

**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 September 30, 2021

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 001-40321

**Alkami**

**ALKAMI TECHNOLOGY, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware	45-3060776
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
5601 Granite Parkway, Suite 120	75204
Plano, TX	Zip Code
Address of Principal Executive Offices	

(877) 725-5264

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, \$0.001 par value per share	ALKT	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer

Smaller reporting company

Accelerated filer

Emerging growth company

Non-accelerated filer

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

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

The number of shares of registrant's common stock outstanding as of September 30, 2021 was 88,147,853.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

**ALKAMI TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)  
(UNAUDITED)

	September 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 314,402	\$ 166,790
Accounts receivable, net	20,281	14,103
Deferred implementation costs, current	5,736	4,745
Prepaid expenses and other current assets	10,399	7,598
Total current assets	350,818	193,236
Property and equipment, net	10,891	10,461
Deferred implementation costs, net of current portion	15,478	14,858
Intangibles, net	11,309	8,266
Goodwill	48,391	16,218
Other assets	4,905	6,127
Total assets	\$ 441,792	\$ 249,166
<b>Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)</b>		
Current liabilities		
Current portion of long-term debt	\$ 1,250	\$ 313
Accounts payable	2,538	360
Accrued liabilities	24,732	13,099
Deferred rent and tenant allowance, current	691	596
Deferred revenues, current portion	6,893	6,116
Total current liabilities	36,104	20,484
Long-term debt, net	23,668	24,566
Warrant liability	—	2,692
Deferred revenues, net of current portion	13,234	14,424
Deferred rent and tenant allowance, net of current portion	5,375	5,867
Other non-current liabilities	17,893	1,393
Total liabilities	96,274	69,426
Commitments and contingencies (Note 13)		
Redeemable Convertible Preferred Stock		
Redeemable convertible preferred stock, \$0.001 par, 0 and 72,799,602 shares authorized and 0 and 72,225,916 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	—	443,263
Stockholders' Equity (Deficit)		
Preferred stock, \$0.001 par, 10,000,000 and 0 shares authorized and 0 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	—	—
Common stock, \$0.001 par, 500,000,000 and 101,671,156 shares authorized and 88,147,853 and 4,909,529 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	88	5
Additional paid-in capital	645,934	—
Accumulated deficit	(300,504)	(263,528)
Total stockholders' equity (deficit)	345,518	(263,523)
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	\$ 441,792	\$ 249,166

The above financial statements should be read in conjunction with the Notes to the Unaudited Condensed Consolidated Financial Statements.

**ALKAMI TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share and per share data)  
**(UNAUDITED)**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Revenues	\$ 39,761	\$ 28,941	\$ 109,724	\$ 78,817
Cost of revenues	17,387	13,776	49,064	38,914
Gross profit	22,374	15,165	60,660	39,903
Operating expenses:				
Research and development	12,877	9,898	35,897	29,367
Sales and marketing	7,309	3,998	18,132	12,548
General and administrative	13,330	7,859	36,525	21,868
Total operating expenses	33,516	21,755	90,554	63,783
Loss from operations	(11,142)	(6,590)	(29,894)	(23,880)
Non-operating income (expense):				
Interest income	223	8	364	46
Interest expense	(300)	(22)	(908)	(225)
Loss on financial instruments	—	(14,743)	(3,035)	(14,810)
Loss before income taxes	(11,219)	(21,347)	(33,473)	(38,869)
Provision for income taxes	—	—	—	—
Net loss	\$ (11,219)	\$ (21,347)	\$ (33,473)	\$ (38,869)
Less: cumulative dividends and adjustments to redeemable convertible preferred stock	—	(4,459)	(277)	(5,013)
Net loss attributable to common stockholders:	\$ (11,219)	\$ (25,806)	\$ (33,750)	\$ (43,882)
Net loss per share attributable to common stockholders:				
Basic and diluted	\$ (0.13)	\$ (5.34)	\$ (0.60)	\$ (9.38)
Weighted average number of shares of common stock outstanding:				
Basic and diluted	87,641,416	4,833,079	56,320,288	4,679,933

The above financial statements should be read in conjunction with the Notes to the Unaudited Condensed Consolidated Financial Statements.

