# 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** June 30, 2022

**OR**

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

**For the transition period from to**

**Commission File Number: 001-36383**

# Five9, Inc.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware** | **94-3394123** |
| (State or Other Jurisdiction of Incorporation or Organization) | (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 | ☒ | | Accelerated Filer | ☐ |
| Non-accelerated filer | ☐ | (Do not check if a smaller reporting Company) | Smaller Reporting Company | ☐ |
| | | | Emerging Growth Company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 July 25, 2022, there were 70,102,990 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

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 future events and our financial 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 set forth in Part 1, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 and Part II, Item 1A, of this Quarterly Report, which we encourage you to carefully read, and include the following:

- 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, and may not fully reflect the underlying performance of our business and may result in decreases in the price of our common stock;
- adverse economic conditions may harm our business, including the current global economic downturn;
- 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;
- our recent rapid 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;
- 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;
- 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;
- we have established, and are continuing to increase, our network of master agents and resellers to sell our solution; our failure to effectively develop, manage, and maintain this network could materially harm our revenues;
- 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 risks;
- security breaches and improper access to 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 and our business;
- 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;
- if our existing clients terminate their subscriptions or reduce their subscriptions and related usage, our revenues and gross margins will be harmed and we will be required to spend more money to grow our client base;
- 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;
- 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;
- 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;
- 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;
- the effects of the COVID-19 pandemic have materially affected how we, our clients and business partners are operating, and the duration and extent to which it will impact our future results of operations and overall financial performance remain uncertain;
- 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)

| | June 30, 2022 (Unaudited) | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 101,315 | $ 90,878 |
| Marketable investments | 397,067 | 378,980 |
| Accounts receivable, net | 82,885 | 83,731 |
| Prepaid expenses and other current assets | 38,464 | 30,342 |
| Deferred contract acquisition costs, net | 40,306 | 33,295 |
| Total current assets | 660,037 | 617,226 |
| Property and equipment, net | 99,994 | 77,785 |
| Operating lease right-of-use assets | 43,593 | 48,703 |
| Intangible assets, net | 34,015 | 39,897 |
| Goodwill | 165,420 | 165,420 |
| Marketable investments | 60,424 | 147,377 |
| Other assets | 11,886 | 11,871 |
| Deferred contract acquisition costs, net — less current portion | 101,854 | 84,663 |
| **Total assets** | $ 1,177,223 | $ 1,192,942 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 25,931 | $ 20,510 |
| Accrued and other current liabilities | 56,894 | 78,577 |
| Operating lease liabilities | 9,836 | 9,826 |
| Accrued federal fees | — | 2,282 |
| Sales tax liabilities | 2,253 | 2,660 |
| Deferred revenue | 51,553 | 43,720 |
| Convertible senior notes | 187 | — |
| Total current liabilities | 146,654 | 157,575 |
| Convertible senior notes — less current portion | 736,485 | 768,599 |
| Sales tax liabilities — less current portion | 888 | 877 |
| Operating lease liabilities — less current portion | 42,186 | 47,088 |
| Other long-term liabilities | 6,108 | 7,671 |
| **Total liabilities** | 932,321 | 981,810 |
| Commitments and contingencies (Note 10) | | |
| **Stockholders' equity:** | | |
| Common stock | 70 | 68 |
| Additional paid-in capital | 535,592 | 439,787 |
| Accumulated other comprehensive loss | (4,534) | (287) |
| Accumulated deficit | (286,226) | (228,436) |
| **Total stockholders' equity** | 244,902 | 211,132 |
| **Total liabilities and stockholders' equity** | $ 1,177,223 | $ 1,192,942 |

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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Revenue | $ 189,382 | $ 143,782 | $ 372,159 | $ 281,664 |
| Cost of revenue | 88,229 | 64,395 | 177,096 | 124,198 |
| Gross profit | 101,153 | 79,387 | 195,063 | 157,466 |
| Operating expenses: | | | | |
| Research and development | 34,992 | 24,648 | 70,816 | 46,769 |
| Sales and marketing | 64,098 | 46,024 | 128,709 | 90,823 |
| General and administrative | 23,824 | 22,909 | 48,138 | 45,154 |
| Total operating expenses | 122,914 | 93,581 | 247,663 | 182,746 |
| Loss from operations | (21,761) | (14,194) | (52,600) | (25,280) |
| Other (expense) income, net: | | | | |
| Interest expense | (1,857) | (2,118) | (3,727) | (4,056) |
| Interest income and other | 280 | (353) | 1,125 | (178) |
| Total other (expense) income, net | (1,577) | (2,471) | (2,602) | (4,234) |
| Loss before income taxes | (23,338) | (16,665) | (55,202) | (29,514) |
| Provision for (benefit from) income taxes | 332 | (135) | 2,588 | (652) |
| Net loss | $ (23,670) | $ (16,530) | $ (57,790) | $ (28,862) |
| Net loss per share: | | | | |
| Basic and diluted | $ (0.34) | $ (0.25) | $ (0.83) | $ (0.43) |
| Shares used in computing net loss per share: | | | | |
| Basic and diluted | 69,748 | 67,292 | 69,363 | 67,008 |
| **Comprehensive Loss:** | | | | |
| Net loss | $ (23,670) | $ (16,530) | $ (57,790) | $ (28,862) |
| Other comprehensive loss | (1,164) | (80) | (4,247) | (36) |
| Comprehensive loss | $ (24,834) | $ (16,610) | $ (62,037) | $ (28,898) |

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 | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance as of March 31, 2021** | 67,029 | $ 67 | $ 331,528 | $ 379 | $ (187,768) | $ 144,206 |
| Issuance of common stock upon partial conversion of the 2023 convertible senior notes | 182 | — | (149) | — | — | (149) |
| Partial unwind of capped calls and retirement of common stock related to the 2023 convertible senior notes | (28) | — | 5 | — | — | 5 |
| Issuance of common stock upon exercise of stock options | 123 | — | 2,224 | — | — | 2,224 |
| Issuance of common stock upon vesting of restricted stock units | 310 | 1 | — | — | — | 1 |
| Issuance of common stock under ESPP | 68 | — | 8,128 | — | — | 8,128 |
| Stock-based compensation | — | — | 24,901 | — | — | 24,901 |
| Other comprehensive loss | — | — | — | (80) | — | (80) |
| Net loss | — | — | — | — | (16,530) | (16,530) |
| **Balance as of June 30, 2021** | 67,684 | $ 68 | $ 366,637 | $ 299 | $ (204,298) | $ 162,706 |
| | | | | | | |
| **Balance as of March 31, 2022** | 69,521 | $ 70 | $ 480,215 | $ (3,370) | $ (262,556) | $ 214,359 |
| Issuance of common stock upon partial conversion of the 2023 convertible senior notes | 34 | — | (15) | — | — | (15) |
| Partial unwind of capped calls and retirement of common stock related to the 2023 convertible senior notes | (8) | — | 1 | — | — | 1 |
| Issuance of common stock upon exercise of stock options | 70 | — | 1,728 | — | — | 1,728 |
| Issuance of common stock upon vesting of restricted stock units | 376 | — | (2) | — | — | (2) |
| Issuance of common stock under ESPP | 97 | — | 8,338 | — | — | 8,338 |
| Stock-based compensation | — | — | 45,327 | — | — | 45,327 |
| Other comprehensive loss | — | — | — | (1,164) | — | (1,164) |
| Net loss | — | — | — | — | (23,670) | (23,670) |
| **Balance as of June 30, 2022** | 70,090 | $ 70 | $ 535,592 | $ (4,534) | $ (286,226) | $ 244,902 |

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, 2020** | 66,496 | $ 67 | $ 476,941 | $ 335 | $ (198,179) | $ 279,164 |
| Cumulative effect adjustment due to adoption of ASU 2020-06[1] | — | — | (168,412) | — | 22,743 | (145,669) |
| Issuance of common stock upon partial conversion of the 2023 convertible senior notes | 325 | — | (275) | — | — | (275) |
| Partial unwind of capped calls and retirement of common stock related to the 2023 convertible senior notes | (47) | — | 7 | — | — | 7 |
| Issuance of common stock upon exercise of stock options | 246 | — | 4,439 | — | — | 4,439 |
| Issuance of common stock upon vesting of restricted stock units | 596 | 1 | — | — | — | 1 |
| Issuance of common stock under ESPP | 68 | — | 8,128 | — | — | 8,128 |
| Stock-based compensation | — | — | 45,809 | — | — | 45,809 |
| Other comprehensive income | — | — | — | (36) | — | (36) |
| Net loss | — | — | — | — | (28,862) | (28,862) |
| **Balance as of June 30, 2021** | 67,684 | $ 68 | $ 366,637 | $ 299 | $ (204,298) | $ 162,706 |
| | | | | | | |
| **Balance as of December 30, 2021** | 68,488 | $ 68 | $ 439,787 | $ (287) | $ (228,436) | $ 211,132 |
| Issuance of common stock upon partial conversion of the 2023 convertible senior notes | 574 | — | (259) | — | — | (259) |
| Partial unwind of capped calls and retirement of common stock related to the 2023 convertible senior notes | (119) | — | 3 | — | — | 3 |
| Issuance of common stock upon exercise of stock options | 351 | 1 | 3,004 | — | — | 3,005 |
| Issuance of common stock upon vesting of restricted stock units | 699 | 1 | (1) | — | — | — |
| Issuance of common stock under ESPP | 97 | — | 8,338 | — | — | 8,338 |
| Stock-based compensation | — | — | 84,720 | — | — | 84,720 |
| Other comprehensive loss | — | — | — | (4,247) | — | (4,247) |
| Net loss | — | — | — | — | (57,790) | (57,790) |
| **Balance as of June 30, 2022** | 70,090 | $ 70 | $ 535,592 | $ (4,534) | $ (286,226) | $ 244,902 |

**(1)** Effective January 1, 2021, the Company adopted ASU 2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. Accordingly, the Company recorded a net reduction to opening accumulated deficit of $22.7 million and a net reduction to opening additional paid-in capital of $168.4 million as of January 1, 2021 due to the cumulative impact of adopting this new standard.

