when incurred and are amortized over an estimated customer benefit period of five years.

The Company's contract assets consist of unbilled amounts typically resulting from professional services revenue recognition when it exceeds the total amounts billed to the customer. The Company's contract liabilities consist of advance payments and billings in excess of revenue recognized.

In the three months ended March 31, 2024, the Company recognized revenue of \$35.6 million related to its contract liabilities at December 31, 2023.

Remaining Performance Obligations

As of March 31, 2024, the aggregate amount of the total transaction price allocated in contracts with original duration of greater than one year to the remaining performance obligations was \$1,048.6 million. The Company expects to recognize revenue on approximately three-fourths of the remaining performance obligations over the next 24 months, with the balance recognized thereafter. The Company excludes amounts for remaining performance obligations that are part of contracts with an original expected duration of one year or less. Such remaining performance obligations represent unsatisfied or partially unsatisfied performance obligations.

3. Investments and Fair Value Measurements

Marketable Investments

The Company's marketable investments have been classified and accounted for as available-for-sale. The Company's intent is that all marketable investments are available for use in its current operations, including marketable investments with maturity dates greater than one year from March 31, 2024. The Company's marketable

investments as of March 31, 2024 and December 31, 2023 were as follows (in thousands):

Short-Term Marketable Investments	March 31, 2024			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$ 1,220	\$ 1	\$ —	\$ 1,221
U.S. treasury securities	581,951	12	(640)	581,323
U.S. agency and government-sponsored securities	197,191	23	(130)	197,084
Commercial paper	32,768	1	(23)	32,746
Municipal bonds	1,925	—	(1)	1,924
Corporate bonds	28,975	2	(63)	28,914
Total	<u>\$ 844,030</u>	<u>\$ 39</u>	<u>\$ (857)</u>	<u>\$ 843,212</u>

Short-Term Marketable Investments	December 31, 2023			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$ 1,463	\$ —	\$ —	\$ 1,463
U.S. treasury securities	315,608	191	(362)	315,437
U.S. agency and government-sponsored securities	239,358	78	(177)	239,259
Commercial paper	17,382	9	—	17,391
Municipal bonds	927	1	—	928
Corporate bonds	12,630	4	(16)	12,618
Total	<u>\$ 587,368</u>	<u>\$ 283</u>	<u>\$ (555)</u>	<u>\$ 587,096</u>

The following table presents the gross unrealized losses and the fair value for those marketable investments that were in an unrealized loss position for less than 12 months as of March 31, 2024 and December 31, 2023 (in thousands):

	March 31, 2024		December 31, 2023	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. treasury securities	\$ (640)	\$ 469,875	\$ (362)	\$ 79,644
U.S. agency and government-sponsored securities	(130)	126,023	(177)	165,493
Commercial paper	(23)	31,559	—	—
Municipal bonds	(1)	1,924	—	—
Corporate bonds	(63)	24,840	(16)	7,550
Total	<u>\$ (857)</u>	<u>\$ 654,221</u>	<u>\$ (555)</u>	<u>\$ 252,687</u>

Although the Company had certain available-for-sale debt securities in an unrealized loss position as of March 31, 2024, no impairment loss was recorded since it did not intend to sell them, did not anticipate a need to sell them, and the decline in fair value was not due to any credit-related factors.

The amortized cost and fair value of the Company's marketable investments by contractual maturity as of March 31, 2024 were as follows (in thousands):

	Cost	Fair Value
Due within one year	\$ 682,459	\$ 681,865
Due after one year through two years	161,571	161,347
Total	<u>\$ 844,030</u>	<u>\$ 843,212</u>

Fair Value Measurements

The Company carries cash equivalents and marketable investments at fair value. Fair value is based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 — Observable inputs, which include unadjusted quoted prices in active markets for identical assets or liabilities.

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

Level 3 — Unobservable inputs that are supported by little or no market activity and that are based on management's assumptions, including fair value measurements determined by using pricing models, discounted cash flow methodologies or similar techniques.

The Company determined the fair value of its Level 1 financial instruments, which are traded in active markets, using quoted market prices for identical instruments.

Marketable investments classified within Level 2 of the fair value hierarchy are valued based on other observable inputs, including broker or dealer quotations or alternative pricing sources. When quoted prices in active markets for identical assets or liabilities are not available, the Company relies on non-binding quotes from its investment managers, which are based on proprietary valuation models of independent pricing services. These models generally use inputs such as observable market data, quoted market prices for similar instruments, historical pricing trends of a security as relative to its peers. To validate the fair value determination provided by its investment managers, the Company reviews the pricing movement in the context of overall market trends and trading information from its investment managers. The Company performs routine procedures such as comparing prices obtained from independent sources to ensure that appropriate fair values are recorded.

The following tables set forth the Company's assets measured at fair value by level within the fair value hierarchy (in thousands):

	March 31, 2024			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents				
Money market funds	\$ 93,396	\$ —	\$ —	\$ 93,396
Certificates of deposit	—	488	—	488
U.S. treasury securities	67,030	—	—	67,030
U.S. agency and government sponsored securities	—	1,058	—	1,058
Total cash equivalents	\$ 160,426	\$ 1,546	\$ —	\$ 161,972
Marketable investments				
Certificates of deposit	\$ —	\$ 1,221	\$ —	\$ 1,221
U.S. treasury securities	581,323	—	—	581,323
U.S. agency and government sponsored securities	—	197,084	—	197,084
Commercial paper	—	32,746	—	32,746
Municipal bonds	—	1,924	—	1,924
Corporate bonds	—	28,914	—	28,914
Total marketable investments	\$ 581,323	\$ 261,889	\$ —	\$ 843,212

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents				
Money market funds	\$ 66,661	\$ —	\$ —	\$ 66,661
Certificates of deposit	—	493	—	493
U.S. treasury securities	4,983	—	—	4,983
Commercial paper	—	1,498	—	1,498
Total cash equivalents	\$ 71,644	\$ 1,991	\$ —	\$ 73,635
Marketable investments				
Certificates of deposit	\$ —	\$ 1,463	\$ —	\$ 1,463
U.S. treasury securities	315,437	—	—	315,437
U.S. agency and government-sponsored securities	—	239,259	—	239,259
Commercial paper	—	17,391	—	17,391
Municipal bonds	—	928	—	928
Corporate bonds	—	12,618	—	12,618
Total marketable investments	\$ 315,437	\$ 271,659	\$ —	\$ 587,096

In March 2024, the Company issued \$747.5 million aggregate principal amount of 1.00% convertible senior notes due 2029 (the "2029 convertible senior notes") in a private offering. In connection with the issuance of the 2029 convertible senior notes, the Company used part of the net proceeds from the issuance to repurchase approximately \$313.1 million aggregate principal amount of its 0.50% convertible senior notes due 2025 (the "2025 convertible senior notes"). As of March 31, 2024 and December 31, 2023, the estimated fair value of the Company's outstanding 2025 convertible senior notes was \$409.9 million and \$718.3 million, respectively. As of March 31, 2024, the estimated fair value of the Company's outstanding 2029 convertible senior notes was \$775.2 million. The fair values were determined based on the quoted price of the convertible senior notes in an inactive market on the last trading day of the reporting period and have been classified as Level 2 in the fair value hierarchy. See Note 6 for further information on the Company's convertible senior notes.

In February 2022, the Company made a \$2.0 million equity investment in a privately-held company that the Company does not have the ability to exercise significant influence over. The Company elected to utilize the measurement alternative for an equity security without a readily determinable fair value. Accordingly, this investment is accounted for at its cost minus impairment, if any, and is classified within Level 3. If the Company identifies observable price changes in orderly transactions for such investment or a similar investment, it will measure the investment at fair value as of the date that the observable transactions or events occurred. The Company concluded that there was no indicator of impairment of this investment as of March 31, 2024.

Except for the \$2.0 million equity investment described above, there were no assets or liabilities measured at fair value on a non-recurring basis as of March 31, 2024 and December 31, 2023.

The fair value of the Company's other financial instruments, including accounts receivable, accounts payable and other current liabilities, approximate their carrying value due to the relatively short maturity of those instruments. The carrying amounts of the Company's operating and finance leases approximate their fair value, which is the present value of expected future cash payments based on assumptions about current interest rates and the creditworthiness of the Company.

4. Financial Statement Components

Cash and cash equivalents consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Cash	\$ 78,218	\$ 69,566
Money market funds	93,396	66,661
Certificates of deposit	488	493
U.S. treasury securities	67,030	4,983
U.S. agency and government sponsored securities	1,058	—
Commercial paper	—	1,498
Total cash and cash equivalents	\$ 240,190	\$ 143,201

Accounts receivable, net consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Trade accounts receivable	\$ 93,524	\$ 86,912
Unbilled trade accounts receivable, net of advance client deposits	9,914	10,776
Provision for credit losses	(281)	(264)
Accounts receivable, net	\$ 103,157	\$ 97,424

As of March 31, 2024 and December 31, 2023, there was one client that represented 11% of accounts receivable.

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Prepaid expenses	\$ 26,148	\$ 22,023
Other current assets	8,827	8,493
Contract assets	652	4,106
Prepaid expenses and other current assets	\$ 35,627	\$ 34,622

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

	March 31, 2024	December 31, 2023
Computer and network equipment	\$ 161,960	\$ 155,997
Computer software	61,993	59,452
Internal-use software development costs	24,279	19,734
Furniture and fixtures	4,705	4,666
Leasehold improvements	6,440	6,425
Property and equipment	259,377	246,274
Accumulated depreciation and amortization	(145,737)	(137,702)
Property and equipment, net	\$ 113,640	\$ 108,572

Depreciation and amortization expense associated with property and equipment was \$9.5 million and \$8.5 million for the three months ended March 31, 2024 and 2023, respectively.