**ALKAMI TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE**  
**PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)**  
(In thousands, except share data)  
(UNAUDITED)

	<b>Three months ended September 30, 2021</b>							
	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)	
	Shares	Amount	Shares	Amount				
Balance June 30, 2021	—	\$ —	87,186,730	\$ 87	\$ 640,457	\$ (289,285)	\$ 351,259	
Stock-based compensation	—	—	—	—	3,352	—	3,352	
Exercised stock options	—	—	749,800	1	1,480	—	1,481	
Exercised warrants	—	—	211,323	—	645	—	645	
Net loss	—	—	—	—	—	(11,219)	(11,219)	
Balance September 30, 2021	—	\$ —	88,147,853	\$ 88	\$ 645,934	\$ (300,504)	\$ 345,518	

	<b>Three months ended September 30, 2020</b>							
	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)	
	Shares	Amount	Shares	Amount				
Balance June 30, 2020	57,220,137	\$ 249,535	4,651,174	\$ 5	—	\$ (213,356)	\$ (213,351)	
Issuance of redeemable convertible preferred stock, net of issuance costs	15,005,779	188,992	—	—	—	—	—	
Stock-based compensation	—	—	—	—	439	—	439	
Exercised stock options	—	—	341,121	—	143	—	143	
Cumulative dividends and adjustments to redeemable convertible preferred stock	—	4,459	—	—	(582)	(3,877)	(4,459)	
Net loss	—	—	—	—	—	(21,347)	(21,347)	
Balance September 30, 2020	72,225,916	\$ 442,986	4,992,295	\$ 5	\$ —	\$ (238,580)	\$ (238,575)	

The above financial statements should be read in conjunction with the Notes to the Unaudited Condensed Consolidated Financial Statements.

**ALKAMI TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE**  
**PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)**  
(In thousands, except share data)  
(UNAUDITED)

	Nine months ended September 30, 2021						
	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance December 31, 2020	72,225,916	\$ 443,263	4,909,529	\$ 5	\$ —	\$ (263,528)	\$ (263,523)
Stock-based compensation	—	—	—	—	7,793	—	7,793
Exercised stock options	—	—	4,120,002	4	6,413	—	6,417
Exercised warrants	—	—	211,323	—	645	—	645
Payment of Series B Dividend upon initial public offering	—	(4,969)	—	—	—	—	—
Cumulative dividends and adjustments to redeemable convertible preferred stock	—	277	—	—	(277)	—	(277)
Issuance of common stock upon initial public offering, net of underwriting discounts and commissions	—	—	6,900,000	7	192,803	—	192,810
Conversion of redeemable convertible preferred stock to common stock upon initial public offering	(72,225,916)	(438,571)	72,225,916	72	438,498	—	438,570
Conversion of redeemable convertible preferred stock warrants to common stock warrants upon initial public offering	—	—	—	—	5,727	—	5,727
Costs in connection with initial public offering	—	—	—	—	(5,674)	—	(5,674)
Repurchase of common stock	—	—	(218,917)	—	6	(3,503)	(3,497)
Net loss	—	—	—	—	—	(33,473)	(33,473)
Balance September 30, 2021	—	\$ —	88,147,853	\$ 88	\$ 645,934	\$ (300,504)	\$ 345,518

	Nine months ended September 30, 2020						
	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance December 31, 2019	54,290,383	\$ 210,033	4,537,955	\$ 5	\$ 335	\$ (195,730)	\$ (195,390)
Issuance of redeemable convertible preferred stock, net of issuance costs	17,935,533	227,940	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,348	—	1,348
Preferred Series E Tranche Liability	—	—	—	—	(892)	—	(892)
Exercised stock options	—	—	454,340	—	241	—	241
Cumulative dividends and adjustments to redeemable convertible preferred stock	—	5,013	—	—	(1,032)	(3,981)	(5,013)
Net loss	—	—	—	—	—	(38,869)	(38,869)
Balance September 30, 2020	72,225,916	\$ 442,986	4,992,295	\$ 5	\$ —	\$ (238,580)	\$ (238,575)

The above financial statements should be read in conjunction with the Notes to the Unaudited Condensed Consolidated Financial Statements.