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Six Months Ended | |
|---|---|---|
| | June 30, 2022 | June 30, 2021 |
| **Cash flows from operating activities:** | | |
| Net loss | $ (57,790) | $ (28,862) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,435 | 18,414 |
| Amortization of operating lease right-of-use assets | 4,942 | 4,473 |
| Amortization of deferred contract acquisition costs | 18,653 | 11,468 |
| Amortization of premium on marketable investments | 1,114 | 3,521 |
| Provision for doubtful accounts | 505 | 337 |
| Stock-based compensation | 84,179 | 45,809 |
| Amortization of discount and issuance costs on convertible senior notes | 1,852 | 1,959 |
| Deferred taxes | 2,054 | — |
| Change in fair of value of contingent consideration | 260 | 5,200 |
| Payment of contingent consideration liability in excess of acquisition-date fair value | (5,900) | — |
| Other | 172 | 226 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 310 | (5,526) |
| Prepaid expenses and other current assets | (8,092) | (5,962) |
| Deferred contract acquisition costs | (42,854) | (35,319) |
| Other assets | (70) | 147 |
| Accounts payable | 4,487 | 1,725 |
| Accrued and other current liabilities | (4,107) | 23,343 |
| Accrued federal fees and sales tax liabilities | (2,677) | 1,277 |
| Deferred revenue | 7,571 | (2,118) |
| Other liabilities | (1,423) | (14,955) |
| Net cash provided by operating activities | 25,621 | 25,157 |
| **Cash flows from investing activities:** | | |
| Purchases of marketable investments | (151,712) | (325,628) |
| Proceeds from sales of marketable investments | 600 | 1,557 |
| Proceeds from maturities of marketable investments | 214,585 | 282,048 |
| Purchases of property and equipment | (34,474) | (19,477) |
| Capitalization of software development costs | (1,392) | — |
| Cash paid for an equity investment in a privately-held company | (2,000) | — |
| Net cash provided by (used in) investing activities | 25,607 | (61,500) |
| **Cash flows from financing activities:** | | |
| Repurchase of a portion of 2023 convertible senior notes, net of costs | (34,034) | (17,622) |
| Proceeds from exercise of common stock options | 3,005 | 4,439 |
| Proceeds from sale of common stock under ESPP | 8,338 | 8,128 |
| Payment of contingent consideration liability up to acquisition-date fair value | (18,100) | — |
| Payment of holdback related to an acquisition | — | (3,200) |
| Payments of finance leases | — | (575) |
| Net cash used in financing activities | (40,791) | (8,830) |
| Net increase (decrease) in cash and cash equivalents | 10,437 | (45,173) |
| **Cash and cash equivalents:** | | |
| Beginning of period | 90,878 | 220,372 |
| End of period | $ 101,315 | $ 175,199 |
| **Supplemental disclosures of cash flow data:** | | |
| Cash paid for interest | $ 1,870 | $ 1,912 |
| Cash paid for income taxes | $ 647 | $ 163 |
| **Non-cash investing and financing activities:** | | |
| Equipment purchased and unpaid at period-end | $ 16,141 | $ 7,818 |
| Capitalization of leasehold improvements and furniture and fixtures through non-cash lease incentive | $ 109 | $ 4,815 |
| Stock-based compensation included in capitalized software development costs | $ 541 | $ — |

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, 2021. 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.

Certain prior period amounts within investing activities in the condensed consolidated statements of cash flows have been reclassified to conform to the current period presentation.

### 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 liabilities assumed through business combinations. 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

Except for the below significant accounting policy, which updates the significant accounting policies previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 as filed with the SEC on February 28, 2022, 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, 2021.

*Internal-use software development costs*

The Company capitalizes certain qualifying costs incurred during the development stage of internal-use software. Costs related to preliminary project activities and post-implementation activities are expensed in research and development as incurred. Preliminary project activities include conceptual formulation, evaluation and final selection of alternatives, planning, proof of concept and requirement analysis of the selected alternative. Post-implementation stage begins when the internal-use software is ready for its intended use, and includes all internal and external training and application maintenance activities. Capitalized internal-use software costs are included within property and equipment, net on the condensed consolidated balance sheets, and are amortized over the estimated useful life of the software, which is three years. The related amortization expense is recognized in cost of revenue.

### Recent Accounting Pronouncements Not Yet Effective

The Company has reviewed or is in the process of evaluating all issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such accounting pronouncements will cause a material impact on its condensed consolidated financial position, operating results or cash flows.

## 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):

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Accounts receivable, net | $ | 82,885 | $ | 83,731 |
| | | | | |
| Deferred contract acquisition costs, net: | | | | |
| Current | $ | 40,306 | $ | 33,295 |
| Non-current | | 101,854 | | 84,663 |
| Total deferred contract acquisition costs, net | $ | 142,160 | $ | 117,958 |
| | | | | |
| Contract assets and contract liabilities: | | | | |
| Contract assets (included in prepaid expenses and other current assets) | $ | 3,112 | $ | 2,593 |
| Contract liabilities (deferred revenue) | | 51,553 | | 43,720 |
| Noncurrent contract liabilities (deferred revenue) (included in other long-term liabilities) | | 1,836 | | 2,097 |
| Net contract liabilities | $ | (50,277) | $ | (43,224) |

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 and six months ended June 30, 2022, the Company recognized revenue of $6.7 million and $33.0 million, respectively, related to its contract liabilities at December 31, 2021.

***Remaining Performance Obligations***

As of June 30, 2022, 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 $713.8 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 has elected the optional exemption, which allows for the exclusion of the 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 marketable investments as of June 30, 2022 and December 31, 2021 were as follows (in thousands):

| | June 30, 2022 | | | |
|---|---|---|---|---|
| Short-Term Marketable Investments | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Certificates of deposit | $ 950 | $ — | $ (4) | $ 946 |
| U.S. treasury | 131,289 | 3 | (1,232) | 130,060 |
| U.S. agency securities | 153,324 | — | (1,512) | 151,812 |
| Commercial paper | 18,081 | — | — | 18,081 |
| Municipal bonds | 92,382 | — | (516) | 91,866 |
| Corporate bonds | 4,326 | — | (24) | 4,302 |
| Total | $ 400,352 | $ 3 | $ (3,288) | $ 397,067 |

| | June 30, 2022 | | | |
|---|---|---|---|---|
| Long-term Marketable Investments | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Certificates of deposit | $ 498 | $ — | $ (14) | $ 484 |
| U.S. treasury | 24,319 | — | (740) | 23,579 |
| U.S. agency securities | 32,286 | — | (888) | 31,398 |
| Municipal bonds | 5,080 | — | (117) | 4,963 |
| Total | $ 62,183 | $ — | $ (1,759) | $ 60,424 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| Short-Term Marketable Investments | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Certificates of deposit | $ 1,615 | $ — | $ — | $ 1,615 |
| U.S. treasury | 83,237 | — | (24) | 83,213 |
| U.S. agency securities | 159,070 | — | (65) | 159,005 |
| Commercial paper | 47,555 | — | — | 47,555 |
| Municipal bonds | 75,337 | — | (96) | 75,241 |
| Corporate bonds | 12,355 | 2 | (6) | 12,351 |
| Total | $ 379,169 | $ 2 | $ (191) | $ 378,980 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| Long-term Marketable Investments | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Certificates of deposit | $ 746 | $ — | $ (2) | $ 744 |
| U.S. treasury | 63,566 | — | (251) | 63,315 |
| U.S. agency securities | 63,960 | — | (254) | 63,706 |
| Municipal bonds | 18,655 | — | (64) | 18,591 |
| Corporate bonds | 1,026 | — | (5) | 1,021 |
| Total | $ 147,953 | $ — | $ (576) | $ 147,377 |

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 June 30, 2022 and December 31, 2021 (in thousands):

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| Certificates of deposit | $ (18) | $ 1,430 | $ (2) | $ 2,010 |
| U.S. treasury | (1,972) | 143,721 | (275) | 140,527 |
| U.S. agency securities | (2,400) | 181,214 | (320) | 222,710 |
| Municipal bonds | (633) | 96,829 | (160) | 87,184 |
| Corporate bonds | (24) | 4,302 | (10) | 9,428 |
| Total | $ (5,047) | $ 427,496 | $ (767) | $ 461,859 |

Although the Company had certain available-for-sale debt securities in an unrealized loss position as of June 30, 2022, 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 values of the Company's marketable investments by contractual maturity as of June 30, 2022 and December 31, 2021 were as follows (in thousands):

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Due within one year | $ 400,352 | $ 397,067 | $ 379,169 | $ 378,980 |
| Due after one year | 62,183 | 60,424 | 147,953 | 147,377 |
| Total | $ 462,535 | $ 457,491 | $ 527,122 | $ 526,357 |

**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 source 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):

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Cash equivalents | | | | |
| Money market funds | $ 28,820 | $ — | $ — | $ 28,820 |
| U.S. agency securities and government sponsored securities | — | 649 | — | 649 |
| Total cash equivalents | $ 28,820 | $ 649 | $ — | $ 29,469 |
| | | | | |
| Marketable investments (short and long term) | | | | |
| Certificates of deposit | $ — | $ 1,430 | $ — | $ 1,430 |
| U.S. treasury | 153,639 | — | — | 153,639 |
| U.S. agency securities and government sponsored securities | — | 183,210 | — | 183,210 |
| Commercial paper | — | 18,081 | — | 18,081 |
| Municipal bonds | — | 96,829 | — | 96,829 |
| Corporate bonds | — | 4,302 | — | 4,302 |
| Total marketable investments | $ 153,639 | $ 303,852 | $ — | $ 457,491 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Cash equivalents | | | | |
| Money market funds | $ 31,380 | $ — | $ — | $ 31,380 |
| Certificates of deposit | — | 747 | — | 747 |
| Total cash equivalents | $ 31,380 | $ 747 | $ — | $ 32,127 |
| | | | | |
| Marketable investments (short and long-term) | | | | |
| Certificates of deposit | $ — | $ 2,359 | $ — | $ 2,359 |
| U.S. treasury | 146,528 | — | — | 146,528 |
| U.S. agency and government sponsored securities | — | 222,711 | — | 222,711 |
| Commercial paper | — | 47,555 | — | 47,555 |
| Municipal bonds | — | 93,832 | — | 93,832 |
| Corporate bonds | — | 13,372 | — | 13,372 |
| Total marketable investments | $ 146,528 | $ 379,829 | $ — | $ 526,357 |
| | | | | |
| **Liabilities** | | | | |
| Contingent consideration | $ — | $ — | $ 23,740 | $ 23,740 |

As of June 30, 2022 and December 31, 2021, the estimated fair value of the Company's outstanding 2023 convertible senior notes was $0.4 million and $114.9 million, respectively. As of June 30, 2022 and December 31, 2021, the estimated fair value of the Company's outstanding 2025 convertible senior notes was $732.4 million and $917.3 million, respectively. 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.

As part of the agreement to acquire Inference Solutions Inc. ("Inference") in November 2020, the Company was obligated to pay contingent earn out consideration of up to $24.0 million based upon achievement of certain milestones and relative thresholds during the earn out measurement period which ended on December 31, 2021. The fair value of the contingent consideration arrangement was classified within Level 3 and was determined using a probability-based scenario analysis approach. The resulting probability-weighted contingent consideration amounts were discounted based on the Company's estimated cost of debt. During the three months ended March 31, 2022, the Company concluded that the final contingent consideration amount was $24.0 million and recognized an additional $0.3 million of contingent consideration expense to adjust the fair value from $23.7 million at December 31, 2021 to $24.0 million at March 31, 2022. The Company paid the $24.0 million contingent consideration amount in April 2022.

A reconciliation of the beginning and ending balance for contingent consideration consisted of the following (in thousands):

| | Six Months Ended June 30, 2022 |
|---|---|
| Balance, beginning of period | $ 23,740 |
| Change in fair value of contingent consideration | 260 |
| Less: payment | (24,000) |
| Balance, end of period | $ — |

In February 2022, the Company made a $2.0 million equity investment in a privately-held company that it does not have the ability to exercise significant influence over. The Company elected the measurement alternative for an equity security without a readily determinable fair value. Accordingly, this investment will be 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 transaction or events occurred.

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 June 30, 2022 and December 31, 2021.