Other assets consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Other assets	\$ 11,150	\$ 10,433
Equity investment in a privately-held company	2,000	2,000
Deferred tax assets	3,518	3,766
Other assets	<u>\$ 16,668</u>	<u>\$ 16,199</u>

Accrued and other current liabilities consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Accrued expenses	\$ 18,130	\$ 18,282
Accrued compensation and benefits	53,525	35,927
Accrued federal fees	4,651	4,166
Sales tax liabilities	2,879	3,756
Accrued and other current liabilities	<u>\$ 79,185</u>	<u>\$ 62,131</u>

Other long-term liabilities consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Deferred revenue	\$ 1,066	\$ 1,350
Sales tax liabilities	933	926
Other long-term liabilities	4,602	5,612
Other long-term liabilities	<u>\$ 6,601</u>	<u>\$ 7,888</u>

5. Goodwill and Intangible Assets

Goodwill of \$61.8 million and intangible assets of \$22.1 million were recognized as a result of the Company's acquisition of Aceyus, Inc. ("Aceyus") in August 2023. See Note 13 for further details. The following table summarizes the activity in the Company's goodwill and intangible asset balances during the three months ended March 31, 2024 (in thousands):

	Goodwill	Intangible Assets
Beginning of the period, December 31, 2023	\$ 227,412	\$ 38,323
Measurement period adjustment (Aceyus)	(143)	—
Amortization	—	(2,648)
End of the period, March 31, 2024	<u>\$ 227,269</u>	<u>\$ 35,675</u>

The components of intangible assets were as follows (in thousands):

	March 31, 2024				December 31, 2023			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Amortization period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Amortization period (Years)
Developed technology	\$ 75,314	\$ (42,725)	\$ 32,589	5.1	\$ 75,314	\$ (40,327)	\$ 34,987	5.2
Acquired workforce	470	(470)	—	0.0	470	(470)	—	0.0
Customer relationships	4,150	(1,460)	2,690	3.9	4,150	(1,252)	2,898	4.1
Trademarks	500	(104)	396	2.4	1,000	(562)	438	2.6
Total	<u>\$ 80,434</u>	<u>\$ (44,759)</u>	<u>\$ 35,675</u>	5.0	<u>\$ 80,934</u>	<u>\$ (42,611)</u>	<u>\$ 38,323</u>	5.1

Amortization expense related to intangible assets was \$2.6 million and \$2.8 million for the three months ended March 31, 2024 and 2023, respectively.

As of March 31, 2024, the expected future amortization expense for intangible assets was as follows (in thousands):

Period	Expected Future Amortization Expense
Remaining 2024	\$ 7,943
2025	8,660
2026	7,201
2027	2,898
2028	2,706
Thereafter	6,267
Total	<u>\$ 35,675</u>

6. Debt

Repurchase Transaction

In connection with the issuance of the 2029 convertible senior notes on March 1, 2024, the Company used part of the net proceeds from the issuance to repurchase approximately \$313.1 million aggregate principal amount of the outstanding 2025 convertible senior notes in privately-negotiated transactions for aggregate cash consideration of approximately \$304.9 million (the "Repurchase Transaction").

The Repurchase Transaction was accounted for as a debt extinguishment. The difference between the consideration used to extinguish the 2025 convertible senior notes and the carrying value of the 2025 convertible senior notes (including unamortized debt discount and issuance costs) resulted in an extinguishment gain of approximately \$6.6 million recorded through Other income (expense), net on the Company's condensed consolidated statements of operations and comprehensive loss.

In connection with the Repurchase Transaction, the Company also entered into a partial termination agreement with each bank counterparty and unwound a corresponding portion of the previously purchased capped call instruments entered into in connection with the issuance of the 2025 convertible senior notes (the "2025 Capped Calls"). The Company received approximately \$0.5 million in cash in connection with these partial terminations, representing the fair value at the date of settlement of the unwound 2025 Capped Calls.

2029 Convertible Senior Notes and Related Capped Call Transactions

In March 2024, the Company issued \$747.5 million aggregate principal amount of 2029 convertible senior notes in a private offering, which aggregate principal amount included the exercise in full of the initial purchasers' option to purchase up to an additional \$97.5 million principal amount of the 2029 convertible senior notes. The 2029 convertible senior notes mature on March 15, 2029 and bear interest at a fixed rate of 1.00% per annum, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2024. The total net proceeds from the issuance of the 2029 convertible senior notes, after deducting initial purchasers' discounts and commissions and estimated debt issuance costs, were approximately \$728.9 million.

Each \$1,000 principal amount of the 2029 convertible senior notes is initially convertible into 12.5918 shares of the Company's common stock (the "2029 Conversion Option"), which is equivalent to an initial conversion price of approximately \$79.42 per share of common stock, subject to adjustment upon the occurrence of specified events. The initial conversion price represents a premium of approximately 30% to the \$61.09 per share closing price of the Company's common stock on The Nasdaq Global Market on February 27, 2024. There have been no changes to the initial conversion price of the 2029 convertible senior notes since issuance. The 2029 convertible senior notes are convertible, in multiples of \$1,000 principal amount, at the option of the holders prior to the close of business on the business day immediately preceding December 15, 2028, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2024 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "2029 Measurement Period") in which the trading price (as defined in the 2029 Indenture governing the 2029 convertible senior notes) per \$1,000 principal amount of the 2029 convertible senior notes for each trading day of the 2029 Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate in effect on each such trading day; (3) if the Company calls any or all of the 2029 convertible senior notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after December 15, 2028 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 2029 convertible senior notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

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 the Company's common stock, at the Company's election. If the Company undergoes a fundamental change (as defined in the indenture governing the 2029 convertible senior notes), subject to certain conditions, holders may require the Company to repurchase for cash all or any portion of their 2029 convertible senior notes, in principal amounts of \$1,000 or a multiple thereof, at a fundamental change repurchase price equal to 100% of the principal amount of the 2029 convertible senior notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. In addition, following certain corporate events or if the Company issues a notice of redemption, it will, under certain circumstances, increase the conversion rate for holders who elect to convert their notes in connection with such corporate event or during the relevant redemption period.

The Company may not redeem the 2029 convertible senior notes prior to March 22, 2027. The Company may redeem for cash all or any portion of the 2029 convertible senior notes, at its option, on or after March 22, 2027 and prior to December 15, 2028, if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2029 convertible senior notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. However, the Company may not redeem less than all of the

outstanding 2029 convertible senior notes unless at least \$100.0 million aggregate principal amount of 2029 convertible senior notes are outstanding and not called for redemption at the time the redemption notice is sent. No sinking fund is provided for the 2029 convertible senior notes.

The 2029 convertible senior notes are the Company's senior unsecured obligations and rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 2029 convertible senior notes; equal in right of payment to any of the Company's unsecured indebtedness that is not so subordinated (including the 2025 convertible senior notes); effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities.

The net carrying amount of the 2029 convertible senior notes as of March 31, 2024 was as follows (in thousands):

	March 31, 2024
Principal	\$ 747,500
Unamortized issuance costs	(18,343)
Net carrying amount	<u>\$ 729,157</u>

Interest expense related to the 2029 convertible senior notes was as follows (in thousands):

	Three Months Ended
	March 31, 2024
Contractual interest expense	\$ 623
Amortization of issuance costs	284
Total interest expense	<u>\$ 907</u>

The debt issuance costs are amortized into interest expense over the term of the 2029 convertible senior notes at an effective interest rate of 1.49%.

In connection with the issuance of the 2029 convertible senior notes, the Company entered into privately negotiated capped call transactions (each a "2029 Capped Call," and collectively the "2029 Capped Calls") with certain financial institutions. The 2029 Capped Call has an initial strike price of approximately \$79.42, subject to certain adjustments, which corresponds to the initial conversion price of the 2029 convertible senior notes. The 2029 Capped Calls have an initial cap price of \$122.18 per share, subject to certain adjustments. The 2029 Capped Calls are expected to partially offset the potential dilution to the Company's common stock upon any conversion of the 2029 convertible senior notes, with such offset subject to a cap based on the cap price. Each 2029 Capped Call covers, subject to anti-dilution adjustments, approximately 9.4 million shares of the Company's common stock. The 2029 Capped Call is subject to adjustment upon the occurrence of specified extraordinary events affecting the Company, including merger events, tender offers, and announcement events. In addition, each 2029 Capped Call is subject to certain specified additional disruption events that may give rise to a termination of the 2029 Capped Calls, including nationalization, insolvency or delisting, changes in law, failures to deliver, insolvency filings, and hedging disruptions. For accounting purposes, each 2029 Capped Call is treated as a separate transaction from, and not part of the terms of the 2029 convertible senior notes. As these transactions meet certain accounting criteria, the 2029 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The 2029 Capped Calls will not be remeasured as long as they continue to meet the conditions for equity classification.

2025 Convertible Senior Notes and Related Capped Call Transactions

In May and June 2020, the Company issued \$747.5 million aggregate principal amount of 2025 convertible senior notes in a private offering, which aggregate principal amount included the exercise in full of the initial purchasers' option to purchase up to an additional \$97.5 million principal amount of the 2025 convertible senior notes. The 2025 convertible senior notes mature on June 1, 2025 and bear interest at a fixed rate of 0.500% per annum, payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. The total net proceeds from the issuance of the 2025 convertible senior notes, after deducting initial purchasers' discounts and commissions and estimated debt issuance costs, were approximately \$728.8 million.

In March 2024, the Company used part of the net proceeds from the issuance of the 2029 convertible senior notes to repurchase \$313.1 million aggregate principal amount of the 2025 convertible senior notes in privately-negotiated transactions. As of March 31, 2024, after giving effect to the Repurchase Transaction, approximately \$434.4 million aggregate principal amount of 2025 convertible senior notes remained outstanding.

Each \$1,000 principal amount of the 2025 convertible senior notes is initially convertible into 7.4437 shares of the Company's common stock (the "2025 Conversion Option"), which is equivalent to an initial conversion price of approximately \$134.34 per share of common stock, subject to adjustment upon the occurrence of specified events. The initial conversion price represents a premium of approximately 30% to the \$103.34 per share closing price of the Company's common stock on The Nasdaq Global Market on May 21, 2020. The 2025 convertible senior notes are convertible, in multiples of \$1,000 principal amount, at the option of the holders prior to the close of business on the business day immediately preceding March 1, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "2025 Measurement Period") in which the trading price (as defined in the 2025 Indenture governing the 2025 convertible senior notes) per \$1,000 principal amount of the 2025 convertible senior notes for each trading day of the 2025 Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate in effect on each such trading day; (3) if the Company calls any or all of the 2025 convertible senior notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2025 convertible senior notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

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 the Company's common stock, at the Company's election. If the Company undergoes a fundamental change (as defined in the indenture governing the 2025 convertible senior notes), subject to certain conditions, holders may require the Company to repurchase for cash all or any portion of their 2025 convertible senior notes, in principal amounts of \$1,000 or a multiple thereof, at a fundamental change repurchase price equal to 100% of the principal amount of the 2025 convertible senior notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. In addition, following certain corporate events or if the Company issues a notice of redemption, it will, under certain circumstances, increase the conversion rate for holders who elect to convert their notes in connection with such corporate event or during the relevant redemption period.