**ALKAMI TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(UNAUDITED)

	Nine months ended September 30,	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net loss	\$ (33,473)	(38,869)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	2,384	1,970
Stock-based compensation expense	7,793	1,348
Amortization of debt issuance costs	39	39
Loss on financial instruments	3,035	14,810
Changes in operating assets and liabilities:		
Accounts receivable	(5,741)	(2,565)
Prepaid expenses and other current assets	(689)	(1,711)
Accounts payable and accrued liabilities	12,758	4,107
Deferred implementation costs	(1,612)	(2,158)
Deferred rent and tenant allowances	(397)	213
Deferred revenues	(899)	(306)
Net cash used in operating activities	<u>(16,802)</u>	<u>(23,122)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(870)	(1,478)
Capitalized software development costs	(1,275)	—
Acquisition of business <sup>(1)</sup>	(18,326)	—
Net cash used in investing activities	<u>(20,471)</u>	<u>(1,478)</u>
<b>Cash flows from financing activities:</b>		
Borrowings on line of credit	—	13,000
Payments on line of credit	—	(13,000)
Proceeds from stock option exercises	6,417	241
Proceeds from exercise of warrants	645	—
Proceeds on sales of preferred stock, net of issuance costs	—	218,040
Deferred IPO issuance costs paid	(4,520)	—
Payments on capital lease obligations	—	(11)
Repurchase of common stock	(3,497)	—
Proceeds from issuance of common stock upon initial public offering, net of underwriting discounts and commissions	192,810	—
Payment of Series B dividend	(4,969)	—
Net cash provided by financing activities	<u>186,886</u>	<u>218,270</u>
Net increase in cash and cash equivalents and restricted cash	149,613	193,670
Cash and cash equivalents and restricted cash, beginning of period	171,663	11,982
Cash and cash equivalents and restricted cash, end of period	<u>\$ 321,276</u>	<u>\$ 205,652</u>

(1) See Note 3 for additional information regarding noncash investing activities for the nine months ended September 30, 2021, related to the acquisition of MK.

The above financial statements should be read in conjunction with the Notes to the Unaudited Condensed Consolidated Financial Statements.

**ALKAMI TECHNOLOGY, INC.**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share data)**  
**(Unaudited)**

**Note 1. Organization**

***Description of Business***

Alkami Technology, Inc. (the “Company”) is a cloud-based digital banking solutions provider. The Company inspires and empowers community, regional and super-regional financial institutions (“FIs”) to compete with large, technologically advanced and well-resourced banks in the United States. The Company’s solution, the Alkami Platform, allows FIs to onboard and engage new users, accelerate revenues and meaningfully improve operational efficiency, all with the support of a proprietary, true cloud-based, multi-tenant architecture. The Company cultivates deep relationships with its clients through long-term, subscription-based contractual arrangements, aligning its growth with its clients’ success and generating an attractive unit economic model. The Company was incorporated in Delaware in August 2011, and its principal offices are located in Plano, Texas.

***Initial Public Offering***

On April 13, 2021, the Company’s registration statement relating to the initial public offering (“IPO”) of its common stock was declared effective by the Securities and Exchange Commission (“SEC”). In connection with its IPO, the Company issued and sold 6,900,000 shares of common stock (including 900,000 shares issued pursuant to the exercise in full of the underwriters’ option to purchase additional shares) at a public offering price of \$30.00 per share for net proceeds of \$192.8 million, after deducting underwriters’ discounts and commissions (excluding other IPO costs). Prior to the Company’s IPO, deferred offering costs, which consist of legal, accounting, consulting and other direct fees and costs relating to its IPO, were capitalized in prepaid expenses and other current assets. Upon consummation of the Company’s IPO, these costs were offset against the proceeds from its IPO and recorded in additional paid-in capital. In addition, in connection with its IPO, the Company’s certificate of incorporation was amended and restated such that the total number of shares of common stock authorized to be issued was increased to 500,000,000 shares and the total number of shares of preferred stock authorized to be issued was reduced to 10,000,000 shares. Immediately prior to the effectiveness of the Company’s registration statement, the Company’s outstanding shares of redeemable convertible preferred stock converted into an aggregate of 72,225,916 shares of common stock. With the proceeds of its IPO, the Company paid in full accumulated dividends on its previously outstanding shares of Series B redeemable convertible preferred stock, which totaled approximately \$5.0 million. All of the Company’s outstanding warrants exercisable for shares of redeemable convertible preferred stock converted into warrants exercisable for 212,408 shares of common stock and were classified as equity immediately prior to the effectiveness of the Company’s registration statement.

**Note 2. Summary of Significant Accounting Policies**

The accompanying financial statements reflect the application of significant accounting policies as described below.

***Basis of Presentation and Consolidation***

The interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. All intercompany accounts and transactions are eliminated.