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 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):

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Cash | $ 71,846 | $ 58,751 |
| Certificates of deposit | — | 747 |
| Money market funds | 28,820 | 31,380 |
| U.S. agency securities | 649 | — |
| Total cash and cash equivalents | $ 101,315 | $ 90,878 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Trade accounts receivable | $ 71,376 | $ 75,970 |
| Unbilled trade accounts receivable, net of advance client deposits | 11,744 | 7,981 |
| Allowance for doubtful accounts | (235) | (220) |
| Accounts receivable, net | $ 82,885 | $ 83,731 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Prepaid expenses | $ 28,914 | $ 21,306 |
| Other current assets | 6,438 | 6,443 |
| Contract assets | 3,112 | 2,593 |
| Prepaid expenses and other current assets | $ 38,464 | $ 30,342 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Computer and network equipment | $ 147,879 | $ 116,701 |
| Computer software | 48,209 | 44,268 |
| Internal-use software development costs | 2,433 | 500 |
| Furniture and fixtures | 3,993 | 3,953 |
| Leasehold improvements | 6,069 | 5,914 |
| Property and equipment | 208,583 | 171,336 |
| Accumulated depreciation and amortization | (108,589) | (93,551) |
| Property and equipment, net | $ 99,994 | $ 77,785 |

Depreciation and amortization expense associated with property and equipment was $8.7 million and $16.6 million for the three and six months ended June 30, 2022, respectively. Depreciation and amortization expense associated with property and equipment was $6.7 million and $12.5 million for the three and six months ended June 30, 2021, respectively.

Property and equipment capitalized under finance lease obligations consists primarily of computer and network equipment and was as follows (in thousands):

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Gross | $ 42,504 | $ 42,541 |
| Less: accumulated depreciation and amortization | (42,194) | (41,689) |
| Total | $ 310 | $ 852 |

Other assets consisted of the following (in thousands):

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Other assets | $ 5,033 | $ 4,964 |
| Equity investment | 2,000 | — |
| Deferred tax assets | 4,853 | 6,907 |
| Total | $ 11,886 | $ 11,871 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Accrued expenses | $ 18,784 | $ 20,108 |
| Accrued compensation and benefits | 38,110 | 34,729 |
| Contingent consideration | — | 23,740 |
| Accrued and other current liabilities | $ 56,894 | $ 78,577 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Deferred revenue | $ 1,836 | $ 2,097 |
| Other long-term liabilities | 4,272 | 5,574 |
| Other long-term liabilities | $ 6,108 | $ 7,671 |

## 5. Goodwill and Intangible Assets

### Goodwill

There was no activity in the Company's goodwill balance during the six months ended June 30, 2022.

### Intangible Assets

The following table summarizes the activity in the Company's intangible assets balance during the three and six months ended June 30, 2022 (in thousands):

| | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2022 |
|---|---|---|
| Beginning of the period | $ 36,950 | $ 39,897 |
| Amortization | (2,935) | (5,882) |
| End of the period | $ 34,015 | $ 34,015 |

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

| | June 30, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 56,214 | $ (23,352) | $ 32,862 | 3.6 | $ 56,214 | $ (17,821) | $ 38,393 | 4.0 |
| Acquired workforce | 470 | (412) | 58 | 0.4 | 470 | (334) | 136 | 0.9 |
| Customer relationships | 1,600 | (581) | 1,019 | 3.2 | 1,600 | (421) | 1,179 | 3.7 |
| Trademarks | 500 | (424) | 76 | 0.4 | 500 | (311) | 189 | 0.9 |
| Total | $ 58,784 | $ (24,769) | $ 34,015 | 3.6 | $ 58,784 | $ (18,887) | $ 39,897 | 4.0 |

Amortization expense for intangible assets was $2.9 million and $5.9 million during the three and six months ended June 30, 2022, respectively. Amortization expense for intangible assets was $2.9 million and $5.9 million during the three and six months ended June 30, 2021, respectively.

As of June 30, 2022, the expected future amortization expense for intangible assets was as follows (in thousands):

| Period | Expected Future Amortization Expense |
|---|---|
| Remaining 2022 | $ 5,823 |
| 2023 | 10,870 |
| 2024 | 7,527 |
| 2025 | 5,595 |
| 2026 | 4,200 |
| Thereafter | — |
| Total | $ 34,015 |

## 6. Debt

### 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.

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 $91.14 per share on June 30, 2022, the last trading day during the three months ended June 30, 2022, 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, June 30, 2022, was not greater than or equal to 130% of the initial conversion price. As such, during the three months ended June 30, 2022, 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 September 30, 2022.

The Company may not redeem the 2025 convertible senior notes prior to June 6, 2023. The Company may redeem for cash all or any portion of the 2025 convertible senior notes, at its option, on or after June 6, 2023 and 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.

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 (including the 2023 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 (including trade payables) of the Company’s subsidiaries.

The net carrying amount of the 2025 convertible senior notes as of June 30, 2022 and as of December 31, 2021 was as follows (in thousands):

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Principal | $ 747,500 | $ 747,500 |
| Unamortized issuance costs | (11,015) | (12,835) |
| Net carrying amount | $ 736,485 | $ 734,665 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Contractual interest expense | $ 934 | $ 1,121 | $ 1,869 | $ 2,055 |
| Amortization of issuance costs | 922 | 912 | 1,821 | 1,802 |
| Total interest expense | $ 1,856 | $ 2,033 | $ 3,690 | $ 3,857 |

In connection with the issuance of the 2025 convertible senior notes, the Company entered into privately negotiated capped call transactions (the "2025 Capped Call Transactions") with certain financial institutions. The initial cap price of the 2025 Capped Call Transactions was $206.68 per share and is subject to certain adjustments under the terms of the 2025 Capped Call Transactions. The 2025 Capped Call Transactions cover, subject to anti-dilution adjustments, approximately 5.6 million shares of the Company's common stock.

Maturity of the Company's 2025 convertible senior notes as of June 30, 2022 was as follows (in thousands):

| Period | Amount to Mature |
|---|---|
| 2025 (Maturity date of June 1, 2025) | $ 747,500 |
| Total | $ 747,500 |

**2023 Convertible Senior Notes and Related Capped Call Transactions**

In May 2018, the Company issued $258.8 million aggregate principal amount of the 2023 convertible senior notes in a private offering. The 2023 convertible senior notes mature on May 1, 2023 and bear interest at a fixed rate of 0.125% per annum, payable semiannually in arrears on May 1 and November 1 of each year.

In May 2020, the Company used part of the net proceeds from the issuance of the 2025 convertible senior notes to repurchase, exchange or otherwise retire approximately $181.0 million aggregate principal amount of the 2023 convertible senior notes in privately-negotiated transactions for aggregate consideration of $449.6 million, consisting of $181.0 million in cash and 2,723,581 shares of the Company's common stock (the "2023 Note Repurchase Transactions").

As of June 30, 2022, after giving effect to the 2023 Note Repurchase Transactions and other settlements upon conversion requests, approximately $0.2 million aggregate principal amount of 2023 convertible senior notes remained outstanding.

Each $1,000 principal amount of the 2023 convertible senior notes was initially convertible into 24.4978 shares of the Company's common stock (the "2023 Conversion Option"), which is equivalent to an initial conversion price of approximately $40.82 per share of common stock, subject to adjustment upon the occurrence of specified events. The 2023 convertible senior notes are convertible, in multiples of $1,000 principal amount, at the option of the holders at any time prior to the close of business on the business day immediately preceding November 1, 2022, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ended on September 30, 2018 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, 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 "2023 Measurement Period") in which the trading price (as defined in the indenture governing the 2023 convertible senior notes) per $1,000 principal amount of the 2023 convertible senior notes for each trading day of the 2023 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 2023 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 November 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2023 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 2023 convertible senior notes), subject to certain conditions, holders may require the Company to repurchase for cash all or any portion of their 2023 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 2023 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 that occur prior to the maturity date 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 2023 convertible senior 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 2023 convertible senior notes since issuance. During each of the quarters from the third quarter of 2019 through the second quarter of 2022, one of the triggers for convertibility of the 2023 convertible senior notes was triggered as the last reported sale price of the Company’s common stock was greater than $53.07 per share, which represents 130% of the initial conversion price of $40.82 per share, for at least 20 trading days in the period of 30 consecutive trading days ended on, and including, the last trading day of the quarter for each quarter of 2020 and 2021 and for the first two quarters of 2022. As a result, the 2023 convertible senior notes were convertible, in multiples of $1,000 principal amount, at the option of the 2023 convertible senior note holders between October 1, 2019 to June 30, 2022, and are also currently convertible between July 1, 2022 to September 30, 2022. Whether the 2023 convertible senior notes will be convertible after September 30, 2022 will depend on the continued satisfaction of this condition or other conversion conditions in the future. During the six months ended June 30, 2022, the Company paid $34.0 million in cash and issued 573,633 shares of its common stock to settle aggregate principal amount of $34.0 million of its 2023 convertible senior notes. As of June 30, 2022, approximately $0.2 million aggregate principal amount of the Company's 2023 convertible senior notes remained outstanding. The conversions that occurred during the six months ended June 30, 2022 were subject to ASU 2020-06 and such conversions were accounted for as contractual conversions, which did not result in any gain or loss upon their settlement.

During the six months ended June 30, 2022, the Company received 119,492 shares from the partial unwind of capped calls resulting from the settlement of its 2023 convertible senior notes. The receipt of the shares reduced the number of shares of common stock outstanding.

In addition, on or prior to June 30, 2022, the Company received elections to convert aggregate principal amount of $0.1 million of its 2023 convertible senior notes that remain unsettled as of the end of the second quarter of 2022. The Company expects to settle these conversions in cash or a combination of cash and shares during the third quarter of 2022. The Company has the option to settle any future election conversion notices in cash, shares, or a combination of cash and shares.

The 2023 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 2023 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 (including trade payables) of the Company’s subsidiaries.

The net carrying amount of the 2023 convertible senior notes as of June 30, 2022 and as of December 31, 2021 was as follows (in thousands):

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Principal | $ 188 | $ 34,225 |
| Unamortized issuance costs | (1) | (291) |
| Net carrying amount | $ 187 | $ 33,934 |

Interest expense related to the 2023 convertible senior notes was as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Contractual interest expense | $ — | $ 6 | $ 6 | $ 23 |
| Amortization of issuance costs | — | 73 | 31 | 157 |
| Total interest expense | $ — | $ 79 | $ 37 | $ 180 |

In connection with the issuance of the 2023 convertible senior notes, the Company entered into privately negotiated capped call transactions (the “2023 Capped Call Transactions”) with certain financial institutions. The initial cap price of the 2023 Capped Call Transactions was $62.80 per share, and is subject to certain adjustments under the terms of the 2023 Capped Call Transactions. The 2023 Capped Call Transactions cover, subject to anti-dilution adjustments, approximately 6.3 million shares of the Company’s common stock.

Maturity of the Company’s 2023 convertible senior notes as of June 30, 2022 was as follows (in thousands):

| Period | Amount to Mature |
|---|---|
| 2023 (Maturity date of May 1, 2023) | $ |
| Total | $ |

See Note 6 of the notes to consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission on February 28, 2022 for further description of the convertible senior notes.

**Adoption of ASU 2020-06**

On January 1, 2021, the Company elected to early adopt ASU 2020-06 based on a modified retrospective transition method. Under such transition, prior-period information was not retrospectively adjusted.

Prior to the adoption of ASU 2020-06, the 2025 and 2023 convertible senior notes were separated into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The equity component was recorded in additional paid-in-capital and was not re-measured as long as it continued to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (the “Debt Discount”) was amortized to interest expense over the contractual term of the 2025 and 2023 convertible senior notes at an effective interest rate of 5.76% and 6.39%, respectively.

Prior to the adoption of ASU 2020-06, the debt issuance costs related to the 2025 and 2023 convertible senior notes were allocated to the liability and equity components based on their relative values. Issuance costs attributable to the liability component were amortized to interest expense using the effective interest method over the contractual term of the 2025 and 2023 convertible senior notes. Issuance costs attributable to the equity component were netted with the equity component in additional paid-in-capital.

In accounting for the 2025 and 2023 convertible senior notes after adoption of ASU 2020-06, the 2025 convertible senior notes are accounted for as a single liability, and the issuance costs related to the 2025 and 2023 convertible senior notes are being amortized to interest expense over the contractual term at an effective interest rate of 1.0% and 0.76%, respectively.