There have been no changes to the initial conversion price of the 2025 convertible senior notes since issuance. The closing market price of the Company's common stock of \$62.11 per share on March 31, 2024, the last trading day during the three months ended March 31, 2024, was below \$174.64 per share, which represents 130% of the initial conversion price of \$134.34 per share. Additionally, the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day, March 31, 2024, was not greater than or equal to 130% of the initial conversion price. As such, during the three months ended March 31, 2024, the conditions allowing holders of the 2025 convertible senior notes to convert were not met. The 2025 convertible senior notes are therefore not convertible during the three months ending June 30, 2024.

The 2025 convertible senior notes became redeemable at the Company's option on June 6, 2023. The Company may redeem for cash all or any portion of the 2025 convertible senior notes, at its option, prior to March 1, 2025, if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending not more than two trading days immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2025 convertible senior notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. No sinking fund is provided for the 2025 convertible senior notes. During the three months ended March 31, 2024, the conditions allowing the Company to redeem for cash all or any portion of the 2025 convertible senior notes were not met.

The 2025 convertible senior notes are the Company's senior unsecured obligations and rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 2025 convertible senior notes; equal in right of payment to any of the Company's unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of the Company's subsidiaries.

The net carrying amount of the 2025 convertible senior notes as of March 31, 2024 and as of December 31, 2023 was as follows (in thousands):

	March 31, 2024	December 31, 2023
Principal	\$ 747,500	\$ 747,500
Unamortized issuance costs	(2,590)	(5,375)
Principal repaid	(313,095)	—
Net carrying amount	<u>\$ 431,815</u>	<u>\$ 742,125</u>

Interest expense related to the 2025 convertible senior notes was as follows (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Contractual interest expense	\$ 804	\$ 934
Amortization of issuance costs	790	908
Total interest expense	<u>\$ 1,594</u>	<u>\$ 1,842</u>

The debt issuance costs are amortized into interest expense over the term of the 2025 convertible senior notes at an effective interest rate of 1.00%.

In connection with the issuance of the 2025 convertible senior notes, the Company entered into privately negotiated capped call transactions (each a "2025 Capped Call," and collectively the "2025 Capped Calls") with certain financial institutions. The 2025 Capped Calls each have an initial strike price of approximately \$134.34, which corresponds to the initial conversion price of the 2025 convertible senior notes. The initial cap price of the 2025 Capped Calls was \$206.68 per share and is subject to certain adjustments under the terms of the 2025 Capped Calls. In connection with the Repurchase Transaction, the Company unwound a portion of the 2025 Capped Calls. Refer to the Repurchase Transaction section above for further information. There are no changes or amendments made to the remaining 2025 Capped Calls. The remaining 2025 Capped Calls cover, subject to anti-dilution adjustments, approximately 3.2 million shares of the Company's common stock. Each 2025 Capped Call is subject to adjustment upon the occurrence of specified extraordinary events affecting the Company, including merger events, tender offers, and announcement events. In addition, each 2025 Capped Call is subject to certain specified additional disruption events that may give rise to a termination of each 2025 Capped Call, including nationalization, insolvency or delisting, changes in law, failures to deliver, insolvency filings, and hedging disruptions. For accounting purposes, each 2025 Capped Call is a separate transaction from, and not part of the terms of the 2025 convertible senior notes. As these transactions meet certain accounting criteria, the 2025 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The 2025 Capped Calls will not be remeasured as long as they continue to meet the conditions for equity classification.

7. Stockholders' Equity

Capital Structure

Common Stock

The Company is authorized to issue 450,000,000 shares of common stock with a par value of \$0.001 per share. As of March 31, 2024 and December 31, 2023, the Company had 73,849,081 and 73,316,968 shares of common stock issued and outstanding, respectively.

Preferred Stock

The Company is authorized to designate and issue up to 5,000,000 shares of preferred stock with a par value of \$0.001 per share in one or more series without stockholder approval and to fix the rights, preferences, privileges and restrictions thereof. As of March 31, 2024 and December 31, 2023, there were no shares of preferred stock issued and outstanding.

Common Stock Reserved for Future Issuance

Shares of common stock reserved for future issuance related to outstanding equity awards and employee equity incentive plans as of March 31, 2024 were as follows (in thousands):

	March 31, 2024
Stock options outstanding	902
RSUs (including PRSUs) outstanding	5,705
Shares available for future grant under 2014 Plan	17,173
Shares available for future issuance under ESPP	4,670
Total shares of common stock reserved	28,450

Stock Options

A summary of the Company's stock option activity during the three months ended March 31, 2024 is as follows (in thousands, except per share data):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2023	918	\$ 55.96		
Options granted	—	—		
Options exercised	(14)	26.85		
Options forfeited or expired	(2)	174.78		
Outstanding as of March 31, 2024	902	\$ 56.23	4.5	\$ 22,648

The aggregate intrinsic value amounts are computed based on the difference between the exercise price of the stock options and the fair market value of the Company's common stock of \$62.11 per share as of March 28, 2024 for all in-the-money stock options outstanding.

Restricted Stock Units (including PRSUs)

A summary of the Company's restricted stock unit ("RSU") activity, including PRSUs, during the three months ended March 31, 2024 is as follows (in thousands, except per share data):

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of December 31, 2023	4,076	\$ 83.25
RSUs granted ⁽¹⁾	2,210	59.04
RSUs vested and released	(518)	82.33
RSUs forfeited or cancelled	(63)	87.09
Outstanding as of March 31, 2024	5,705	73.57

(1) Includes 159,016 PRSUs granted during the three months ended March 31, 2024.

PRSUs with Market and Service Conditions In 2022, the Company granted 284,282 PRSUs subject to market and service conditions ("market-based PRSUs") with a grant date fair value of \$30.6 million as part of its annual grant of equity incentive awards to certain executives and in connection with the appointment of Michael Burkland as its new Chief Executive Officer. In 2023, the Company granted 35,921 market-based PRSUs with a grant date fair value of \$3.1 million. During the three months ended March 31, 2024, the Company granted an additional 159,016 market-based PRSUs with a grant date fair value of \$9.6 million. The amount that may be earned pursuant to the market-based PRSUs ranges from 0% to 200% of the target number based on the Company's relative total shareholder return ("RTSR") performance as compared to the companies in the S&P Software and Services Select Index during three one-year performance periods. One-third of the total market-based PRSUs may be earned and settled in shares following the end of each performance period based on RTSR performance and subject to continued employment through the payment date. If the Company's absolute total shareholder return for any performance period is negative, then no more than 100% of the target amount of market-based PRSUs for such period may be

earned. If an executive's employment with the Company terminates before the end of the final one-year performance period due to death or disability, 100% (if due to death) or 50% (if due to disability) of the unvested market-based PRSUs may be earned subject to ultimate RTSR performance in each remaining performance period. Upon a qualifying termination of employment in connection with a change in control of the Company, the unvested market-based PRSUs will vest on a double-trigger basis (i) at the target level for the market-based PRSUs subject to the 2022-2024 performance period, (ii) for the market-based PRSUs subject to the 2023-2025 performance period, and (iii) for the market-based PRSUs subject to the 2024-2026 performance period, (a) at the target level for the uncompleted portions of the performance periods and (b) at the actual level of performance measured through the date of the change in control of the Company, based on the price per share paid in such change in control. The fair value of the market-based PRSUs is determined on their grant date using a Monte Carlo Simulation model based upon assumptions presented below. The Company recognizes the fair value of the market-based PRSUs ratably over their requisite service period.

During the first quarter of 2023, the Company certified the performance results for the 2022 measurement period for the market-based PRSUs subject to the 2022-2024 performance period. Under the market-based PRSU agreements, the TSR payout percentage ranges from 0% to 200%, with a 50% payout at the 25th TSR percentile (threshold), 100% payout at the 55th TSR percentile (target), 200% payout at the 90th percentile or greater (maximum) and no payout below the threshold performance level. The Company determined that its actual total shareholder return was -52.64% for 2022, and that its relative total shareholder return ranking was in the 30.2 percentile relative to companies in the S&P Software & Services Select Index, which resulted in a payout percentage of 58.7% of target. During the first quarter of 2024, the Company certified the performance results for the 2023 measurement period for the market-based PRSUs subject to the 2022-2024 performance period. The Company determined that its actual total shareholder return was 19.95% for 2023, and that its relative total shareholder return ranking was in the 53.8 percentile relative to companies in the S&P Software & Services Select Index, which resulted in a payout percentage of 98.0% of target. During the first quarter of 2024, the Company also certified the performance results for the 2023 measurement period for the market-based PRSUs subject to the 2023-2025 performance period. The Company determined that its actual total shareholder return was 19.95% for 2023, and that its relative total shareholder return ranking was in the 50.5 percentile relative to companies in the S&P Software & Services Select Index, which resulted in a payout percentage of 92.5% of target.

PRSUs with Revenue and Service Conditions In 2022, the Company granted 66,167 PRSUs subject to revenue-based performance and service conditions ("revenue-based PRSUs") with a grant date fair value of \$6.6 million. The amount of revenue-based PRSUs that may be earned will be determined based on achievement of two quarterly revenue goals. One third of the revenue-based PRSUs may be earned based on achievement of the first revenue target and, if achieved, will vest in four quarterly installments, with the first installment occurring on the date such achievement is certified, subject to the executive's continuous service through the applicable vesting dates. Two thirds of the revenue-based PRSUs may be earned based on achievement of the second revenue target and, if achieved, will vest in eight quarterly installments, with the first installment occurring on the date such achievement is certified, subject to the executive's continuous service through the applicable vesting dates. The revenue-based PRSUs are otherwise on the Company's standard award terms for its market-based PRSUs. During 2023, the Company certified that the first revenue target was achieved, and thus recognized the related stock-based compensation expense for this first revenue target. However, the Company certified during the first quarter of 2024

that, as of December 31, 2023, the second revenue target was not achieved, and thus did not recognize the related stock-based compensation expense and cancelled the shares associated with this target.

Stock-Based Compensation

Stock-based compensation expense was as follows (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Cost of revenue	\$ 7,603	\$ 9,333
Research and development	10,930	12,382
Sales and marketing	14,020	17,045
General and administrative	12,131	11,983
Total stock-based compensation expense	\$ 44,684	\$ 50,743

As of March 31, 2024, unrecognized stock-based compensation expense by award type and expected weighted-average recognition periods are summarized in the following table (in thousands, except years).