In the Company’s opinion, the accompanying interim unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Certain information and disclosures normally included in the notes to the annual consolidated financial statements prepared in accordance with GAAP have been omitted from these interim unaudited condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2020, which are included in the final prospectus (the “Prospectus”) for the Company’s IPO filed with the SEC on April 15, 2021 pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended. Operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2021.

The Company has no sources of other comprehensive income, and accordingly, net loss presented each period is the same as comprehensive loss.

***Use of Estimates***

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

Significant estimates and assumptions include determining the timing and amount of revenue recognition, recoverability and amortization period related to costs to obtain and fulfill contracts, and valuation of the Company’s stock options.



### Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, restricted cash and cash equivalents, accounts receivable, accounts payable, long-term debt, stock warrants and contingent consideration. The carrying values of cash, restricted cash and cash equivalents, accounts receivable, and accounts payable approximate their respective fair values due to the short-term nature of these instruments. The carrying value of long-term debt approximates its fair value due to the variable interest rate. Cash equivalents include amounts held in money market accounts that are measured at fair value using observable market prices. Warrant liabilities are valued using the Black-Scholes option pricing method and are presented at estimated fair value at the end of the reporting period. The assumptions used in preparing the Black-Scholes option pricing calculation include weighted average grant date fair value, volatility, risk-free interest rate, dividends, and weighted average expected life in years. Changes in the fair value of warrant liabilities are recognized as a gain or loss within non-operating income (expense). In connection with the Company's IPO, warrants converted from a liability instrument to an equity instrument resulting in a reduction of the warrant liability to \$0. The Company values contingent consideration related to business combinations using a weighted probability calculation of potential payment scenarios discounted at rates reflective of the risks associated with the expected future cash flows.

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

**Level 1.** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2.** Significant other inputs that are directly or indirectly observable in the marketplace.

**Level 3.** Significant unobservable inputs which are supported by little or no market activity.

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. The following table summarizes the Company's financial assets measured at fair value as of September 30, 2021 and December 31, 2020 and indicates the fair value hierarchy of the valuation:

(In thousands)	September 30, 2021	Fair Value at Reporting Date Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Money Market Accounts	\$ 14,647	\$ 14,647	\$ —	\$ —
Total Assets	\$ 14,647	\$ 14,647	\$ —	\$ —
<b>Liabilities:</b>				
Contingent consideration payable	\$ (15,500)	\$ —	\$ —	\$ (15,500)
Total Liabilities	\$ (15,500)	\$ —	\$ —	\$ (15,500)

(In thousands)	December 31, 2020	Fair Value at Reporting Date Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Money Market Accounts	\$ 143,277	\$ 143,277	\$ —	\$ —
Total Assets	\$ 143,277	\$ 143,277	\$ —	\$ —
<b>Liabilities:</b>				
Warrant Liabilities	\$ (2,692)	\$ —	\$ —	\$ (2,692)
Total Liabilities	\$ (2,692)	\$ —	\$ —	\$ (2,692)

The reconciliations of the beginning and ending balances during the nine months ended September 30, 2021 for Level 3 assets and liabilities are as follows (in thousands):

Asset and liability categories	Beginning Level 3 Fair Value at January 1, 2021	Fair value adjustment	Adjustment for conversion to equity accounting treatment upon IPO	Ending Level 3 Fair Value at September 30, 2021
Warrant Liabilities	\$ (2,692)	\$ (3,035)	\$ 5,727	\$ —

The following table represents the changes to the Company's contingent consideration payable (in thousands):

Balance at January 1, 2021	\$ —
Business Combination	15,500
Balance at September 30, 2021	\$ 15,500

**Restricted Cash**

The Company defines restricted cash as cash that is legally restricted as to withdrawal or usage. The amounts included in restricted cash on the condensed consolidated balance sheets at September 30, 2021 and December 31, 2020 represent the additional cash proceeds in deposit with an escrow agent for satisfaction of contingent consideration related to the acquisition of ACH Alert, LLC (“ACH Alert”). In addition, restricted cash representing additional cash proceeds in deposit with an escrow agent for satisfaction of a holdback provision related to the acquisition of MK Decisioning Systems, LLC (“MK”) is included in the condensed consolidated balance sheets at September 30, 2021. See Note 3 for further information.