**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 June 30, 2022 and December 31, 2021, the Company had 70,090,027 and 68,488,337 shares of common stock issued and outstanding, respectively. During the three and six months ended June 30, 2022, the Company issued 33,503 shares and 573,633 shares, respectively, of common stock in connection with 2023 convertible senior note settlements. During the three and six months ended June 30, 2022, the Company also received 8,076 shares and 119,492 shares, respectively, from the partial unwind of capped calls resulting from the settlement of its 2023 convertible senior notes. The receipt of the 8,076 shares and 119,492 shares during the three and six months ended June 30, 2022 reduced the number of shares of common stock outstanding.

***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 June 30, 2022 and December 31, 2021, 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 were as follows (in thousands):

| | June 30, 2022 |
|---|---|
| Stock options outstanding | 1,698 |
| RSUs (including PRSUs) outstanding | 3,111 |
| Shares available for future grant under 2014 Plan | 15,484 |
| Shares available for future issuance under ESPP | 3,664 |
| Total shares of common stock reserved | 23,957 |

***Stock Options***

A summary of the Company's stock option activity during the six months ended June 30, 2022 is as follows (in thousands, except years and per share data):

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2021 | 1,982 | $ 38.65 | | |
| Options granted (weighted average grant date fair value of $54.84 per share) | 81 | 110.55 | | |
| Options exercised | (351) | 8.55 | | |
| Options forfeited or expired | (14) | 116.87 | | |
| Outstanding as of June 30, 2022 | 1,698 | $ 47.68 | 2.4 | $ 90,323 |

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 $91.14 per share as of June 30, 2022 for all in-the-money stock options outstanding.

***Restricted Stock Units (including Performance-Based Restricted Stock Units)***

A summary of the Company's restricted stock unit ("RSU"), activity during the six months ended June 30, 2022 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, 2021 | 2,560 | $ 125.65 |
| RSUs granted[(1)] | 1,392 | 110.97 |
| RSUs vested and released | (699) | 110.68 |
| RSUs forfeited or canceled | (142) | 124.59 |
| Outstanding as of June 30, 2022 | 3,111 | 121.84 |

(1) Includes 120,346 PRSUs granted during the six months ended June 30, 2022.

*Performance-Based Restricted Stock Units*

In February 2022, the Company granted 59,383 performance-based restricted stock units ("PRSUs"), which are subject to market and service conditions and have a weighted average grant date fair value of $8.3 million as part of its annual grant of equity incentive awards to certain executives. The amount that may be earned pursuant to the 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 consisting of the Company's 2022, 2023 and 2024 fiscal years. One-third of the total PRSUs may be earned and settled in shares following the end of each one-year performance period based on RTSR performance and subject to continued employment through the payment date, but the amount initially paid for 2022 and 2023 is limited to 100% of the target amount for the year, and any PRSUs resulting from above-target performance in those years will be paid following the end of 2024, subject to the executive's 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 PRSUs for such period may be earned. If an executive's employment with the Company terminates before the end of 2024 due to death or disability, 100% (if due to death) or 50% (if due to disability) of the unvested 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 PRSUs will vest on a double-trigger basis at the target level. The fair value of the PRSUs are determined on their grant date using a Monte Carlo Simulation model based upon assumptions presented below. The Company recognizes the fair value of the PRSUs ratably over their requisite service period.

In June 2022, the Company granted 60,963 shares of PRSUs, subject to performance and service conditions, with a grant date fair value of $6.3 million as a retention award to an executive. The amount of PRSUs that may be earned will be determined based on achievement of two quarterly revenue goals, which can be achieved through the fourth fiscal quarter of 2023. One third of the 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 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 PRSUs are otherwise on the Company's standard award terms from the February 2022 PRSU grants. The Company began recognizing the fair value of these PRSUs ratably over the requisite service period since it concluded that the performance conditions were probable of achievement at June 30, 2022. The Company will reassess the probability of the achievement of the performance conditions at each reporting period and a cumulative catch-up adjustment will be recorded to stock-based compensation cost for any change in the probability assessment.

**Stock-Based Compensation**

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Cost of revenue | $ 8,538 | $ 3,781 | $ 16,330 | $ 6,886 |
| Research and development | 11,818 | 6,152 | 21,963 | 10,915 |
| Sales and marketing | 14,963 | 8,208 | 28,387 | 14,979 |
| General and administrative | 9,467 | 6,760 | 17,499 | 13,029 |
| Total stock-based compensation expense | 44,786 | 24,901 | 84,179 | 45,809 |

As of June 30, 2022, unrecognized stock-based compensation expense by award type and their 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 | $ 19,422 | $ 344,075 | $ 12,906 | $ 1,635 |
| Weighted-average amortization period | 2.4 years | 2.6 years | 2.1 years | 0.4 years |

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

| Stock Options | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Expected term (years) | 6.0 | 6.0 | 6.0 | 6.0 |
| Volatility | 47 % | 47.0 % | 46 % | 47 % |
| Risk-free interest rate | 3.0 % | 1.0 % | 1.8 % | 1.1 % |
| Dividend yield [(1)] | — | — | — | — |

| PRSUs (Market Conditions) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Closing price of common stock as of grant date (February 28, 2022) | — | — | $110.00 | — |
| Expected term (years) | — | — | 2.84 | — |
| Volatility | — | — | 48.8 % | — |
| Risk-free interest rate | — | — | 1.6 % | — |
| 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 and six months ended June 30, 2022 and 2021, 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Net loss | $ (23,670) | $ (16,530) | $ (57,790) | $ (28,862) |
| Weighted-average shares used in computing basic and diluted net loss per share | 69,748 | 67,292 | 69,363 | 67,008 |
| Basic and diluted net loss per share | $ (0.34) | $ (0.25) | $ (0.83) | $ (0.43) |

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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Stock options | 1,698 | 2,129 | 1,698 | 2,129 |
| RSUs (includes PRSUs) | 3,111 | 2,273 | 3,111 | 2,273 |
| Convertible senior notes | 5,571 | 6,708 | 5,804 | 6,796 |
| Total | 10,380 | 11,110 | 10,613 | 11,198 |

The Company used the if-converted method for calculating any potential dilutive effect of its convertible senior notes for the three and six months ended June 30, 2022 and 2021. 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 and six months ended June 30, 2022 and 2021 because the effect would have been anti-dilutive.

**9. Income Taxes**

The provision for income taxes for the three and six months ended June 30, 2022 was approximately $0.3 million and $2.6 million, respectively. The benefit from income taxes for the three and six months ended June 30, 2021 was approximately $(0.1) million and $(0.7) million, respectively.

The provision for income taxes for the three and six months ended June 30, 2022 consisted primarily of foreign deferred income tax expense from the intercompany sale of the Company's Australian intellectual property to the United States and foreign current income tax expense. The benefit from income taxes for the three and six months ended June 30, 2021 consisted primarily of a foreign income tax benefit offset by domestic state minimum taxes.

For the three and six months ended June 30, 2022, the provision for income taxes differed from the statutory amount primarily due to foreign income taxes and the Company realizing no benefit for current year domestic losses due to maintaining a full valuation allowance against its domestic net deferred tax assets. For the three and six months ended June 30, 2021, the benefit from income taxes differed from the statutory amount primarily due to state and foreign income taxes and the Company realizing no benefit for current year domestic losses due to maintaining a full valuation allowance against its domestic net deferred tax assets.

The realization of tax benefits of 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 available objective evidence, the Company does not believe it is more likely than not that the net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against the domestic net deferred tax assets as of June 30, 2022 and December 31, 2021. The Company intends to maintain the remaining valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance. During the three and six months ended June 30, 2022, 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, operating leases for office facilities, cloud services agreements, and agreements with third parties to provide co-location hosting, telecommunication usage and equipment maintenance services. These commitments as of December 31, 2021 are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, and did not change materially during the six months ended June 30, 2022, except for certain hosting and telecommunications agreements, cloud service agreements, the convertible senior notes, and the operating leases described in Note 12.

As of June 30, 2022, the Company's commitment under various hosting and telecommunications agreements totaled $18.8 million for terms ranging up to 48 months. These agreements require the Company to make monthly payments over the service term in exchange for certain network services.

As of June 30, 2022, the Company had outstanding cloud service agreement commitments totaling $50.5 million, of which $9.5 million is expected to be paid in the remainder of 2022 and the remaining $41.0 million in 2023.

As of June 30, 2022, $747.7 million of aggregate principal of the convertible senior notes were outstanding. The 2023 convertible senior notes and the 2025 convertible senior notes are due on May 1, 2023 and June 1, 2025, respectively. 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 sheet, consolidated statement 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| United States | $ 170,984 | $ 131,257 | $ 338,231 | $ 257,143 |
| International | 18,398 | 12,525 | 33,928 | 24,521 |
| Total revenue | $ 189,382 | $ 143,782 | $ 372,159 | $ 281,664 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| United States | $ 92,448 | $ 68,674 |
| International | 7,546 | 9,111 |
| Property and equipment, net | $ 99,994 | $ 77,785 |

## 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 ten years, some of the leases include a Company option to extend the leases for up to three to five years, and some of the leases include the option to terminate the leases upon 30-days notice. The Company has elected the practical expedient to 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Operating lease cost | $ 2,869 | $ 2,517 | $ 5,769 | $ 5,185 |
| Finance lease cost: | | | | |
| Amortization of right-of-use assets | $ 135 | $ 544 | $ 468 | $ 1,261 |
| Interest on finance lease liabilities | — | 5 | — | 18 |
| Total finance lease cost | $ 135 | $ 549 | $ 468 | $ 1,279 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash used in operating leases | $ (2,829) | $ (1,370) | $ (5,538) | $ (3,408) |
| Financing cash used in finance leases | — | (119) | — | (575) |
| Right of use assets obtained in exchange for lease obligations: | | | | |
| Operating leases | 264 | 4,090 | 584 | 42,429 |
| Finance leases | — | — | — | — |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Operating leases** | | |
| Operating lease right-of-use assets | $ 43,593 | $ 48,703 |
| | | |
| Operating lease liabilities | $ 9,836 | $ 9,826 |
| Operating lease liabilities — less current portion | 42,186 | 47,088 |
| Total operating lease liabilities | $ 52,022 | $ 56,914 |
| **Finance leases** | | |
| Property and equipment, gross | $ 42,504 | $ 42,541 |
| Less: accumulated depreciation and amortization | (42,194) | (41,689) |
| Property and equipment, net | $ 310 | $ 852 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Weighted average remaining lease term** | | |
| Operating leases | 7.0 | 7.3 |

Weighted average discount rates were as follows:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Weighted average discount rate** | | |
| Operating leases | 3.2 % | 3.2 % |

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

| **Year Ending December 31,** | Operating Leases |
|---|---|
| Remaining 2022 | $ 5,917 |
| 2023 | 10,458 |
| 2024 | 7,723 |
| 2025 | 5,584 |
| 2026 | 5,716 |
| Thereafter | 22,829 |
| Total future minimum lease payments | 58,227 |
| Less: imputed interest | (6,205) |
| Total | $ 52,022 |

As of June 30, 2022, the Company entered into an additional data center operating leases that had not yet commenced, representing a total commitment over their terms of $4.8 million. These operating leases are expected to commence during the third quarter of 2022 with lease terms of two to three years. The Company also entered into an additional facility operating lease that is expected to commence in August 2022 with a lease term of three years, representing a total commitment over its term of $1.4 million.