	Stock Option	RSU (excluding PRSUs)	PRSU	ESPP
Unrecognized stock-based compensation expense	\$ 3,626	\$ 369,349	\$ 19,581	\$ 952
Weighted-average amortization period	1.4 years	3.1 years	1.9 years	0.1 years

The weighted-average assumptions used to value PRSUs with market conditions granted during the periods presented were as follows:

PRSUs (Market Conditions)	Three Months Ended	
	March 31, 2024	March 31, 2023
Closing price of common stock as of grant date	\$ 63.38	\$ 68.15
Expected term (years)	2.85	2.84
Volatility	49.4 %	51.1 %
Risk-free interest rate	4.5 %	4.5 %
Dividend yield ⁽¹⁾	—	—

(1) The Company has not paid, and does not anticipate paying, cash dividends on its shares of common stock. Accordingly, the expected dividend yield is zero.

8. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding during the period, and excludes any dilutive effects of employee stock-based awards and potential shares upon conversion of the convertible senior notes. Diluted net loss per share is computed giving effect to all potentially dilutive shares of common stock, including common stock issuable upon exercise of stock options, vesting of RSUs and PRSUs, and shares of common stock issuable upon conversion of convertible senior notes. As the Company had net losses for the three months ended March 31, 2024 and 2023, all potentially issuable shares of common stock were determined to be anti-dilutive.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net loss	\$ (7,077)	\$ (27,248)
Weighted-average shares used in computing basic and diluted net loss per share	73,488	71,259
Basic and diluted net loss per share	\$ (0.10)	\$ (0.38)

The following securities were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Stock options	902	1,303
RSUs (including PRSUs)	5,705	4,842
Convertible senior notes	7,899	5,568
Total	14,506	11,713

The Company used the if-converted method for calculating any potential dilutive effect of its convertible senior notes for the three months ended March 31, 2024 and 2023. Under this method, the Company calculates diluted earnings per share under both the cash and share settlement assumptions to determine which is more dilutive. If share settlement is more dilutive, the Company calculates diluted earnings per share assuming that all of the convertible senior notes were converted solely into shares of common stock at the beginning of the reporting period. The potential impact upon the conversion of the convertible senior notes were excluded from the calculation of diluted net loss per share for the three months ended March 31, 2024 and 2023 because the effect would have been anti-dilutive.

9. Income Taxes

The provision for income taxes for the three months ended March 31, 2024 and 2023 was approximately \$1.0 million and \$0.5 million, respectively.

The provision for income taxes for the three months ended March 31, 2024 consisted primarily of U.S. federal and U.S. state tax expense as a result of IRC Section 174 research and experimental capitalization requirements, and foreign current income tax expense due to the Company's intercompany cost-plus operating model. The provision for income taxes for the three months ended March 31, 2023 consisted primarily of state and foreign current income tax expense.

For the three months ended March 31, 2024, the provision for income taxes differed from the statutory amount primarily due to certain U.S. and foreign jurisdictions where a full valuation allowance was maintained against the net deferred tax assets. For the three months ended March 31, 2023, the provision for income taxes differed from the statutory amount primarily due to domestic state income taxes, foreign income taxes and the Company realizing no benefit for prior year domestic losses due to maintaining a full valuation allowance against its domestic net deferred tax assets.

The realization of tax benefits from deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are expected to be deductible or taxable. Based on the weight of the available objective evidence, the Company does not believe it is more likely than not that the U.S. or U.K. net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against such net deferred tax assets as of March 31, 2024 and December 31, 2023. The Company intends to maintain the valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance. During the three months ended March 31, 2024, there were no material changes to the total amount of unrecognized tax benefits.

10. Commitments and Contingencies

Commitments

The Company's principal commitments consist of future payment obligations under its convertible senior notes, finance leases to finance data centers and other computer and networking equipment, operating leases for office facilities, cloud services and software and maintenance agreements, and agreements with third parties to provide co-location hosting and telecommunication services. These commitments as of December 31, 2023 are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, and material updates to these commitments during the three months ended March 31, 2024 are disclosed herein, including in this Note 10 and in Note 12.

As of March 31, 2024, the Company's commitments under various co-location hosting and telecommunications agreements totaled \$13.6 million for terms ranging up to 57 months. These agreements require the Company to make monthly payments over the service term in exchange for certain network services.

As of March 31, 2024, the Company had outstanding cloud services and software and maintenance agreement commitments totaling \$89.2 million, of which \$14.3 million is expected to be purchased in 2024, \$47.3 million is expected to be purchased in 2025, and the remaining \$27.6 million is expected to be purchased in 2026.

As of March 31, 2024, \$434.4 million of aggregate principal of the 2025 convertible senior notes was outstanding and is due on June 1, 2025 and \$747.5 million of aggregate principal of the 2029 convertible senior notes was outstanding and is due on March 15, 2029. See Note 6 for more information concerning the convertible senior notes.

Legal Matters

The Company is involved in various legal and regulatory matters arising in the normal course of business. In management's opinion, resolution of these matters is not expected to have a material impact on the Company's consolidated results of operations, cash flows, or its financial position. However, due to the uncertain nature of legal matters, an unfavorable resolution of a matter could materially affect the Company's future consolidated results of operations, cash flows or financial position in a particular period. The Company expenses legal fees as incurred.

Indemnification Agreements

In the ordinary course of business, the Company enters into agreements of varying scope and terms pursuant to which it agrees to indemnify clients, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, including breach of security, services to be provided by the Company or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors, officers and certain employees that requires it, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. There are no claims that the Company is aware of that could have a material effect on the consolidated balance sheets, consolidated statements of operations and comprehensive loss, or consolidated statements of cash flows.

11. Geographical Information

The following table summarizes revenues by geographic region based on client billing address (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
United States	\$ 219,260	\$ 195,363
International	27,750	23,076
Total revenue	\$ 247,010	\$ 218,439

The following table summarizes total property and equipment, net in the respective locations (in thousands):

	March 31, 2024	December 31, 2023
	United States	\$ 106,426
International	7,214	7,005
Property and equipment, net	\$ 113,640	\$ 108,572

12. Leases

The Company has leases for offices, data centers and computer and networking equipment that expire at various dates through 2031. The Company's leases have remaining terms of one to seven years, some of the leases include a Company option to extend the leases for up to one to five years, and some of the leases include the option to terminate the leases upon 30-days' notice. The Company does not separate lease and non-lease components for real estate operating leases.

The components of lease expenses were as follows (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Operating lease cost	\$ 3,266	\$ 3,382
Finance lease cost:		
Amortization of right-of-use assets	\$ 456	\$ 63
Interest on finance lease liabilities	66	—
Total finance lease cost	\$ 522	\$ 63

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash used in operating leases	\$ (3,119)	\$ (3,275)
Financing cash used in finance leases	(479)	—
Right of use assets obtained in exchange for lease obligations:		
Operating leases	209	4,153
Finance leases	—	—

Supplemental balance sheet information related to leases was as follows (in thousands):

	March 31, 2024	December 31, 2023
Operating leases		
Operating lease right-of-use assets	\$ 36,215	\$ 38,873
Operating lease liabilities	\$ 9,880	\$ 10,731
Operating lease liabilities — less current portion	34,207	36,378
Total operating lease liabilities	\$ 44,087	\$ 47,109
Finance leases		
Finance lease right-of-use assets	\$ 4,108	\$ 4,564
Finance lease liabilities	\$ 1,791	\$ 1,767
Finance lease liabilities — less current portion	2,414	2,877
Total finance lease liabilities	\$ 4,205	\$ 4,644

Weighted average remaining terms were as follows (in years):

	March 31, 2024	December 31, 2023
Weighted average remaining lease term		
Operating leases	5.6	5.7
Finance leases	2.3	2.6

Weighted average discount rates were as follows:

	March 31, 2024	December 31, 2023
Weighted average discount rate		
Operating leases	3.8 %	3.8 %
Finance leases	6.1 %	6.1 %

Maturities of lease liabilities were as follows (in thousands):

Year Ending December 31,	Operating Leases	Finance Leases
Remaining 2024	\$ 8,783	\$ 1,491
2025	9,364	1,987
2026	7,153	1,012
2027	5,957	—
2028	5,582	—
Thereafter	11,709	—
Total future minimum lease payments	48,548	4,490
Less: imputed interest	(4,461)	(285)
Total	\$ 44,087	\$ 4,205

As of March 31, 2024, the Company entered into an additional facility operating lease that is expected to commence on November 1, 2024, with a lease term of six years, representing a total commitment over its term of \$5.1 million.

13. Acquisition

Aceyus

On August 14, 2023, the Company acquired all of the issued and outstanding shares of capital stock of Aceyus, Inc. ("Aceyus") for total cash consideration of approximately \$82.0 million. This acquisition, which was accounted for as a business combination, is intended to accelerate the Company's ability to capitalize on two business opportunities, namely facilitating the migration of large enterprise customers from on-premise to cloud and leveraging contextual data to deliver personalized experiences throughout the customer journey, including using this contextual data in the Company's AI & Automation solutions.

The excess of the purchase price over identifiable intangible assets and net tangible assets in the amount of \$61.8 million was allocated to goodwill, which is not deductible for tax purposes. The fair values assigned to assets acquired and liabilities assumed are based on management's best estimates and assumptions as of the acquisition date and are considered preliminary pending finalization of valuation analyses pertaining to intangible assets acquired, liabilities assumed and tax liabilities assumed. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. The Company recorded a measurement period adjustment of \$0.1 million during the three months ended March 31, 2024. The following table presents the preliminary allocation of the purchase price at the acquisition date (in thousands):

Cash	\$	1,523
Tangible assets acquired		383
Other assets acquired		3,002
Acquired technology		19,100
Customer relationships		2,550
Trademarks		500
Goodwill		61,849
Total assets acquired		88,907
Liabilities assumed		(6,895)
Total	\$	82,012

The acquired technology, customer relationships, and trademarks will be amortized on a straight-line basis over their estimated useful lives of eight years, five years, and three years, respectively. The Company used the income approach to estimate the fair value of intangible assets acquired.

In connection with this acquisition, the Company incurred total acquisition-related transaction costs of \$2.2 million in 2023, and incurred no additional costs during the three months ended March 31, 2024, that have been

expensed as incurred and included in general and administrative expenses in the consolidated statements of operations and comprehensive loss.

The results of operations of this acquisition are included in the accompanying consolidated statements of operations and comprehensive loss from the date of acquisition and are not material to the Company's condensed consolidated financial statements.

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

You should read the following discussion in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2023.