<i>(in thousands)</i>	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 314,402	\$ 166,790
Restricted cash included in Prepaid expenses and other current assets	3,500	—
Restricted cash included in Other assets	3,374	4,873
Total cash and cash equivalents and restricted cash	<u>\$ 321,276</u>	<u>\$ 171,663</u>

**Capitalized Software Development Costs**

Software development costs relate primarily to software coding, systems interfaces, and testing of the Company’s proprietary systems and are accounted for in accordance with ASC 350-40, Internal Use Software. Internal software development costs are capitalized from the time the internal use software is in the application development stage until the software is ready for use. Business analysis, system evaluation, and software maintenance costs are expensed as incurred. The capitalized software development costs are reported in property and equipment, net in the condensed consolidated balance sheets.

The Company had \$1.3 million in capitalized internal software development costs as of September 30, 2021 and none as of December 31, 2020. Capitalized software development costs are amortized using the straight-line method over the estimated useful life of the software, generally three to five years from when the asset is placed in service.

**Contract Balances**

Client contracts under which revenues have been recognized while the Company is not yet able to invoice results in contract assets. Generally, contract assets arise as a result of reallocating revenues when discounts are weighted more heavily in the early years of a multi-year contract or the client contract has substantive minimum fees that escalate over the term of the contract. Contract assets totaled \$0.8 million and \$0.8 million as of September 30, 2021 and December 31, 2020, respectively, which are included in other assets in the accompanying condensed consolidated balance sheets.

Contract liabilities are comprised of billings or payments received from the Company’s clients in advance of performance under the contract and are represented in deferred revenues in the condensed consolidated balance sheets.

**Stock-Based Compensation****Stock Options**

Stock options are accounted for using the grant date fair value method. Under this method, stock-based compensation expense is measured by the estimated fair value of the granted stock options at the date of grant using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding increase to additional paid-in capital.

Determining the fair value of stock-based awards at the grant date requires significant judgement. The determination of the grant date fair value of stock-based awards using the Black-Scholes option-pricing model is affected, for periods prior to the Company’s IPO, by the Company’s estimated common stock fair value as well as other subjective assumptions including the volatility, risk-free interest rate, dividends, and weighted average expected life. The assumptions used in the Company’s option-pricing model represent management’s best estimates. These assumptions and estimates are as follows:

*Fair Value of Common Stock.* Given the absence of an active market for the Company’s shares of common stock prior to its IPO, the fair value of the shares of common stock underlying the Company’s stock options was determined by the Company’s board of directors (the “Board”).

- *Preliminary Offering Price and Options Granted Subsequent to December 31, 2020.* During February 2021, the Company granted stock options to purchase shares of its common stock. The Company established the fair value of these grants based on a straight-line interpolation from its December 31, 2020 valuation and the mid-point of its initial price range in order to determine the appropriate stock-based compensation expense for financial reporting purposes.
- *Initial Public Offering Price and Options Granted Subsequent to April 13, 2021.* The Company’s stock became actively traded upon the completion of its IPO in April 2021. For grants issued upon or subsequent to its IPO the Company establishes fair value based on the Company’s stock price.

**Volatility:** As the Company does not have the necessary trading history for its common stock the selected volatility used is representative of expected future volatility. The Company bases expected future volatility on the historical and implied volatility of comparable publicly traded companies over a similar expected term.

**Risk-Free Interest Rate:** The Company bases the risk-free interest rate on the rate for a U.S. Treasury zero-coupon issue with a term that closely approximates the expected life of the option grant at the date nearest the option grant date.

**Dividends.** The Company has never declared or paid any cash dividends and does not presently intend to pay cash dividends in the foreseeable future, other than the aggregate accumulated dividends paid to holders of the Company's Series B redeemable convertible preferred stock upon the effectiveness of the Company's IPO. As a result, the Company used a dividends assumption of zero.

**Weighted Average Expected Life in Years:** The expected term of employee stock options reflects the period for which the Company believes the option will remain outstanding. To determine the expected term, the Company applies the simplified approach in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award.

In addition to assumptions used in the Black-Scholes option-pricing model, the Company estimates a forfeiture rate to calculate the stock-based compensation expense for its option awards. The Company's forfeiture rate is based on an analysis of its actual forfeitures. The Company will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover and other factors.

#### **Restricted Stock Units**

Restricted stock units ("RSUs") issued upon and subsequent to the Company's IPO vest upon the satisfaction of a time-based condition only. These RSUs are generally earned over a service period of three to four years and the compensation expense related to these awards is based on the grant date fair value of the RSUs and is recognized on a ratable basis over the applicable service period.