## 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, 2021.*

### Overview

We are a pioneer and leading provider of intelligent cloud software for contact centers, facilitating more than nine billion call minutes between our more than 2,500 clients and their customers per year. 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 each of the three and six months ended June 30, 2022, subscription and related usage fees accounted for 91% of our revenue. For each of the three and six months ended June 30, 2021, subscription and related usage fees accounted for 92% of our revenue. 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 macroeconomic deterioration, the Russia-Ukraine conflict and the COVID-19 pandemic.

Macroeconomic factors include increased inflation, increased interest rates, supply chain disruptions, decreased economic output and fluctuations in currency exchange rates, all of which can cause client hesitancy and uncertainty. 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. The implications of macroeconomic events on our business, results of operations and overall financial position, particularly in the long term, remain uncertain.

In March 2022 we decided to close our Russia office and to establish a new European development center in Porto, Portugal, in part due to the growing uncertainty arising from the Russia-Ukraine conflict. During the three and six months ended June 30, 2022, we incurred approximately $1.1 million and $3.9 million in costs related to the closure and relocation of our Russian operations, of which $3.0 thousand and $0.4 million was recorded in cost of revenue, $0.1 million and $2.7 million was recorded in research and development expense, $0.8 million and $1.1 million was recorded in general and administrative expense and $0.2 million and $(0.3) million was recorded in interest income and other, respectively, in our condensed consolidated statements of operations and comprehensive loss. We currently do not believe that this decision will have a material effect on our business, results of operations or financial condition.

The COVID-19 pandemic had a moderately positive impact on our financial results due to the shift from brick-and-mortar to virtual. The severity and duration of the COVID-19 pandemic, and its continuing impact on the U.S. and global economy remains uncertain, but we believe that most of this benefit has now dissipated.

**Key GAAP Operating Results**

Our revenue increased to $189.4 million and $372.2 million for the three and six months ended June 30, 2022 from $143.8 million and $281.7 million for the three and six months ended June 30, 2021. 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 and six months ended June 30, 2022 and 2021, no single client accounted for more than 10% of our total revenue. As of June 30, 2022, we had over 2,500 clients across multiple industries. Our clients’ subscriptions generally range in size from fewer than 10 agent seats to approximately 7,200 agent seats. We had a net loss of $23.7 million and $57.8 million in the three and six months ended June 30, 2022, compared to a net loss of $16.5 million and $28.9 million in the three and six months ended June 30, 2021.

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, including the impact of the global economic downturn, the Russia-Ukraine conflict and the COVID-19 pandemic, that we must successfully address in order to sustain the growth of 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 | |
|---|---|---|
| | June 30, 2022 | June 30, 2021 |
| Annual Dollar-Based Retention Rate | 118% | 123% |

Our Dollar-Based Retention Rate decreased year-over-year primarily due to the initial benefit that we previously experienced in 2021 from the COVID-19 pandemic.

***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) interest (income) and other, (5) acquisition-related transaction and one-time integration costs, (6) contingent consideration expense, (7) exit costs related to the closure and relocation of our Russian operations, (8) provision for (benefit from) income taxes, and (9) 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Net loss | $ (23,670) | $ (16,530) | $ (57,790) | $ (28,862) |
| Non-GAAP adjustments: | | | | |
| Depreciation and amortization [(1)] | 11,640 | 9,651 | 22,435 | 18,414 |
| Stock-based compensation [(2)] | 44,786 | 24,901 | 84,179 | 45,809 |
| Interest expense | 1,857 | 2,118 | 3,727 | 4,056 |
| Interest (income) and other | (280) | 353 | (1,125) | 178 |
| Exit costs related to closure and relocation of Russian operations | 214 | — | 3,441 | — |
| Acquisition-related transaction and one-time integration costs | 1,714 | 973 | 3,352 | 2,067 |
| Contingent consideration expense | — | 2,700 | 260 | 5,200 |
| Refund for prior year overpayment of USF fees | (3,511) | — | (3,511) | — |
| Provision for (benefit from) income taxes | 332 | (135) | 2,588 | (652) |
| Adjusted EBITDA | $ 33,082 | $ 24,031 | $ 57,556 | $ 46,210 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Cost of revenue | $ 8,747 | $ 7,825 | $ 17,247 | $ 14,912 |
| Research and development | 804 | 729 | 1,629 | 1,325 |
| Sales and marketing | 1 | 1 | 2 | 2 |
| General and administrative | 2,088 | 1,096 | 3,557 | 2,175 |
| Total depreciation and amortization | $ 11,640 | $ 9,651 | $ 22,435 | $ 18,414 |

(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 was $1.1 million and $3.9 million during the three and six months ended June 30, 2022, respectively. The $0.2 million and $3.4 million adjustments presented above were net of $0.7 million and $0.8 million included in "Depreciation and amortization" and $0.2 million and $(0.3) 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.

***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 the 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 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 and Six Months Ended June 30, 2022 and 2021**

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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Revenue | 100 % | 100 % | 100 % | 100 % |
| Cost of revenue | 47 % | 45 % | 48 % | 44 % |
| Gross profit | 53 % | 55 % | 52 % | 56 % |
| Operating expenses: | | | | |
| Research and development | 18 % | 17 % | 19 % | 17 % |
| Sales and marketing | 34 % | 32 % | 34 % | 32 % |
| General and administrative | 12 % | 16 % | 13 % | 16 % |
| Total operating expenses | 64 % | 65 % | 66 % | 65 % |
| Loss from operations | (11)% | (10)% | (14)% | (9)% |
| Other (expense) income, net: | | | | |
| Interest expense | (1)% | (1)% | (1)% | (1)% |
| Interest income and other | — % | (1)% | — % | — % |
| Total other (expense) income, net | (1)% | (2)% | (1)% | (1)% |
| Loss before income taxes | (12)% | (12)% | (15)% | (10)% |
| Provision for (benefit from) income taxes | — % | (1)% | 1 % | — % |
| Net loss | (12)% | (11)% | (16)% | (10)% |

***Revenue***

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| | (in thousands, except percentages) | | | | | | | |
| Revenue | $ 189,382 | $ 143,782 | $ 45,600 | 32 % | $ 372,159 | $ 281,664 | $ 90,495 | 32 % |

The increase in revenue for the three and six months ended June 30, 2022 compared to the same periods of 2021 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 | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| | (in thousands, except percentages) | | | | | | | |
| Cost of revenue | $ 88,229 | $ 64,395 | $ 23,834 | 37 % | $ 177,096 | $ 124,198 | $ 52,898 | 43 % |
| % of Revenue | 47 % | 45 % | | | 48% | 44% | | |

The increase in cost of revenue for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to a $11.4 million and $24.1 million increase in personnel costs, including stock-based compensation costs, driven mainly by increased headcount and higher salaries, a $8.4 million and $15.1 million increase in depreciation, data center and public cloud costs to support our growing capacity needs, a $4.4 million and $9.8 million increase in third-party hosted software costs driven by increased client activities, a $1.4 million and $3.8 million increase in usage and carrier costs due to increased volume and higher costs, a $1.3 million and $2.4 million increase in consulting costs for global expansion and a $1.2 million and $2.5 million increase in staff augmentation costs related to implementation of our solutions, partially offset by a $5.1 million and $6.4 million decrease in USF contributions and other federal telecommunication service fees due primarily to a change in methodology, which resulted in a $3.5 million refund for 2020 and a decrease in the USF contribution rate, offset in part by increased client usage.

### *Gross Profit*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| | (in thousands, except percentages) | | | | | | | |
| Gross profit | $ 101,153 | $ 79,387 | $ 21,766 | 27 % | $195,063 | $157,466 | $37,597 | 24% |
| % of Revenue | 53 % | 55 % | | | 52% | 56% | | |

The increase in gross profit for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to increases in subscription and related revenues. The decrease in gross margin for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to increased cost of revenue as described above, which grew slightly more than our growth in revenue. We expect gross margin to increase in the long term despite continued investments in professional services, public cloud, cloud operations, client support and network infrastructure.

### *Operating Expenses*

### *Research and Development*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| | (in thousands, except percentages) | | | | | | | |
| Research and development | $ 34,992 | $ 24,648 | $ 10,344 | 42 % | $70,816 | $46,769 | $24,047 | 51% |
| % of Revenue | 18 % | 17 % | | | 19% | 17% | | |

The increase in research and development expenses for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to a $9.7 million and $22.4 million increase in personnel-related costs including stock-based compensation costs, driven mainly by increased headcount and higher salaries, and a $1.0 million and $1.5 million increase in office, facilities and related costs.

### *Sales and Marketing*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| | (in thousands, except percentages) | | | | | | | |
| Sales and marketing | $ 64,098 | $ 46,024 | $ 18,074 | 39 % | $128,709 | $90,823 | $37,886 | 42% |
| % of Revenue | 34 % | 32 % | | | 34% | 32% | | |

The increase in sales and marketing expenses for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to a $10.2 million and $22.9 million increase in personnel-related costs, including stock-based compensation costs driven mainly by increased headcount and higher salaries, a $3.9 million and $7.3 million increase in sales commission expenses driven by the growth in sales and bookings of our solution, a $1.0 million and $2.1 million increase in travel costs and a $0.7 million and $1.2 million increase in office, facilities and related costs. The remaining net increase in sales and marketing expenses was primarily due to the execution of our growth strategy to acquire new clients, increase the number of agent seats within our existing client base, and increased advertising and other marketing expenses to increase our brand awareness.

***General and Administrative***

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| | (in thousands, except percentages) | | | | | | | |
| General and administrative | $ 23,824 | $ 22,909 | $ 915 | 4 % | $48,138 | $45,154 | $2,984 | 7% |
| % of Revenue | 12 % | 16 % | | | 13% | 16% | | |

The increase in general and administrative expenses for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to a $3.5 million and $6.4 million increase in personnel costs including stock-based compensation costs, driven mainly by increased headcount and higher salaries, a $0.1 million and $1.7 million increase in legal and other professional service costs, partially offset by a $2.7 million and $4.9 million decrease in contingent consideration expense for the Inference acquisition.

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

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| | (in thousands, except percentages) | | | | | | | |
| Interest expense | $ (1,857) | $ (2,118) | $ 261 | (12)% | $ (3,727) | $ (4,056) | $ 329 | (8)% |
| Interest income and other | 280 | (353) | 633 | (179)% | 1,125 | (178) | 1,303 | (732)% |
| Total other (expense) income, net | $ (1,577) | $ (2,471) | $ 894 | (36)% | $ (2,602) | $ (4,234) | $ 1,632 | (39)% |
| % of Revenue | (1)% | (2)% | | | (1)% | (1)% | | |

The decrease in interest expense for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to the reduction in the aggregate outstanding principal amount of our 2023 convertible senior notes. See Note 6 to the consolidated financial statements for further details.