Overview

We are a pioneer and leading provider of intelligent cloud contact centers with more than 3,000 clients. We believe we achieved this leadership position through our expertise and technology, which has empowered us to help organizations of all sizes transition from legacy on-premise contact center systems to our cloud solution. Our solution, comprised of our Virtual Contact Center, or VCC, cloud platform and applications, allows simultaneous management and optimization of customer interactions across voice, chat, email, web, social media and mobile channels, either directly or through our application programming interfaces, or APIs. Our VCC cloud platform matches each customer interaction with an appropriate agent resource and delivers relevant customer data to the agent in real-time through integrations with adjacent enterprise applications, such as customer relationship management, or CRM, software, to optimize the customer experience and improve agent productivity. Unlike legacy on-premise contact center systems, our solution requires minimal up-front investment, can be rapidly deployed and adjusted depending on our client's requirements.

Since founding our business in 2001, we have focused exclusively on delivering cloud contact center software. We initially targeted smaller contact center opportunities with our telesales team and, over time, invested in expanding the breadth and depth of the functionality of our cloud platform to meet the evolving requirements of our clients. In 2009, we made a strategic decision to expand our market opportunity to include larger contact centers. This decision drove further investments in research and development and the establishment of our field sales team to meet the requirements of these larger contact centers. We believe this shift has helped us diversify our client base, while significantly enhancing our opportunity for future revenue growth. To complement these efforts, we have also focused on building client awareness and driving adoption of our solution through marketing activities, which include internet advertising, digital marketing campaigns, social media, trade shows, industry events, telemarketing and out of home campaigns.

We provide our solution through a SaaS business model with recurring subscriptions. We offer a comprehensive suite of applications delivered on our VCC cloud platform that are designed to enable our clients to manage and optimize interactions across inbound and outbound contact centers. We primarily generate revenue by selling subscriptions and related usage of our VCC cloud platform. We charge our clients monthly subscription fees for access to our solution, primarily based on the number of agent seats, as well as the specific functionalities and applications our clients deploy. We define agent seats as the maximum number of named agents allowed to concurrently access our solution. Our clients typically have more named agents than agent seats, and multiple named agents may use an agent seat, though not simultaneously. Substantially all of our clients purchase both subscriptions and related telephony usage from us. A small percentage of our clients subscribe to our platform but purchase telephony usage directly from wholesale telecommunications service providers. We do not sell telephony usage on a stand-alone basis to any client. The related usage fees are based on the volume of minutes for inbound and outbound interactions. We also offer bundled plans, generally for smaller deployments, where the client is charged a single monthly fixed fee per agent seat that includes both subscription and unlimited usage in the contiguous 48 states and, in some cases, Canada. We offer monthly, annual and multiple-year contracts to our clients, generally with 30 days' notice required for reductions in the number of agent seats. Increases in the number of agent seats can be provisioned almost immediately. Our clients, therefore, are able to adjust the number of agent seats used to meet their changing contact center volume needs. Our larger clients typically choose annual contracts, which generally include an implementation and ramp period of several months. Fixed subscription fees, including bundled plans, are generally billed monthly in advance, while related usage fees are billed in arrears. For the three months ended March 31, 2024 and 2023, subscription and related usage fees accounted for 93% and 92% of our revenue, respectively. The remainder was comprised of professional services revenue from the implementation and optimization of our solution.

Macroeconomic and Other Factors

We are subject to risks and exposures, including those caused by adverse economic conditions, including macroeconomic deterioration, the Russia-Ukraine conflict and the conflict in Israel.

Macroeconomic factors include the global economic slowdown, continued inflation, increased interest rates, supply chain disruptions, decreased economic output and fluctuations in currency exchange rates. We continuously monitor the direct and indirect impacts of these circumstances on our business and financial results, as well as the

overall global economy and geopolitical landscape. While the implications of macroeconomic events on our business, results of operations and overall financial position remain uncertain over the long term, we expect that adverse economic conditions will continue to have an adverse impact on our revenue in future periods. For example, our installed base business, which typically contributes approximately half of our annual revenue growth, continues to experience macroeconomic headwinds.

In March 2022 we decided to close our Russia office and to establish a new European development center in Portugal, in part due to the growing uncertainty arising from the Russia-Ukraine conflict. During the three months ended March 31, 2024 and 2023, we incurred approximately \$0.1 million and \$0.7 million in costs related to the closure and relocation of our Russian operations, of which \$0.0 million and \$0.5 million was recorded in research and development expense, \$0.0 million and \$0.1 million was recorded in general and administrative expense, and \$0.1 million and \$0.1 million was recorded in interest income and other in our condensed consolidated statements of operations and comprehensive loss. Going forward, we do not expect to incur additional material costs related to the closure and relocation of our Russia operations. We currently do not believe that this decision will have a material effect on our business, results of operations or financial condition.

Key GAAP Operating Results

Our revenue increased to \$247.0 million for the three months ended March 31, 2024 from \$218.4 million for the three months ended March 31, 2023. Revenue growth was primarily attributable to our larger clients, driven by an increase in our sales and marketing activities and our improved brand awareness. For each of the three months ended March 31, 2024 and 2023, no single client accounted for more than 10% of our total revenue. As of March 31, 2024, we had over 3,000 clients across multiple industries with a wide range of seat sizes. We had a net loss of \$7.1 million in the three months ended March 31, 2024, compared to a net loss of \$27.2 million in the three months ended March 31, 2023.

We have continued to make significant expenditures and investments, including in sales and marketing, research and development and infrastructure. We primarily evaluate the success of our business based on revenue growth and the efficiency and effectiveness of our investments. The growth of our business and our future success depend on many factors, including our ability to continue to expand our base of larger clients, grow revenue from our existing clients, innovate and expand internationally. While these areas represent significant opportunities for us, they also pose risks and challenges that we must successfully address, including the impact of macroeconomic deterioration, the Russia-Ukraine conflict and the conflict in Israel, in order to successfully grow our business and improve our operating results.

Key Operating and Non-GAAP Financial Performance Metrics

In addition to measures of financial performance presented in our condensed consolidated financial statements, we monitor the key metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational efficiencies.

Annual Dollar-Based Retention Rate

We believe that our Annual Dollar-Based Retention Rate provides insight into our ability to retain and grow revenue from our clients, and is a measure of the long-term value of our client relationships. Our Annual Dollar-Based Retention Rate is calculated by dividing our Retained Net Revenue by our Retention Base Net Revenue on a monthly basis, which we then average using the rates for the trailing twelve months for the period presented. We define Retention Base Net Revenue as recurring net revenue from all clients in the comparable prior year period, and we define Retained Net Revenue as recurring net revenue from that same group of clients in the current period. We define recurring net revenue as net subscription and related usage revenue.

The following table shows our Annual Dollar-Based Retention Rate based on Net Revenue for the periods presented:

	Twelve Months Ended	
	March 31, 2024	March 31, 2023
Annual Dollar-Based Retention Rate	109%	114%

Our Dollar-Based Retention Rate decreased year-over-year primarily due to continued macroeconomic headwinds on our installed base.

Adjusted EBITDA

We monitor adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that adjusted EBITDA helps illustrate underlying trends in our business that could otherwise be masked by the effect of the income or expenses that we exclude from adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP, and our calculation of adjusted EBITDA may differ from that of other companies in our industry. We compensate for the inherent limitations associated with using adjusted EBITDA through disclosure of these limitations, presentation of our financial statements in accordance with U.S. GAAP and reconciliation of adjusted EBITDA to the most directly comparable U.S. GAAP measure, net loss. We calculate adjusted EBITDA as net loss before (1) depreciation and amortization, (2) stock-based compensation, (3) interest expense, (4) gain on early extinguishment of debt, (5) interest (income) and other, (6) exit costs related to the closure and relocation of Russian operations, (7) acquisition and related transaction costs and one-time integration costs, (8) lease amortization for finance leases, (9) provision for income taxes, and (10) other items that do not directly affect what we consider to be our core operating performance.

The following table shows a reconciliation of net loss to adjusted EBITDA for the periods presented (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net loss	\$ (7,077)	\$ (27,248)
Non-GAAP adjustments:		
Depreciation and amortization ⁽¹⁾	12,183	11,347
Stock-based compensation ⁽²⁾	44,684	50,743
Interest expense	2,567	1,845
Gain on early extinguishment of debt	(6,615)	—
Interest (income) and other	(10,559)	(4,121)
Exit costs related to closure and relocation of Russian operations ⁽³⁾	25	596
Acquisition and related transaction costs and one-time integration costs	932	1,455
Lease amortization for finance leases	457	—
Provision for income taxes	989	527
Adjusted EBITDA	<u>\$ 37,586</u>	<u>\$ 35,144</u>

(1) Depreciation and amortization expenses included in our results of operations for the periods presented are as follows (in thousands):

	Three Months Ended	
	March 31, 2024	March 31, 2023
Cost of revenue	\$ 9,613	\$ 8,907
Research and development	890	872
Sales and marketing	27	1
General and administrative	1,653	1,567
Total depreciation and amortization	<u>\$ 12,183</u>	<u>\$ 11,347</u>

(2) See Note 7 to the condensed consolidated financial statements for stock-based compensation expense included in our results of operations for the periods presented.

(3) Exit costs related to the closure and relocation of our Russian operations were \$0.1 million during the three months ended March 31, 2024. The \$0.0 million adjustment presented above was net of \$0.1 million included in "Interest (income) and other." Exit costs related to the closure and relocation of our Russian operations were \$0.7 million during the three months ended March 31, 2023. The \$0.6 million adjustment presented above was net of \$0.1 million included in "Interest (income) and other."

Key Components of Our Results of Operations

Revenue

Our revenue consists of subscription and related usage as well as professional services. We consider our subscription and related usage to be recurring revenue. This recurring revenue includes fixed subscription fees for the delivery and support of our VCC cloud platform, as well as related usage fees. The related usage fees are generally based on the volume of minutes for inbound and outbound client interactions. We also offer bundled plans, generally for smaller deployments, where the client is charged a single monthly fixed fee per agent seat that includes both subscription and unlimited usage in the contiguous 48 states and, in some cases, Canada. We offer monthly, annual and multiple-year contracts for our clients, generally with 30 days' notice required for reductions in the number of agent seats. Increases in the number of agent seats can be provisioned almost immediately. Our clients, therefore, are able to adjust the number of agent seats used to meet their changing contact center volume needs. Our larger clients typically choose annual contracts, which generally include an implementation and ramp period of several months.