#### **Employee Stock Purchase Plan**

The Company's 2021 Employee Stock Purchase Plan (the "ESPP") permits employees to purchase the Company's common stock through payroll deductions during six month offerings. The offering periods begin each May 16 and November 16, or such other period determined by the compensation committee. In accordance with the guidance in ASC 718-50 - Compensation - Stock Compensation, the ability to purchase shares of the Company's common stock for 85% of the lower of the price on the first day of the offering period or the last day of the offering period (i.e. the purchase date) represents an option and, therefore, the ESPP is a compensatory plan. Accordingly, stock-based compensation expense is determined based on the grant-date fair value as estimated by applying the Black-Scholes option-pricing model and is recognized over the withholding period.

#### **Concentrations of Credit Risk**

Significant concentrations of credit risk arise from the Company's revenues and accounts receivable. Management believes that its contract acceptance, billing, and collection policies are adequate to minimize potential credit risk. No client represented more than 10% of revenue for the three and nine months ended September 30, 2021 and 2020. As of September 30, 2021 and December 31, 2020, no client represented more than 10% of accounts receivable.

#### **Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the condensed consolidated balance sheets and disclosing key information about leasing arrangements. The Company anticipates that the adoption of Topic 842 will impact its condensed consolidated balance sheets as most of its operating lease commitments will be subject to the new standard and recognized as right-of-use assets and corresponding operating lease liabilities upon the adoption of ASU 2016-02. The Company expects to adopt the standard in fiscal year 2021 using the modified retrospective transition approach and interim periods beginning 2022. The Company continues to evaluate quantitative impacts that the adoption of this standard will have. The Company expects total assets and liabilities reported will increase relative to such amounts prior to adoption.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326)," which modifies the measurement of expected credit losses of certain financial instruments with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The effective date for adoption of the new standard was delayed until calendar years beginning after December 15, 2021, with early adoption permitted. The Company expects to adopt this new standard in interim periods beginning in 2022. This ASU is not expected to have a material impact on the Company's financial statements.

#### **Note 3. Business Combination**

##### **ACH Alert, LLC**

On October 4, 2020, the Company announced the acquisition of substantially all of the assets of ACH Alert for approximately \$25 million in cash consideration. The integrated set of assets and activities acquired from ACH Alert through the acquisition meet the definition of a business under ASC 805, as updated by ASU 2017-01. A term loan of \$25.0 million ("Term Loan") was borrowed on October 16, 2020 to partially fund the acquisition of ACH Alert (see Note 8).

The ACH Alert acquisition also involved \$4.9 million of additional cash consideration that the Company placed on deposit with an escrow agent to be paid upon the continued employment of one of the owners of ACH Alert, of which \$2.5 million is to be paid in October 2021 and \$2.4 million is to be paid in October 2022. Since the payouts are contingent upon the continued and future employment of the former owner, these amounts have been excluded from the purchase price. The Company has classified the amounts held in escrow as restricted cash on the condensed consolidated balance sheets and is accruing the estimated payouts over the requisite service period as a component of general and administrative expense on the condensed consolidated statements of operations. For the three and nine months ended September 30, 2021, the Company recognized compensation expense of \$0.6 million and \$1.9 million, respectively, related to this agreement.

The Company's preliminary fair value estimates and assumptions to measure the assets acquired and liabilities assumed were subject to change as the Company obtained additional information during the measurement period. The following table summarizes the fair value amounts recognized as of the acquisition date for each major class of asset acquired or liability assumed, as well as adjustments made during the measurement period:

<i>(in thousands)</i>	<b>Preliminary Fair Value as of October 4, 2020</b>	<b>Measurement Period Adjustments</b>	<b>Adjusted Fair Value as of March 31, 2021</b>
Trade accounts receivables	\$ 915	\$ —	\$ 915
Other current assets	47	(14)	33
Property and equipment	20	—	20
Goodwill	16,218	324	16,542
Intangible assets	8,450	—	8,450
Total assets acquired	\$ 25,650	\$ 310	\$ 25,960
Accounts payable	\$ 61	\$ 5	\$ 66
Accrued liabilities	—	4	4
Deferred revenues, current	170	—	170
Deferred revenues, net of current	346	(25)	321
Total liabilities assumed	577	(16)	561
<b>Net assets acquired</b>	<b>\$ 25,073</b>	<b>\$ 326</b>	<b>\$ 25,399</b>

As of March 31, 2021, the allocation of the purchase price for ACH Alert was finalized.