The increase in interest income and other for the three and six months ended June 30, 2022 compared to the same periods of 2021 was primarily due to higher interest income on our marketable investments and an increase in foreign currency remeasurement 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 2025 convertible senior notes in May and June 2020 and of our 2023 convertible senior notes in May 2018, and lease facilities. As of June 30, 2022, we had $513.4 million in working capital, which included $101.3 million in cash and cash equivalents and $397.1 million in short-term marketable investments, and excluded long-term marketable investments of $60.4 million. 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. 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, 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 opening a new office in Europe and any operational disruptions due to this transition, and the impact of the Russia-Ukraine conflict and the COVID-19 pandemic on these or other factors, the global economy, or our business. We may also acquire or invest in complementary businesses, technologies and intellectual property rights, 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 engage in 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, 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 ongoing COVID-19 pandemic. 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):

| | Six Months Ended | |
|---|---|---|
| | June 30, 2022 | June 30, 2021 |
| Net cash provided by operating activities | $ 25,621 | $ 25,157 |
| Net cash provided by (used in) investing activities | 25,607 | (61,500) |
| Net cash used in financing activities | (40,791) | (8,830) |
| Net increase (decrease) in cash and cash equivalents | $ 10,437 | $ (45,173) |

***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 $25.6 million during the six months ended June 30, 2022. Net cash provided by operating activities resulted from our net loss of $57.8 million, adjustments to reconcile net loss to net cash provided by operating activities of $130.3 million, primarily consisting of $84.2 million of stock-based compensation, $22.4 million of depreciation and amortization, $18.7 million of amortization of commission costs, $1.9 million of amortization of issuance costs on our convertible senior notes, and $(5.9) million adjustment for the Inference contingent consideration in excess of its acquisition-date fair value, offset by use of cash for operating assets and liabilities of $(46.9) million primarily due to the timing of cash payments to vendors and cash receipts from customers.

Net cash provided by operating activities was $25.2 million during the six months ended June 30, 2021. Net cash provided by operating activities resulted from our net loss of $28.9 million adjusted for non-cash items of $91.4 million, primarily consisting of $45.8 million of stock-based compensation, $18.4 million of depreciation and amortization, $11.5 million of amortization of commission costs, $5.2 million of contingent consideration expense and $2.0 million of amortization of issuance costs on our convertible senior notes, offset by use of cash for operating assets and liabilities of $(37.4) million primarily due to the timing of cash payments to vendors and cash receipts from customers.

***Cash Flows from Investing Activities***

Net cash provided by investing activities of $25.6 million in the six months ended June 30, 2022 was comprised of $215.2 million related to cash proceeds from sales and maturities of marketable investments, offset in part by $151.7 million related to purchases of marketable investments, $34.5 million in capital expenditures, $2.0 million in connection with an equity investment in a privately-held company and $1.4 million in capitalized software development costs.

Net cash used in investing activities of $(61.5) million in the six months ended June 30, 2021 was comprised of $325.6 million related to purchases of marketable investments and $19.5 million in capital expenditures, offset in part by $283.6 million related to cash proceeds from maturities of marketable investments.

***Cash Flows from Financing Activities***

Net cash used in financing activities of $(40.8) million in the six months ended June 30, 2022 related to $34.0 million of cash paid in connection with other 2023 convertible senior note settlements and $24.0 million of cash paid in connection with the contingent consideration payment related to the Inference acquisition, of which $18.1 million represented the acquisition-date fair value and was disclosed as a financing activity and $5.9 million represented the amount of payment in excess of the acquisition-date fair value and was disclosed as an adjustment to operating activity, partially offset by $8.3 million from the sale of common stock under our employee stock purchase plan, and cash proceeds of $3.0 million from exercise of stock options.

Net cash used in financing activities of $(8.8) million in the six months ended June 30, 2021 related to $17.6 million of cash paid in connection with other 2023 convertible senior note settlements, $3.2 million of cash paid in connection with a holdback payment related to the Virtual Observer acquisition and $0.6 million of payments related to finance leases, partially offset by $8.1 million from the sale of common stock under our employee stock purchase plan, and cash proceeds of $4.4 million from 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, 2021 filed with the SEC on February 28, 2022.

**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. As of June 30, 2022, the aggregate principal amount outstanding of our 2025 convertible senior notes was $747.5 million.

In May 2018, we issued $258.8 million aggregate principal amount of our 2023 convertible senior notes in a private offering. The 2023 convertible senior notes mature on May 1, 2023 and are our senior unsecured obligations. The 2023 convertible senior notes bear interest at a fixed rate of 0.125% per annum, payable semiannually in arrears on May 1 and November 1 of each year. The total net proceeds from the offering, after deducting the initial purchasers' discounts and estimated debt issuance costs, were approximately $250.8 million. As of June 30, 2022, after giving effect to the 2023 Note Repurchase Transactions and other settlements upon conversion requests, approximately $0.2 million aggregate principal amount of 2023 convertible senior notes remained outstanding.

For additional information regarding the convertible senior notes, see Note 6 to the consolidated financial statements included in this report.

***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 ten years. Some of the leases include an option to extend the leases for up to three 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 $58.2 million as of June 30, 2022, with $5.9 million payable in the remainder of 2022, $18.2 million payable in 2023 and 2024, $11.3 million payable in 2025 and 2026, and $22.8 million after 2026. See Note 12 to the consolidated financial statements included in this report for further details.

***Cloud Services***

As of June 30, 2022, we had outstanding cloud service agreement commitments totaling $50.5 million, of which $9.5 million is expected to be paid in the remainder of 2022 and the remaining $41.0 million in 2023.

***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 June 30, 2022, we had outstanding hosting and telecommunication usage services obligations of $18.8 million, with $5.7 million payable in the remainder of 2022, $13.0 million payable in 2023 and 2024, and $0.1 million payable in 2025.

***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 consolidated financial statements for more details.

**ITEM 3. Quantitative and Qualitative Disclosure 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, 2021. Our exposure to market risk has not changed materially since December 31, 2021.

We had cash and cash equivalents, and marketable securities totaling $558.8 million as of June 30, 2022. Cash equivalents and marketable securities were invested primarily in U.S. agency securities, U.S. treasury, 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 the 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 June 30, 2022, aggregate principal amount outstanding of our 2025 convertible senior notes and 2023 convertible senior notes was $747.5 million and $0.2 million, respectively. 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 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 and May 2018 related to the issuance of our 2025 convertible senior notes and our 2023 convertible senior notes, respectively.

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 could make our solution more expensive outside the United States and therefore reduce demand. A weaker U.S. dollar could have the opposite effect. 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 is 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 Porto, 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 six months ended June 30, 2022, the effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would have a maximum impact of $2.8 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 June 30, 2022.

Based on management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2022, 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 June 30, 2022, 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 updates that previously disclosed in our Annual Report on Form 10-K as filed with the SEC on February 28, 2022, 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, 2021. 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.

### Other Operational Risks

***Adverse economic conditions may harm our business.***

Our business depends on the overall demand for cloud contact center software solutions, the economic health of our current and prospective clients and worldwide economic conditions. In addition to the United States, Canada, Europe, Latin America and Australia, we plan in the future to market and sell our solution in Asia and other international markets. Adverse economic conditions in these markets, including increased inflation rates, increased interest rates, supply chain disruptions, decreased economic output and fluctuations in currency exchange rates, could reduce overall demand for our solution, particularly in our installed base, delay our clients' implementation of our solution, delay or lengthen sales cycles, delay international expansion, lower prices for our solution, and may also lead to longer collection cycles for payments due from our clients, as well as result in an increase in customer bad debt. All of these potential circumstances could lead to slower growth or even a decline in our revenues, operating results and cash flows.

### Risks Related to Our International Operations

***We continue to expand our international operations, which exposes us to significant risks.***

To date, we have not generated significant revenues outside of the U.S., Canada, the U.K., Latin America and Australia. However, we already have significant operations outside these countries and regions, and we expect to grow our international presence in the future. Our international employees are primarily located in the Philippines, where technical support, training and other professional services are performed, Portugal, where we are transitioning portions of engineering and operations that were previously performed in Russia, and Australia, where additional portions of engineering and operations are now performed. In March 2022, we made a decision to close our Russia office and to establish a new European development center in Porto, Portugal. While approximately half of our Russian-citizen employees are moving to and intend to work in Portugal, it was not feasible to retain all of them and, in connection with growing our overall operations presence in Portugal, we have expanded recruiting and employment-related efforts in Portugal to further enhance our operations. We have and will continue to incur costs in connection with this transition, and during the transition we have and may continue to experience operational disruptions. There can be no assurance that our new European operations will be as effective or as efficient as our prior Russian operations, which could harm our business and results of operations. The future success of our business will depend, in part, on our ability to expand our operations and customer base to other countries, including our new location in Porto, Portugal.

Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, and political risks that are different from those in the U.S. In addition, in order to effectively market and sell our solution in international markets, we will be required to localize our solution, including the language in which our solution is offered, which will increase our costs, could result in delays in offering our solution in these markets and may decrease the effectiveness of our sales efforts. Due to our limited experience with international operations and developing and managing sales and distribution channels in international markets, our international expansion efforts may not be successful.

We also will incur additional compliance costs associated with our international operations, including costs associated with expanding and rapidly changing sanctions and other trade controls. In addition, we may be unaware or unable to keep current with changes in foreign government requirements and laws as they change from time to time, which often occurs with minimal or no advance notice. Failure to comply with these regulations could harm our business. In many countries outside the United States, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or United States or international laws and regulations applicable to us. Although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, strategic partners and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, strategic partners or agents could result in delays in revenue recognition, financial reporting misstatements, fines, delays in filing financial reports required as a public company, penalties, harm to our reputation or prohibitions on selling our solution, any of which could harm our business.

While we have worked to avoid and mitigate any effects of the Russia-Ukraine conflict on our business, employees and clients, the conflict is ongoing, and its ultimate scope and broader impacts cannot be predicted with certainty. For example, while the conflict has not yet had a negative impact on our employees, business, or operations outside these regions, it could, and if the conflict or related geopolitical tensions extend to other countries, such negative impacts could expand. Our business and operations could be harmed and our costs could increase if our or our clients' or other partners' manufacturing, logistics or other operations, costs or financial performance are disrupted or adversely affected. The Russia-Ukraine conflict has also had an adverse impact on the global economy, including on the inflation rate, and has caused significant fluctuation in global stock markets, including The NASDAQ Stock Market. All of these risks and conditions could harm our future sales, business and operating results.

**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**

None.

**ITEM 6. Exhibits**

| Exhibit Number | Description |
|---|---|
| 10.1+* | Five9 Inc. Form of Performance-Based Restricted Stock Unit Grant Notice and Award Agreement (Revenue Goals) - 2014 Equity Incentive Plan. |
| 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. |

+ Indicates management contract or compensatory plan.

* Filed herewith.

** Furnished herewith.

**SIGNATURES**

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

| | | | |
|---|---|---|---|
| | | | **Five9, Inc.** |
| Date: | July 28, 2022 | By: | /s/ Rowan Trollope |
| | | | Rowan Trollope |
| | | | Chief Executive Officer |
| | | | (Principal Executive Officer) |
| | | | /s/ Barry Zwarenstein |
| | | | Barry Zwarenstein |
| | | | Chief Financial Officer |
| | | | (Principal Financial Officer) |
| | | | /s/ Leena Mansharamani |
| | | | Leena Mansharamani |
| | | | Chief Accounting Officer |
| | | | (Principal Accounting Officer) |

# Five9, Inc.
# Performance –Based Restricted Stock Unit Grant Notice
# 2014 Equity Incentive Plan

Five9, Inc. (the "***Company***") hereby awards to Participant the number of performance-based restricted stock units ("***PRSUs***") set forth below (the "***Award***"). The Award is subject to all of the terms and conditions as set forth in this Performance-Based Restricted Stock Unit Grant Notice (the "***Notice***"), the 2014 Equity Incentive Plan (the "***Plan***") and the Performance-Based Restricted Stock Unit Agreement (the "***Award Agreement***"), both of which are attached hereto and incorporated in their entirety. Capitalized terms not explicitly defined in this Notice but defined in the Plan or the Award Agreement will have the same definitions as in the Plan or the Award Agreement. In the event of any conflict between the terms of the Award and the Plan, the terms of the Plan will control.