Fixed subscription fees, including plans with bundled usage, are generally billed monthly in advance, while variable usage fees are billed in arrears. Fixed subscription fees are recognized on a straight-line basis over the applicable term, which is predominantly the monthly contractual billing period. Support activities include technical assistance for our solution and upgrades and enhancements on a when and if available basis, which are not billed separately. Variable subscription related usage fees for non-bundled plans are billed in arrears based on client-specific per minute rate plans and are recognized as actual usage occurs. We generally require advance deposits from clients based on estimated usage. All fees, except usage deposits, are non-refundable.

In addition, we generate professional services revenue from assisting clients in implementing our solution and optimizing use. These services include application configuration, system integration and education and training services. Professional services are primarily billed on a fixed-fee basis and are typically performed by us directly. In limited cases, our clients choose to perform these services themselves or engage their own third-party service providers to perform such services. Professional services are recognized as the services are performed using the proportional performance method, with performance measured based on labor hours, provided all other criteria for revenue recognition are met.

While the implications of macroeconomic events on our business, results of operations and overall financial position remain uncertain over the long term, we expect that adverse economic conditions will continue to have an adverse impact on our revenue in future periods. For example, our installed base business, which typically contributes approximately half of our annual revenue growth, continues to experience macroeconomic headwinds.

Cost of Revenue

Our cost of revenue consists primarily of personnel costs, including stock-based compensation, fees that we pay to telecommunications providers for usage, Universal Service Fund, or USF, contributions and other regulatory costs, depreciation and related expenses of our servers and equipment, costs to build out and maintain co-location data centers, costs of public cloud-based data centers, allocated office and facility costs, amortization of acquired technology and amortization of internal-use software development costs. Cost of revenue can fluctuate based on a number of factors, including the fees we pay to telecommunications providers, which vary depending on our clients' usage of our VCC cloud platform, the timing of capital expenditures and related depreciation charges and changes in headcount. We expect to continue investing in professional services, public cloud, cloud operations, client support and network infrastructure to maintain high quality and availability of services, which we believe will result in absolute dollar increases in cost of revenue but percentage of revenue declines in the long-term through economies of scale.

Operating Expenses

We classify our operating expenses as research and development, sales and marketing, and general and administrative expenses.

Research and Development. Our research and development expenses consist primarily of salary and related expenses, including stock-based compensation, for personnel related to the development of improvements and expanded features for our services, as well as quality assurance, testing, product management and allocated overhead. We expense research and development expenses as they are incurred except for internal use software development costs that qualify for capitalization. We believe that continued investment in our solution is important

for our future growth, and we expect our research and development expenses to increase in absolute dollars and fluctuate as a percentage of revenue in the near and longer term.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and related expenses, including stock-based compensation, for personnel in sales and marketing, sales commissions, as well as advertising, marketing, corporate communications, travel costs and allocated overhead. We believe it is important to continue investing in sales and marketing to continue to generate revenue growth, and we expect sales and marketing expenses to increase in absolute dollars and fluctuate as a percentage of revenue in the near and longer term as we continue to support our growth initiatives.

General and Administrative. General and administrative expenses consist primarily of salary and related expenses, including stock-based compensation, for management, finance and accounting, legal, information systems and human resources personnel, professional fees, compliance costs, other corporate expenses and allocated overhead. We expect that general and administrative expenses will fluctuate in absolute dollars and as a percentage of revenue in the near term, but to increase in absolute dollars and decline as a percentage of revenue in the longer term.

Results of Operations for the Three Months Ended March 31, 2024 and 2023

Based on the condensed consolidated statements of operations and comprehensive loss set forth in this Quarterly Report on Form 10-Q, the following table sets forth our operating results as a percentage of revenue for the periods indicated:

	Three Months Ended	
	March 31, 2024	March 31, 2023
Revenue	100 %	100 %
Cost of revenue	46 %	48 %
Gross profit	54 %	52 %
Operating expenses:		
Research and development	17 %	17 %
Sales and marketing	33 %	35 %
General and administrative	12 %	13 %
Total operating expenses	62 %	65 %
Loss from operations	(8)%	(13)%
Other income (expense), net:		
Interest expense	(1)%	(1)%
Gain on early extinguishment of debt	3 %	— %
Interest income and other	4 %	2 %
Total other income (expense), net	6 %	1 %
Loss before income taxes	(2)%	(12)%
Provision for income taxes	1 %	— %
Net loss	(3)%	(12)%

Revenue

	Three Months Ended			
	March 31, 2024	March 31, 2023	\$ Change	% Change
(in thousands, except percentages)				
Revenue	\$ 247,010	\$ 218,439	\$ 28,571	13 %

The increase in revenue for the three months ended March 31, 2024 compared to the same period of 2023 was primarily attributable to our larger clients, driven by an increase in our sales and marketing activities and our improved brand awareness.

Cost of Revenue

	Three Months Ended			
	March 31, 2024	March 31, 2023	\$ Change	% Change
	(in thousands, except percentages)			
Cost of revenue	\$ 114,530	\$ 104,756	\$ 9,774	9 %
% of Revenue	46 %	48 %		

The increase in cost of revenue for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to a \$5.4 million increase in depreciation, data center and public cloud costs to support our growing capacity needs, a \$3.2 million increase in personnel costs driven mainly by increased headcount, higher salaries and increased stock-based compensation costs, a \$0.4 million increase in third-party costs driven by increased client activities, a \$0.4 million increase in office, facilities and related costs, and a \$0.4 million increase in amortization of capitalized internal-use software development costs.

Gross Profit

	Three Months Ended			
	March 31, 2024	March 31, 2023	\$ Change	% Change
	(in thousands, except percentages)			
Gross profit	\$ 132,480	\$ 113,683	\$ 18,797	17 %
% of Revenue	54 %	52 %		

The increase in gross profit for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to increases in subscription and related revenues. The increase in gross margin for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to our revenue growing at a higher rate than our increase in cost of revenue as described above. We expect gross margin to continue to increase in the long term despite continued investments in professional services, public cloud, cloud operations, client support and network infrastructure, as we expect revenue growth in the long term to more than offset these increases.

Operating Expenses

Research and Development

	Three Months Ended			
	March 31, 2024	March 31, 2023	\$ Change	% Change
	(in thousands, except percentages)			
Research and development	\$ 41,518	\$ 38,108	\$ 3,410	9 %
% of Revenue	17%	17 %		

The increase in research and development expenses for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to a \$3.9 million increase in personnel-related costs driven mainly by an increase in stock-based compensation costs, increased headcount and higher salaries, and a \$0.4 million increase in office, facilities and related costs, offset in part by a \$2.0 million increase in research and development costs that qualified for capitalization.

Sales and Marketing

	Three Months Ended			
	March 31, 2024	March 31, 2023	\$ Change	% Change
	(in thousands, except percentages)			
Sales and marketing	\$ 81,109	\$ 76,314	\$ 4,795	6 %
% of Revenue	33 %	35 %		

The increase in sales and marketing expenses for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to a \$4.2 million increase in amortization of deferred contract acquisition costs driven by the growth in sales and bookings of our solution, as well as expenses as we continued to execute our growth strategy to acquire new clients, increase the number of agent seats within our existing client base, and increase our brand awareness.

General and Administrative

	Three Months Ended			
	March 31, 2024	March 31, 2023	\$ Change	% Change
	(in thousands, except percentages)			
General and administrative	\$ 30,548	\$ 28,258	\$ 2,290	8 %
% of Revenue	12 %	13 %		

The increase in general and administrative expenses for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to a \$2.6 million increase in personnel costs driven by increased stock-based compensation costs, increased headcount and higher salaries.

Other Income (Expense), Net

	Three Months Ended			
	March 31, 2024	March 31, 2023	\$ Change	% Change
	(in thousands, except percentages)			
Interest expense	\$ (2,567)	\$ (1,845)	\$ (722)	39 %
Gain on early extinguishment of debt	6,615	—	6,615	100 %
Interest income and other	10,559	4,121	6,438	156 %
Total other income (expense), net	\$ 14,607	\$ 2,276	\$ 12,331	542 %
% of Revenue	6 %	1 %		

The increase in interest expense for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to the issuance of the 2029 convertible senior notes in March 2024.

In connection with the issuance of the 2029 convertible senior notes, we used part of the net proceeds from the issuance to repurchase approximately \$313.1 million aggregate principal amount of our then outstanding 2025 convertible senior notes in privately-negotiated transactions for aggregate cash consideration of approximately \$304.9 million. The repurchase transaction was accounted for as a debt extinguishment. The difference between the consideration used to extinguish the 2025 convertible senior notes and the carrying value of the 2025 convertible senior notes (including unamortized debt discount and issuance cost) resulted in an extinguishment gain of approximately \$6.6 million. See Note 6 to the condensed consolidated financial statements for further details.

The increase in interest income and other for the three months ended March 31, 2024 compared to the same period of 2023 was primarily due to higher interest income on our marketable investments due to higher investable balances and higher interest rates, and from an increase in foreign currency transaction gains.

Liquidity and Capital Resources

To date, we have financed our operations primarily through sales of our solution, net proceeds from our equity and debt financings, including the issuance of our 2029 convertible senior notes in March 2024, issuance of our 2025 convertible senior notes in May and June 2020 and of our 2023 convertible senior notes in May 2018, and lease facilities. As of March 31, 2024, we had \$1,105.8 million in working capital, which included \$240.2 million in cash and cash equivalents and \$843.2 million in marketable investments. Our intent is that all marketable investments are available for use in our current operations, including marketable investments with maturity dates greater than one year from March 31, 2024.

In March 2024, we issued \$747.5 million aggregate principal amount of our 2029 convertible senior notes in a private offering. The 2029 convertible senior notes mature of March 15, 2029 and are our senior unsecured obligations. The 2029 convertible senior notes bear interest at a fixed rate of 1.00% per annum, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2024. The total net proceeds from the issuance of the 2029 convertible senior notes, after deducting initial purchaser' discounts and commissions and estimated debt issuance costs, were approximately \$728.9 million. In connection with the issuance of the 2029 convertible senior notes, we used part of the net proceeds from the issuance to repurchase approximately \$313.1 million aggregate principal amount of our then outstanding 2025 convertible senior notes in privately-negotiated transactions for aggregate cash consideration of approximately \$304.9 million. In connection with the issuance of the 2029 convertible senior notes, we also entered into privately negotiated capped call transactions with certain financial institutions. We believe our existing cash and cash equivalents will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months.