The table below outlines the purchased identifiable intangible assets:

	<b>Weighted Average Amortization Period</b>	<b>Total</b>
	<i>(in years)</i>	<i>(in thousands)</i>
Customer relationships	15	\$ 5,100
Developed technology	7	3,300
Trade names	2	50
Total identifiable intangible assets		<b>\$ 8,450</b>

Goodwill is mainly attributable to advantages expected from the acquisition such as giving the Company a complimentary solution to its existing platform offering, especially for banks. It is also expected to position the Company to better penetrate the banking market. This goodwill is expected to be deductible for tax purposes.

No material transaction costs are included within the condensed consolidated statements of operations for the three and nine months ended September 30, 2021 and 2020.

#### ***MK Decisioning Systems, LLC***

On September 10, 2021, the Company acquired substantially all of the assets of MK for approximately \$20 million in cash consideration due at closing subject to a \$2 million holdback provision held in escrow with \$1 million to be released at the 12-month anniversary of close and the remainder to be released at the 18-month anniversary of close. The Company also agreed to assume certain liabilities associated with MK's business. The integrated set of assets and activities acquired from MK through the acquisition meet the definition of a business under ASC 805, as updated by ASU 2017-01.

In addition to the base purchase price, the MK acquisition also included a potential earn-out that is tied to revenue of MK from sales of its products and services within two 12-month periods (the "First Earn-Out Period" and "Second Earn-Out Period"), with the First Earn-Out Period beginning on January 1, 2022 and ending on December 31, 2022 and the Second Earn-Out Period beginning on January 1, 2023 and ending on December 31, 2023. Pursuant to the terms and conditions set forth in the purchase agreement, the earn-out amount payable, if any, to the former owners, will be a maximum of \$7.5 million and \$17.5 million for the First Earn-Out Period and Second Earn-Out Period, respectively, contingent on achievement of certain revenue milestones. In certain circumstances within both Earn-Out Periods, the earn-out amounts are payable in a mix of cash and shares (based on a reference price of \$35 and limited to \$20 million in earn-out shares) of the Company's common stock subject to the election of the former owners. Earn-out amounts, if any, would be payable no later than 170 days after the end of each Earn-Out Period.

The Company has classified the amounts held in escrow as restricted cash on the condensed consolidated balance sheets. The fair value of the contingent earn-out as of September 30, 2021 is \$15.5 million for which the balance is included in Other non-current liabilities on the condensed

consolidated balance sheets. The fair value of the contingent earn-out is included as contingent consideration in the total purchase price. The Company will remeasure the fair value of the contingent consideration on an ongoing basis and will record the adjustment to operating income or loss.

Assumptions used to estimate the fair value of contingent consideration include various financial metrics (revenue performance targets and stock price forecasts) and the probability of achieving the specific targets using a geometric binomial model. Based on the preliminary purchase accounting, the Company determined that approximately 62% of the maximum contingent consideration would be paid to the seller in accordance with the terms of the purchase agreement.

The Company's preliminary fair value estimates and assumptions to measure the assets acquired and liabilities assumed are subject to change as the Company obtains additional information during the measurement period. The following table summarizes the fair value amounts recognized as of the acquisition date for each major class of asset acquired or liability assumed:

<i>(in thousands)</i>	<b>Preliminary Fair Value as of September 10, 2021</b>	
Trade accounts receivables	\$	437
Other current assets		56
Property and equipment		41
Goodwill		31,849
Intangible assets		3,670
<b>Total assets acquired</b>	<b>\$</b>	<b>36,053</b>
Accounts payable and accrued liabilities	\$	43
Deferred revenues, net of current		510
<b>Total liabilities assumed</b>		<b>553</b>
<b>Net assets acquired</b>	<b>\$</b>	<b>35,500</b>

As of September 30, 2021, the allocation of the purchase price for MK has not been finalized, and the one-year measurement period has not ended. The preliminary purchase price allocations are based upon the valuation of assets and liabilities. These estimates and assumptions are subject to change as the Company obtains additional information during the measurement period.