Participant: ___________
Date of Grant: ___________
Performance Period: ___________
Number of PRSUs: ___________

**Vesting Schedule**:

(a) Subject to the conditions in paragraph (b) and **Exhibit A** to the Award Agreement, the PRSUs will be earned and vest on the based on the achievement of the Vesting Criteria (as defined in **Exhibit A** to the Award Agreement) approved by the Committee on or before the Date of Grant as set forth on **Exhibit A** to the Award Agreement as follows:

(i) ___ of the Number of PRSUs will be eligible to vest based on achievement of the Vesting Criteria for a fiscal ______ of the Company in the period from ________ through _________ (the "***First Tranche***"), with any fractional shares being rounded down to the nearest whole share; and

(ii) ___ of the Number of PRSUs will be eligible to vest based on achievement of the Vesting Criteria in a fiscal ______ of the Company in the period from __________ through __________ (the "***Second Tranche***", together with the First Tranche, the "***Tranches***", and each a "***Tranche***").

(iii) Each installment of PRSUs that vests hereunder is a "separate payment" for purposes of Treasury Regulations Section 1.409A-2(b)(2).

(b) The vesting of the PRSUs is contingent upon:

(i) a determination by the Committee that the Vesting Criteria have been satisfied and the PRSUs have been conditionally earned for the applicable Tranche; and

(ii) the Participant's Continuous Service from the Date of Grant through (A) the Determination Date and (B) the applicable Vesting Date (each of (A) and (B) as defined in **Exhibit A** to the Award Agreement) for the Tranche.

(c) Notwithstanding paragraphs (a) and (b) above, if (i) the Participant's Continuous Service ends prior to the applicable Vesting Date due to the Participant's death or Disability (as defined in the Plan) or (ii) a Change in Control occurs, vesting of the PRSUs will be as set forth in Sections 4(b) through (f) of Appendix A to the Award Agreement, as applicable.

**Issuance Schedule:** Subject to any change on a Capitalization Adjustment, one share of Common Stock will be issued for each PRSU that vests at the time set forth in the Award Agreement, but in all cases within the "short term deferral" period determined under Treasury Regulations Section 1.409A-1(b)(4).

**Additional Terms/Acknowledgements:** Participant acknowledges receipt of, and understands and agrees to, this Notice, the Award Agreement (including **Exhibit A** thereto), the Plan and the prospectus for the Plan. As of the Date of Grant, this Notice, the Award Agreement (including **Exhibit A** thereto) and the Plan set forth the entire understanding between Participant and the Company regarding the Award and supersede all prior oral and written agreements on the terms of the Award, with the exception, if applicable, any compensation recovery policy that is adopted by the Company or is otherwise required by applicable law. By accepting this Award, Participant consents to receive Plan documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**Five9, Inc.** **Participant:**

By: ___ ___
Signature Signature

Title: ___ Date: ___

Date:___

## Five9, Inc.
## 2014 Equity Incentive Plan

## Performance-Based Restricted Stock Unit Agreement

Five9, Inc. (the "***Company***") has awarded you a performance-based Restricted Stock Unit Award (the "***Award***") that is subject to its 2014 Equity Incentive Plan (the "***Plan***"), the Performance-Based Restricted Stock Unit Grant Notice (the "***Grant Notice***") and this Performance-Based Restricted Stock Unit Agreement (the "***Agreement***"), for the number of performance-based Restricted Stock Units indicated in the Grant Notice. Capitalized terms not explicitly defined in this Agreement or in the Grant Notice but defined in the Plan will have the same definitions as in the Plan. In the event of any conflict between the terms in this Agreement and the Plan, the terms of the Plan will control.

**1. Grant of the Award.** The Award represents your right to be issued on a future date one share of Common Stock for each performance-based Restricted Stock Unit that vests.

**2. Vesting.** Your performance-based Restricted Stock Units will vest as provided in the Grant Notice and **Exhibit A** to the Agreement. Except as otherwise provided in the Grant Notice or in **Exhibit A** to the Agreement, (i) vesting will cease on the termination of your Continuous Service and (ii) any performance-based Restricted Stock Units that have not vested (after taking into account any (A) acceleration that occurs on your termination or (B) potential vesting that could occur after your termination, as provided in the Grant Notice or **Exhibit A** to the Agreement) will be forfeited on the termination of your Continuous Service.

**3. Adjustments to Number of PRSUs & Shares of Common Stock.**

**(a)** The performance-based Restricted Stock Units subject to your Award will be adjusted for Capitalization Adjustments, as provided in the Plan.

**(b)** Any additional performance-based Restricted Stock Units and any shares, cash or other property that become subject to the Award will be subject, in a manner determined by the Board, to the terms of the Award, including the same forfeiture restrictions, restrictions on transferability, and time and manner of delivery as applicable to the other performance-based Restricted Stock Units and shares covered by your Award.

**(c)** You have no rights to be issued any fractional share of Common Stock or cash in lieu of such fractional share under this Award. Any fraction of a share will be rounded down to the nearest whole share.

**4. Securities Law Compliance.** You will not be issued any Common Stock underlying the performance-based Restricted Stock Units or other shares with respect to your performance-based Restricted Stock Units unless either (i) the shares are registered under the Securities Act, or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award also must comply with other applicable laws and regulations governing the Award, and you will not receive shares underlying your performance-based Restricted Stock Units if the Company determines that such receipt would not be in material compliance with such laws and regulations.

**5. Transferability.** Prior to the time that shares of Common Stock have been delivered to you, you may not transfer, pledge, sell or otherwise dispose of any portion of the performance-based Restricted Stock Units or the shares in respect of your performance-based Restricted Stock

Units. For example, you may not use shares that may be issued in respect of your performance-based Restricted Stock Units as security for a loan, nor may you transfer, pledge, sell or otherwise dispose of such shares. This restriction on transfer will lapse on delivery to you of shares in respect of your vested performance-based Restricted Stock Units.

**(a)** **Death.** Your performance-based Restricted Stock Units are not transferable other than by will and by the laws of descent and distribution. At your death, your executor or administrator of your estate will be entitled to receive, on behalf of your estate, Common Stock or other consideration under this Award.

**(b)** **Domestic Relations Orders.** If you receive written permission from the Board or its duly authorized designee, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your right to receive the distribution of Common Stock or other consideration under your performance-based Restricted Stock Units, in accordance with a domestic relations order or official marital settlement agreement that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss with the Company's General Counsel the proposed terms of any such transfer prior to finalizing the domestic relations order or marital settlement agreement to verify that you may make such transfer, and if so, to help ensure the required information is contained within the domestic relations order or marital settlement agreement. The Company is not obligated to allow you to transfer your Award in connection with your domestic relations order or marital settlement agreement.

**6.** **Date of Issuance.**

**(a)** The issuance of shares in respect of the vested portion of performance-based Restricted Stock Units is intended to comply with Treasury Regulations Section 1.409A-1(b)(4) and will be construed and administered in such a manner. As a result, the shares will be issued no later than the date that is the 15th day of the third calendar month of the applicable year following the year in which the shares of Common Stock under this Award are no longer subject to a "substantial risk of forfeiture" within the meaning of Treasury Regulations Section 1.409A-1(d). Subject to the foregoing, unless otherwise determined by the Committee, the issuance of the shares underlying vested performance-based Restricted Stock Units will be delayed until the first business day on which such shares may be sold by you to satisfy the Company's required tax withholding obligations.

**(b)** If the Company determines that it is necessary to comply with applicable tax laws, the shares will be issued no later than December 31 of the calendar year in which the shares are no longer subject to a "substantial risk of forfeiture" within the meaning of Treasury Regulations Section 1.409A-1(d).

**7.** **Dividends.** You will receive no benefit or adjustment to your performance-based Restricted Stock Units with respect to any cash dividend, stock dividend or other distribution except as provided in the Plan with respect to a Capitalization Adjustment.

**8.** **Restrictive Legends.** The Common Stock issued with respect to your performance-based Restricted Stock Units will be endorsed with appropriate legends determined by the Company.

**9.** **Award not a Service Contract.** Your Continuous Service is not for any specified term and may be terminated by you or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Agreement (including, but not limited to, the vesting of your performance-based Restricted Stock Units or the issuance of the shares subject to your performance-based Restricted Stock Units), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Agreement or the Plan shall: (i) confer on you any right to continue in the employ or service of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Agreement or Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future vesting opportunity that you may have.

**10. Withholding Obligations.**

**(a)** On each Vesting Date (as defined in **Exhibit A**), and on or before the time you receive a distribution of the shares underlying your performance-based Restricted Stock Units, and at any other time as reasonably requested by the Company in accordance with applicable tax laws, you agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or any Affiliate that arise in connection with your Award (the "***Withholding Taxes***"). Specifically, the Company or an Affiliate may, in its sole discretion, satisfy all or any portion of the Withholding Taxes relating to your Award by any of the following means or by a combination of such means: (i) withholding from any compensation otherwise payable to you by the Company or an Affiliate; (ii) causing you to tender a cash payment (which may be in the form of a check, electronic wire transfer or other method permitted by the Company); (iii) permitting or requiring you to enter into a "same day sale" commitment with a broker-dealer that is a member of the Financial Industry Regulatory Authority (a "***FINRA Dealer***") whereby you irrevocably elect to sell a portion of the shares to be delivered in connection with your performance-based Restricted Stock Units to satisfy the Withholding Taxes and whereby the FINRA Dealer irrevocably commits to forward the proceeds necessary to satisfy the Withholding Taxes directly to the Company and/or its Affiliates; or (iv) subject to the approval of the independent members of the Board, withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to you in connection with your performance-based Restricted Stock Units with a fair market value (measured as of the date shares of Common Stock are issued to you) equal to the amount of such Withholding Taxes; *provided*, *however*, that the number of such shares of Common Stock so withheld will not exceed the amount necessary to satisfy the Company's required tax withholding obligations using the minimum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income.

**(b)** Unless the Withholding Taxes of the Company and/or any Affiliate are satisfied, the Company will have no obligation to deliver to you any Common Stock.

**(c)** If the Company's obligation to withhold arises prior to the delivery to you of Common Stock or it is determined after the delivery of Common Stock to you that the amount of the Company's withholding obligation was greater than the amount withheld by the Company, you agree to indemnify and hold the Company harmless from any failure by the Company to withhold the proper amount.

**11. Unsecured Obligation.** Your Award is unfunded, and as a holder of vested performance-based Restricted Stock Units, you will be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares or other property pursuant to this Agreement. You will not have voting or any other rights as a stockholder of the Company with respect to the shares to be issued pursuant to this Agreement until such shares are issued to you. On such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this Agreement, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

**12. Notices.** Any notices provided for in this Agreement or the Plan will be given in writing (including electronically) and will be deemed effectively given on receipt or, in the case of notices delivered by the Company to you, five days after deposit in the U.S. mail, postage prepaid, addressed to you at the last address you provided to the Company. The Company may, in its sole discretion, decide to deliver any documents related to participation in the Plan and this Award by electronic means or to request your consent to participate in the Plan by electronic means. By accepting this Award, you consent to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**13. Miscellaneous.**

**(a)** The rights and obligations of the Company under your Award will be transferable to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by the Company's successors and assigns.