We plan to continue to finance our operations in the future primarily through sales of our solution, net proceeds from equity and debt financings, and lease facilities. As previously disclosed, we are in discussions with one or more financial institutions, which may include the initial purchasers in our recent sale of 2029 convertible senior notes, regarding a potential revolving credit facility (the "Revolving Credit Facility") of up to \$200 million, which may be secured or unsecured. We expect to enter into the Revolving Credit Facility in the second half of 2024. There can be no assurance that we will be able to obtain the Revolving Credit Facility on acceptable terms, or at all. Proceeds are expected to be available to us for general corporate purposes, including to fund working capital requirements and to fund all or a portion of the purchase price for potential acquisitions that we may identify in the future.

Our future capital requirements will depend on many factors including our growth rate, continuing market acceptance of our solution, the strength of the global economy, client retention, growth within our installed base, our ability to gain new clients, the timing and extent of spending to support research and development efforts, the outcome of any pending or future litigation or other claims by third parties or governmental entities, the expansion of sales and marketing activities and personnel, the introduction of new and enhanced offerings, expenses incurred in closing our Russia operations and expanding our operations in Portugal and any operational disruptions due to this transition, and the effect of the length and severity of the current economic downturn, the Russia-Ukraine conflict, and the conflict in Israel on these or other factors. We may also acquire or invest in complementary businesses, technologies and intellectual property rights, such as our recent acquisition of Aceyus in August 2023, which may increase our use of cash and future capital requirements, both to pay acquisition costs and to support our combined operations. We may raise additional capital through equity or debt financings at any time to fund these or other requirements. However, we may not be able to raise additional capital through equity or debt financings when needed on terms acceptable to us or at all, depending on our financial performance and condition, economic and market conditions, the trading price of our common stock, and other factors, including the length and severity of the current economic downturn and fluctuations in the financial markets, including due to the Russia-Ukraine conflict and the conflict in Israel. If we are unable to raise additional capital as needed, our business, operating results and financial condition could be harmed. In addition, if our operating performance during the next twelve months is below our expectations, our liquidity and ability to operate our business also could be harmed.

If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders would be diluted. If we raise additional funds through the incurrence of additional indebtedness, we will be subject to increased debt service obligations and could also be subject to restrictive covenants and other operating restrictions that could negatively impact our ability to operate our business.

Cash Flows

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

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net cash provided by operating activities	\$ 32,353	\$ 33,412
Net cash used in investing activities	(266,823)	(75,686)
Net cash provided by financing activities	331,396	3,125
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 96,926</u>	<u>\$ (39,149)</u>

Cash Flows from Operating Activities

Cash provided by operating activities is primarily influenced by our personnel-related expenditures, data center and telecommunications carrier costs, office and facility related costs, USF contributions and other regulatory costs and the amount and timing of client payments. If we continue to improve our financial results, we expect net cash provided by operating activities to increase. Our largest source of operating cash inflows is cash collections from our clients for subscription and related usage services. Payments from clients for these services are typically received monthly.

Net cash provided by operating activities was \$32.4 million during the three months ended March 31, 2024. Net cash provided by operating activities resulted from our net loss of \$7.1 million, adjustments to reconcile net loss to net cash provided by operating activities of \$66.3 million, primarily consisting of \$44.7 million of stock-based compensation, \$16.3 million of amortization of commission costs, \$12.2 million of depreciation and amortization, \$3.3 million of amortization of operating lease right-of-use assets and \$1.1 million of amortization of issuance costs on our convertible senior notes, partially offset by use of cash for operating assets and liabilities of \$(26.9) million primarily due to the timing of cash payments to vendors and cash receipts from customers.

Net cash provided by operating activities was \$33.4 million during the three months ended March 31, 2023. Net cash provided by operating activities resulted from our net loss of \$27.2 million, adjustments to reconcile net loss to net cash provided by operating activities of \$77.3 million, primarily consisting of \$50.7 million of stock-based compensation, \$12.4 million of amortization of commission costs, \$11.3 million of depreciation and amortization, \$2.9 million of amortization of operating lease right-of-use assets and \$0.9 million of amortization of issuance costs on our convertible senior notes, partially offset by use of cash for operating assets and liabilities of \$(16.6) million primarily due to the timing of cash payments to vendors and cash receipts from customers.

Cash Flows from Investing Activities

Net cash used in investing activities of \$(266.8) million in the three months ended March 31, 2024 was comprised of \$524.9 million related to purchases of marketable investments, \$12.0 million in capital expenditures and \$3.2 million in capitalized software development costs, offset in part by \$273.1 million related to cash proceeds from sales and maturities of marketable investments.

Net cash used in investing activities of \$(75.7) million in the three months ended March 31, 2023 was comprised of \$76.9 million related to cash proceeds from sales and maturities of marketable investments, offset in part by \$140.9 million related to purchases of marketable investments, \$9.9 million in capital expenditures and \$1.8 million in capitalized software development costs.

Cash Flows from Financing Activities

Net cash provided by financing activities of \$331.4 million in the three months ended March 31, 2024 was related to net cash proceeds of \$728.9 million from the issuance of the 2029 convertible senior notes, net of initial purchasers' discounts and commissions and debt issuance costs, \$0.5 million cash received from the partial termination of capped calls associated with the 2025 convertible senior notes, and \$0.4 million of cash proceeds from the exercise of stock options, offset in part by \$304.5 million from the repurchase of a portion of the 2025 convertible senior notes, \$93.4 million from the payment for capped call transactions associated with the 2029 convertible senior notes, and \$0.5 million of payments related to finance leases.

Net cash provided by financing activities of \$3.1 million in the three months ended March 31, 2023 was related to cash proceeds of \$3.1 million from the exercise of stock options.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, 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.

There have been no material changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on February 22, 2024.

Recent Accounting Pronouncements

Refer to Note 1 of the notes to condensed consolidated financial statements included in this report.

Contractual and Other Obligations

Our material cash requirements include the following contractual and other obligations.

Convertible Senior Notes

In May and June 2020, we issued \$747.5 million aggregate principal amount of our 2025 convertible senior notes in a private offering. The 2025 convertible senior notes mature on June 1, 2025 and are our senior unsecured obligations. The 2025 convertible senior notes bear interest at a fixed rate of 0.50% per annum, payable semiannually in arrears on June 1 and December 1 of each year, beginning December 1, 2020. The total net proceeds from the offering, after deducting initial purchasers' discounts and commissions and estimated debt issuance costs, were approximately \$728.8 million. In connection with the issuance of the 2029 convertible senior notes, we used part of the net proceeds from the issuance to repurchase approximately \$313.1 million aggregate principal amount of our 2025 convertible senior notes. As of March 31, 2024, the aggregate principal amount outstanding of our 2025 convertible senior notes was \$434.4 million.

In March 2024, we issued \$747.5 million aggregate principal amount of our 2029 convertible senior notes in a private offering. The 2029 convertible senior notes mature of March 15, 2029 and are our senior unsecured obligations. The 2029 convertible senior notes bear interest at a fixed rate of 1.00% per annum, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2024. The total net proceeds from the issuance of the 2029 convertible senior notes, after deducting initial purchasers' discounts and commissions and debt issuance costs, were approximately \$728.9 million. As of March 31, 2024, the aggregate principal amount outstanding of our 2025 convertible senior notes was \$747.5 million.

See Note 6 to the condensed consolidated financial statements included in this report for further details.

Leases

We have leases for offices, data centers and computer and networking equipment that expire at various dates through 2031. Our leases have remaining terms of one to seven years. Some of the leases include an option to extend the leases for up to one to five years, and some of the leases include the option to terminate the leases upon 30-days' notice. We had outstanding operating lease obligations of \$48.5 million as of March 31, 2024, with \$8.8 million payable within 12 months, \$16.5 million payable within one to three years, \$11.5 million payable within three to five years, and \$11.7 million after five years. We also had outstanding finance lease obligations of \$4.5 million as of March 31, 2024, with \$1.5 million payable within 12 months, and \$3.0 million payable within one to three years. See Note 12 to the condensed consolidated financial statements included in this report for further details.

Cloud Services and Software and Maintenance

As of March 31, 2024, we had outstanding cloud services and software and maintenance agreement commitments totaling \$89.2 million, of which \$14.3 million is expected to be purchased in 2024, \$47.3 million is expected to be purchased in 2025, and the remaining \$27.6 million is expected to be purchased in 2026.

Hosting and Telecommunication Usage Services

We have agreements with third parties to provide co-location hosting and telecommunication usage services. The agreements require payments per month for a fixed period of time in exchange for certain guarantees of network

and telecommunication availability. As of March 31, 2024, we had outstanding hosting and telecommunication usage services obligations of \$13.6 million, with \$5.5 million payable within 12 months, \$6.1 million payable within one to three years, \$2.0 million payable within three to five years.

Indemnification Agreements

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify clients, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by us or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors, officers and certain employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. There are no claims that we are aware of that could have a material effect on our consolidated balance sheet, consolidated statements of operations and comprehensive loss, or consolidated statements of cash flows.

Contingencies — Legal and Regulatory

We are subject to certain legal and regulatory proceedings, and from time to time may be involved in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters, and other litigation matters relating to various claims that arise in the normal course of business. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing specific litigation and regulatory matters using reasonably available information. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Legal fees are expensed in the period in which they are incurred. See Note 10 to the condensed consolidated financial statements for more details.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the ordinary course of our business. 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 a result of fluctuations in interest rates and foreign currency exchange rates. We do not hold or issue financial instruments for trading purposes. For a discussion of market risk, see “Quantitative and Qualitative Disclosure about Market Risk” in Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Our exposure to market risk has not changed materially since December 31, 2023.

Interest Rate Sensitivity

We had cash and cash equivalents, and marketable securities totaling \$1,083.4 million as of March 31, 2024. Cash equivalents and marketable securities were invested primarily in U.S. agency and government sponsored securities, U.S. treasury securities, municipal bonds, commercial paper, corporate bonds, certificates of deposit and money market funds. Our investment policy is focused on the preservation of capital and supporting our liquidity needs. Under this policy, we invest in highly rated securities, while limiting the amount of credit exposure to any one issuer other than the U.S. government. We do not invest in financial instruments for trading or speculative purposes, nor do we use leveraged financial instruments. We utilize external investment managers who adhere to the guidelines of our investment policy. A hypothetical 100 basis point change in interest rates would not have a material impact on the value of our cash and cash equivalents or marketable investments.

As of March 31, 2024, aggregate principal amount outstanding of our 2025 and 2029 convertible senior notes was \$1,181.9 million. The fair value of the convertible senior notes are subject to interest rate risk, market risk and other factors due to their conversion features. The fair value of the convertible senior notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines. The interest and market value changes affect the fair value of the convertible senior notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations. Additionally, we carry the convertible senior notes at face value less unamortized discount on our condensed consolidated balance sheets, and we present the fair value for required disclosure purposes only.