**(b)** You agree on request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

**(c)** You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

**(d)** This Agreement will be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

**(e)** All obligations of the Company under the Plan and this Agreement will be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

**14. Governing Plan Document.** Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. Your Award (and any compensation paid or shares issued under your Award) is subject to recoupment in accordance with The Dodd–Frank Wall Street Reform and Consumer Protection Act and any implementing regulations thereunder, any clawback policy adopted by the Company and any compensation recovery policy otherwise required by applicable law. No recovery of compensation under such a clawback policy will be an event giving rise to a right to voluntarily terminate employment on a Resignation for Good Reason, or for a "constructive termination" or any similar term under any plan of or agreement with the Company. You hereby acknowledge receipt or the right to receive a document providing the information required by Rule 428(b)(1) promulgated under the Securities Act, which includes the Plan prospectus. In addition, you acknowledge receipt of the Company's policy permitting officers and directors to sell shares only during certain "window" periods and the Company's insider trading policy, in effect from time to time.

**15. Severability.** If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity will not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

**16. Effect on Other Employee Benefit Plans.** The value of the Award subject to this Agreement will not be included as compensation, earnings, salaries, or other similar terms used when calculating the Employee's benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

**17. Amendment.** Any amendment to this Agreement must be in writing, signed by a duly authorized representative of the Company. The Board reserves the right to amend this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, interpretation, ruling, or judicial decision.

**18. Compliance with Section 409A of the Code**. This Award is intended to comply with the "short-term deferral" rule set forth in Treasury Regulation Section 1.409A-1(b)(4). However, if this Award fails to satisfy the requirements of the short-term deferral rule and is otherwise not exempt from, and therefore deemed to be deferred compensation subject to, Section 409A of the Code, and if you are a "Specified Employee" (within the meaning set forth Section 409A(a)(2)(B)(i) of the Code) as of the date of your separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)), then the issuance of any shares that would otherwise be made on the date of the separation from service or within the first six months thereafter will not be made on the originally scheduled dates and will instead be issued in a lump sum on the date that is six months and one day after the date of the separation from service, with the balance of the shares issued thereafter in accordance with the original vesting and issuance schedule set forth above, but if and only if such delay in the issuance of the shares is necessary to avoid the imposition of taxation on you in respect of the shares under Section 409A of the Code. Each installment of shares that vests is a "separate payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2).

**19. No Obligation to Minimize Taxes.** The Company has no duty or obligation to minimize the tax consequences to you of this Award and will not be liable to you for any adverse tax consequences to you arising in connection with this Award. You are hereby advised to consult with your own personal tax, financial and/or legal advisors regarding the tax consequences of this Award and by signing the Grant Notice, you have agreed that you have done so or knowingly and voluntarily declined to do so.

# Exhibit A

## Five9, Inc.
## 2014 Equity Incentive Plan

## Performance-Based Restricted Stock Unit Award Vesting Criteria

The number of performance-based Restricted Stock Units ("***PRSUs***") that may vest will be determined in accordance with the following criteria (the "***Vesting Criteria***"). Certain capitalized terms used herein have the meanings set forth in Section 5 of this **Exhibit A** to the Performance-Based Restricted Stock Unit Agreement (the "***Agreement***"). Capitalized terms not explicitly defined in this **Exhibit A** to the Agreement but defined in the Plan, the Agreement or the Performance-Based Restricted Stock Unit Award Grant Notice (the "***Grant Notice***") will have the same definitions as in the Plan, the Agreement or the Grant Notice.

**1. Performance Period.**

The performance period for the PRSUs shall be the period beginning on __________ and ending on ___________ (the "***Performance Period***").

**2. Number of PRSUs**.

The Number of PRSUs for the (i) First Tranche is equal to _____ of the Number of PRSUs specified in the Grant Notice (rounded down to the nearest whole share) and (ii) Second Tranche is equal to ______ of the Number of PRSUs specified in the Grant Notice (rounded up to the nearest whole share):

| | **First Tranche** | **Second Tranche** |
|---|---|---|
| **Number of PRSUs** | | |

**3. Revenue Requirement**.

**(a)** As soon as practicable within the 60-day period following the last day of each fiscal ______ in the Performance Period, the Committee shall determine (i) whether the Revenue for such ______ meets or exceeds the First Performance Goal, the Second Performance Goal, or both and (ii) the applicable number of PRSUs that will vest based on the Revenue for the applicable fiscal _______. The date the Committee's determination occurs is the "***Determination Date***."

**(b)** On the Determination Date for the first fiscal _______ in which the Committee determines that the First Performance Goal has been achieved, the First Tranche will be deemed conditionally earned. Subject to Section 4 below, (i) ____ of the First Tranche will vest, with any fractional shares being rounded down to the nearest whole share and vesting with the next vesting installment, and will be settled in shares as soon as practicable after such Determination Date, and (ii) the remainder of the First Tranche will vest in _____ equal installments (subject to your Continuous Service in Section 4 below) as follows: _____ of the First Tranche will vest every _____ months after such Determination Date, with any fractional shares being rounded down to the nearest whole share and vesting with the next vesting installment, and will be settled in shares as soon as practicable thereafter; provided however, that in no event will any PRSUs vest later than the time period set forth in Section 6 of the Agreement.

**(c)** On the Determination Date for the first fiscal _____ in which the Committee determines that the Second Performance Goal has been achieved, the Second Tranche will be deemed conditionally earned. Subject to Section 4 below, (i) ______ of the Second Tranche will vest, with any fractional shares being rounded down to the nearest whole share and vesting with the next vesting installment, and will be settled in shares as soon as practicable after such Determination Date, and (ii) the remainder of the Second Tranche will vest in _____ equal installments (subject to your Continuous Service in Section 4 below) as follows: _____ of the Second Tranche will vest every _____ months after such Determination Date, with any fractional shares being rounded down to the nearest whole share and vesting with the next vesting installment, and will be settled in shares as soon as practicable thereafter; provided however, that in no event will any PRSUs vest later than the time period set forth in Section 6 of the Agreement.

**(d)** Any PRSUs that are not deemed conditionally earned on or prior to the Determination Date for the _____ fiscal _______ of ______ shall immediately terminate and be forfeited.

**4. Service Requirement.**

**(a)** Except as specifically provided in Section 4(b), (c) or (d) below, you must remain in Continuous Service through the applicable Vesting Date in order for the applicable portion of the PRSUs specified in Section 3 to vest. Any PRSUs that vest upon a Vesting Date shall be settled in shares as soon as practicable thereafter, but in no event later than the time period set forth in Section 6 of the Agreement.

**(b)** ***Death.***

**(i)** In the event your Continuous Service ends due to your death prior to the Determination Date in which the Committee determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) have been met, 100% of the applicable Tranche or Tranches will have the opportunity to vest if the Committee subsequently determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) are met. Notwithstanding Section 3(b) or 3(c), any PRSUs that vest in accordance with this subsection will immediately vest on the Determination Date for the fiscal ______ in which the Committee determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) have been met and will be settled in shares as soon as practicable thereafter, but in no event later than the time period set forth in Section 6 of the Agreement.

**(ii)** In the event your Continuous Service ends due to your death after the Determination Date in which the Committee determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) have been met, but before the Tranche or Tranches (as applicable) have fully-vested in accordance with Section 3 above, (1) 100% of the applicable Tranche or Tranches will immediately vest on your termination, and will be settled in shares as soon as practicable thereafter, but in no event later than the time period set forth in Section 6 of the Agreement.

**(c)** ***Disability.***

**(i)** In the event your Continuous Service is terminated by the Company due to your Disability (as defined in the Plan) prior to the Determination Date in which the Committee determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) have been met, (1) 50% of each Tranche or the Tranches (as applicable) will have the opportunity to vest if the Committee subsequently determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) are met; and (2) the remaining 50% of the unvested Tranche or Tranches (as applicable) will be forfeited on the date of such termination.

Notwithstanding Section 3(b) or 3(c), any PRSUs that vest in accordance with clause (1) of this subsection will immediately vest on the Determination Date for the fiscal __________ in which the Committee determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) have been met and will be settled in shares as soon as practicable thereafter, but in no event later than the time period set forth in Section 6 of the Agreement.

**(ii)** In the event your Continuous Service is terminated by the Company due to your Disability after the Determination Date in which the Committee determines that the First Performance Goal, the Second Performance Goal, or both (as applicable) have been met, but before the applicable Tranche or Tranches have fully-vested in accordance with Section 3 above, (1) 50% of the Tranche or Tranches (as applicable) will immediately vest on your termination, and (2) the remaining 50% of the unvested Tranche or Tranches will be forfeited on the date of such termination; and any PRSUs that vest in accordance with clause (1) of this subsection will be settled in shares as soon as practicable after your termination, but in no event later than the time period set forth in Section 6 of the Agreement.

**(d)** Notwithstanding anything to the contrary in the Agreement, if a Change in Control occurs prior to the date that all of the PRSUs would have vested (the "***Final Vesting Date***"), and the PRSUs are not replaced with an award that (i) preserves the value of the PRSUs and has terms at least as favorable to you as the terms and conditions in effect immediately prior to the Change in Control, (ii) has an equivalent value, (iii) continues to comply with Treasury Regulations Section 1.409A-1(b)(4) and (iv) is subject to only time-based vesting (a "***Replacement Award***"), then all of the PRSUs that are unvested immediately prior to the Change in Control shall immediately vest and shall be immediately settled in shares in connection with the Change in Control.

**(e)** If a Change in Control occurs prior to the Final Vesting Date and the PRSUs are replaced with a Replacement Award, then the unvested portion of such Replacement Award shall immediately vest in full if you experience a Change in Control Termination (as defined in the Company's 2019 Key Employee Severance Benefit Plan (the "***KESP***")) and shall be paid to you within 10 days following the later of such Change in Control Termination or the Change in Control.

**(f)** If your employment with the Company is terminated prior to a Change in Control and prior to the Final Vesting Date due to a Constructive Termination or a termination by the Company without Cause (each as defined in the KESP), and a Change in Control occurs within three months following such termination of employment, then all of the PRSUs that were unvested at the time of such termination shall immediately vest upon the Change in Control, and such amounts will be paid to you within 10 days following the Change in Control. For the avoidance of doubt, if your employment is terminated due to a Constructive Termination or by the Company without Cause prior to a Change in Control, the unvested PRSUs shall remain outstanding for three months such that they may have an opportunity to vest in accordance with this Section if a Change in Control occurs within such time.

**5. Definitions.** For purposes of this Award, the following definitions will apply:

**(a)** "***First Performance Goal***" means Revenue equal to or in excess of __________________ in a fiscal ________ of the Company during the Performance Period.

**(b)** "***Revenue***" means the consolidated revenue of the Company and its subsidiaries determined in accordance with US GAAP and reported in the Company's Consolidated Financial Statements on Form 10-Q or Form 10-K, as applicable.

**(c)** "***Second Performance Goal***" means Revenue equal to or in excess of ___________________ in a fiscal _______ of the Company during the Performance Period.

**(d)** "***Vesting Date***" means each date that a PRSU vests in accordance with Sections 3 or 4 of this **Exhibit A**.

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**PURSUANT TO SECTION 302 OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, Rowan Trollope, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five9, Inc. for the quarter ended June 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2022

By: /s/ Rowan Trollope
Rowan Trollope
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**PURSUANT TO SECTION 302 OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, Barry Zwarenstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five9, Inc. for the quarter ended June 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2022

By: /s/ Barry Zwarenstein
Barry Zwarenstein
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Rowan Trollope, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Five9, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended June 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of the Company.

Date: July 28, 2022

By: /s/ Rowan Trollope
Rowan Trollope
Chief Executive Officer

I, Barry Zwarenstein, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Five9, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended June 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of the Company.

Date: July 28, 2022

By: /s/ Barry Zwarenstein
Barry Zwarenstein
Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Five9, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.