Our 2025 and 2029 convertible senior notes bear fixed interest rates and, therefore, are not subject to interest rate risk. We have not utilized derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions in any material fashion, except for the privately negotiated capped call transactions entered into in May and June 2020 related to the issuance of our 2025 convertible senior notes and entered into in March 2024 related to the issuance of our 2029 convertible senior notes.

Foreign Currency Risk

The functional currency of our foreign subsidiaries is the U.S. dollar. Our sales are primarily denominated in U.S. dollars and, therefore, our revenue is not directly subject to foreign currency risk. However, we are indirectly exposed to foreign currency risk. A stronger U.S. dollar makes our solution more expensive outside the United States and therefore can reduce demand. A weaker U.S. dollar could have the opposite effects. Such economic exposure to currency fluctuations is difficult to measure or predict because our sales are influenced by many factors in addition to the impact of currency fluctuations. Our operating expenses are generally denominated in the currencies of the countries in which our operations are located, except for Russia where compensation of our employees was primarily denominated in the U.S. dollar. In March 2022, we made a decision to close our Russia office in June 2022 and to establish a new European development center in Portugal.

Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments. During the three months ended March 31, 2024, the effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would have a maximum impact of \$2.3 million on our operating expenses.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of March 31, 2024.

Based on management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2024, our disclosure controls and procedures were designed, and were effective, to provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2024, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Information with respect to this Item may be found under the heading “Legal Matters” in Note 10 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

ITEM 1A. Risk Factors

Except for the below risk factors, which update those previously disclosed in our Annual Report on Form 10-K filed with the SEC on February 22, 2024, there have been no material changes from the Risk Factors previously disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. In addition to the other information set forth in this report, including the below update to Risk Factors, you should carefully consider the Risk Factors discussed in our Annual Report on Form 10-K as they could materially affect our business, financial condition and future results of operation.

Risks Related to Ownership of Our Convertible Senior Notes

Servicing our debt may require a significant amount of cash. We may not have sufficient cash flow from our business to pay our indebtedness, and we may not have the ability to raise the funds necessary to settle conversions of the convertible senior notes in cash or to repurchase the convertible senior notes for cash upon a fundamental change, which could adversely affect our business and results of operations.

In May and June 2020, we issued \$747.5 million in aggregate principal amount of the 2025 convertible senior notes in a private offering, \$434.4 million of which was outstanding as of March 31, 2024. The 2025 convertible senior notes mature on June 1, 2025, and the interest rate of the 2025 convertible senior notes is fixed at 0.500% per annum, payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. In March 2024, we issued \$747.5 million in aggregate principal amount of the 2029 senior notes in a private offering, all of which were outstanding as of March 31, 2024. The 2029 convertible senior notes mature on March 15, 2029, and the interest rate of the 2029 convertible senior notes is fixed at 1.000% per annum, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2024.

Our ability to make scheduled payments of principal and interest under our 2025 convertible senior notes and our 2029 convertible senior notes, or to refinance such indebtedness, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control, including those described in this report. Our business may not generate cash flows from operations in the future that are sufficient to service our indebtedness and make necessary capital expenditures. If we are unable to generate sufficient cash flows, we may be required to pursue one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive to existing holders of our common stock. Our ability to obtain additional financing or refinance the 2025 convertible senior notes, the 2029 convertible senior notes or any future indebtedness, will depend on conditions in the capital markets and our financial condition at such time, among other factors. We may not be able to engage in any of these activities on favorable terms or at all, which could result in a default on our debt obligations or other material adverse effects on our business and financial condition.

Subject to certain conditions, holders of the convertible senior notes have the right to require us to repurchase for cash all or any portion of their convertible senior notes upon the occurrence of a fundamental change (as defined in the indenture governing the convertible senior notes) at a fundamental change repurchase price equal to 100% of the principal amount of the convertible senior notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable fundamental change repurchase date.

Upon conversion of the convertible senior notes in accordance with their terms, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to settle a portion or all of our conversion obligation through the payment of cash. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases in connection with such conversion and our ability to pay may be further limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase any convertible senior notes at a time when the repurchase is required by the applicable indenture or to pay any cash payable on any future conversions as required by such indenture would constitute a default under such indenture. A default under the applicable indenture would lead to, and the occurrence of the fundamental change itself may also lead to, a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be

accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness or repurchase the convertible senior notes when required, or to make cash payments upon conversions thereof.

If triggered, the conditional conversion features of the convertible senior notes may adversely affect our financial condition and operating results.

If and to the extent the conditional conversion features of either or both series of our convertible senior notes are triggered, holders of such convertible senior notes will be entitled to convert their convertible senior notes at any time during specified periods at their option. During the three months ended March 31, 2024, the conversion features of the 2025 convertible senior notes were not triggered. Accordingly, holders of the 2025 convertible senior notes are not entitled to convert their convertible senior notes from April 1, 2024 to June 30, 2024. The conversion features of the 2029 convertible senior notes will be evaluated following June 30, 2024. Whether either or both series of our convertible senior notes will be convertible after June 30, 2024 will depend on the satisfaction of the applicable conversion conditions.

To the extent that the conditional conversion features of either or both series of our convertible senior notes are triggered in the future, holders of such convertible senior notes will be entitled to convert their convertible senior notes at any time during the specified periods at their option. If one or more holders elect to convert their convertible senior notes during any such specified period, we have the option to pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. Any election to settle conversions of convertible senior notes with cash could adversely affect our liquidity.

Transactions relating to the convertible senior notes may dilute the ownership interests of our existing stockholders or adversely affect the market price of our common stock; the trading price of our convertible senior notes may be affected by volatility in the price of our common stock.

The conversion of some or all of the convertible senior notes would dilute the ownership interests of our existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our common stock. In this regard, if holders of the convertible senior notes elect to convert their notes, we may settle our conversion obligations by delivering to them cash, shares of our common stock or a combination thereof. In addition, we may issue shares of our common stock in connection with repurchases, exchanges or other transactions involving the convertible senior notes. Historically, we have elected to satisfy our convertible senior note conversion obligations through the payment of cash in certain circumstances, the issuance of shares of common stock in other circumstances, or a combination thereof, to such convertible senior note holders. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and Capital Resources, for further discussion of our elections to satisfy our conversion obligations.

In addition, in connection with the issuance of each series of the convertible senior notes, we entered into capped call transactions with certain financial institutions, or the Option Counterparties. The capped call transactions are expected generally to reduce the potential dilution to holders of our common stock upon any conversion or settlement of the convertible notes and/or offset any cash payments we are required to make in excess of the principal amount of such convertible senior notes, as the case may be, with such reduction and/or offset subject to a cap under the terms of the capped call transactions. We expect that the Option Counterparties or their respective affiliates may from time to time purchase shares of our common stock and/or enter into various derivative transactions with respect to our common stock in connection with their hedging activities relating to the capped call transactions. The Option Counterparties or their respective affiliates also may modify their hedge positions by entering into or unwinding such derivative transactions and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the applicable maturity of the convertible senior notes. These activities could negatively affect the market price of our common stock.

Volatility and declines in the trading price of our common stock may result in decreases in the trading prices of our convertible senior notes. Our convertible senior notes do not trade in a liquid market and are thus subject to increased volatility, particularly when our common stock price is volatile.

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

Not applicable.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information***Rule 10b5-1 Plans***

During the fiscal quarter ended March 31, 2024, the following directors and officers adopted, modified, or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement:

<u>Name</u>	<u>Title</u>	<u>Adoption Date</u>	<u>Expiration Date</u>	<u>Aggregate # of securities to be sold</u>	<u>Aggregate # of securities to be purchased</u>	<u>Type of Arrangement</u>
Barry Zwarenstein	Chief Financial Officer	Mar. 4, 2024	Dec. 31, 2024	92,911	—	Rule 10b5-1 trading arrangement (3)
Michael Burkland	Chief Executive Officer	Mar. 12, 2024	June 4, 2025	62,973 ⁽¹⁾	—	Rule 10b5-1 trading arrangement (3)
Panos Kozanian	EVP, Product Engineering	Mar. 13, 2024	Mar. 31, 2025	26,506 ⁽²⁾	—	Rule 10b5-1 trading arrangement (3)
Daniel Burkland	President and Chief Revenue Officer	Mar. 13, 2024	June 30, 2025	145,504 ⁽²⁾	—	Rule 10b5-1 trading arrangement (3)

(1) Reflects the sale of shares pursuant to the Rule 10b5-1 trading arrangement in order to satisfy tax obligations upon the vesting of restricted stock units held by Michael Burkland.

(2) Does not include an additional indeterminable number of shares permitted to be sold pursuant to the Rule 10b5-1 trading arrangement following the sales of securities outside of the Rule 10b5-1 trading arrangement in order to satisfy tax obligations upon the vesting of restricted stock units.

(3) The Rule 10b5-1 trading arrangement is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c).

ITEM 6. Exhibits

Exhibit Number	Description
4.1 Ø	Indenture, dated as of March 1, 2024, between Five9, Inc. and U.S. Bank Trust Company, National Association, as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on March 1, 2024 (File No. 001-36383) and incorporated by reference herein).
4.2 Ø	Form of 1.00% Convertible Senior Notes due 2029 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on March 1, 2024 (File No. 001-36383) and incorporated by reference herein).
10.1 +Ø	Five9, Inc. Performance-Based Restricted Stock Unit Grant Notice and Award Agreement for 2024-2026 Performance Period - 2014 Equity Incentive Plan (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K filed with the SEC on February 22, 2024 (File No. 001-36383) and incorporated by reference herein).
10.2 Ø	Form of Capped Call Confirmation (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 1, 2024 (File No. 001-36383) and incorporated by reference herein).
10.3 Ø	Five9, Inc. 2019 Key Employee Severance Benefit Plan, as Amended (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 1, 2024 (File No. 001-36383) and incorporated by reference herein).
31.1 *	Certification of Chief Executive Officer of Five9, Inc. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer of Five9, Inc. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 **	Certification of Chief Executive Officer and Chief Financial Officer of Five9, Inc. 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Schema Linkbase Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Linkbase Document
101.LAB*	XBRL Taxonomy Labels Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File. Formatted as inline XBRL and contained in Exhibit 101.

Ø Previously filed.

+ Indicates management contract or compensatory plan.

* Filed herewith.

** Furnished herewith.