The table below outlines the purchased identifiable intangible assets:

	<b>Weighted Average Amortization Period</b>	<b>Total</b>	
	<i>(in years)</i>	<i>(in thousands)</i>	
Customer relationships	15	\$	170
Developed technology	5		3,500
<b>Total identifiable intangible assets</b>		<b>\$</b>	<b>3,670</b>

Goodwill is mainly attributable to advantages expected from the acquisition such as giving the Company a complimentary solution to its existing platform offering, especially for banks. This goodwill is expected to be deductible for tax purposes.

Transaction costs are included in the condensed consolidated statements of operations for both the three and nine months ended September 30, 2021 were \$0.3 million. For the nine months ended September 30, 2021, the Company had noncash investing activities of \$17.5 million related to unpaid consideration for the acquisition of MK.

#### **Note 4. Property and Equipment, Net**

Depreciation expense was \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2021, respectively, and \$0.7 million and \$2.0 million for the three and nine months ended September 30, 2020, respectively.

<i>(in thousands)</i>	<b>Useful Life</b>	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
Software	1 to 3 years	\$	1,997	\$	722
Computers and equipment	3 years		4,647		3,821
Furniture and fixtures	5 years		3,977		3,930
Leasehold improvements	3 to 10 years		11,677		11,650
		<b>\$</b>	<b>22,298</b>	<b>\$</b>	<b>20,123</b>
Less: accumulated depreciation			(11,407)		(9,662)
<b>Property and equipment, net</b>		<b>\$</b>	<b>10,891</b>	<b>\$</b>	<b>10,461</b>

**Note 5. Revenue and Deferred Costs**

The Company derives primarily all of its revenues from software-as-a-service (“SaaS”) subscription services charged for the use of its digital banking solutions. Revenues are recognized net of the most likely amount of sales credits and allowances and presented net of sales and usage-based taxes collected from clients on behalf of governmental authorities. SaaS subscription services are generally recognized as revenue over the term of the contract as a series of distinct SaaS services bundled into a single performance obligation. Clients are typically charged a one-time, upfront implementation fee and recurring annual and monthly access fees for the use of the Company’s digital banking solution. Implementation and integration of the digital banking platform is complex, and the Company has determined that the one-time, upfront services are not distinct. In determining whether implementation services are distinct from subscription services, the Company considered various factors including the significant level of integration, interdependency, and interrelation between the implementation and subscription service, as well as the inability of the clients’ personnel or other service providers to perform significant portions of the services. As a result, the Company defers any arrangement fees for implementation services and recognizes such amounts over time on a ratable basis as one performance obligation with the underlying subscription revenue commencing when the client goes live on the platform, which corresponds with the date the client obtains access to the Company’s digital banking solution and begins to benefit from the service.

The Company’s performance obligation for the SaaS series of services includes standing ready over the term of the contract to provide access to all of the clients’ users and process any transactions initiated by those users. The Company invoices clients each month for the contracted minimum number of registered users with an additional amount for users in excess of those minimums. The Company recognizes variable consideration related to registered user counts in excess of the contractual minimum amounts each month. SaaS subscription revenues also includes annual and monthly charges for maintenance and support services which are recognized over the subscription term. As mentioned above, SaaS contracts include a single performance obligation that consists of a series of distinct SaaS services transferred over time that are substantially the same each month. Standalone selling prices are not required to allocate revenue amongst the distinct services within the series. The Company uses an analysis of pricing and discounting objectives, expected volume of users above contracted minimums and transactions, and client characteristics to ensure the revenue standards’ allocation objectives have been met. In limited circumstances when a contract calls for certain discounting to be triggered by volumes above contracted minimums, the Company is required to estimate these volumes in order to calculate revenue recognition in line with the standard’s allocation objectives.

The following table disaggregates the Company’s revenue by major source for the three and nine months ended September 30, 2021 and 2020:

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
SaaS subscription services	\$ 37,486	\$ 27,065	\$ 103,582	\$ 73,723
Implementation services	1,591	1,419	4,604	3,741
Other services	684	457	1,538	1,353
Total revenues	\$ 39,761	\$ 28,941	\$ 109,724	\$ 78,817

The Company recognized approximately \$2.1 million and \$5.8 million of revenue during the three and nine months ended September 30, 2021, respectively, and \$2.9 million and \$7.4 million during the three and nine months ended September 30, 2020, respectively, which was recognized from deferred revenues in the accompanying condensed consolidated balance sheets as of the beginning of each reporting period. For those contracts that were wholly or partially unsatisfied as of September 30, 2021, minimum contracted subscription revenues to be recognized in future periods total approximately \$553.4 million. The Company expects to recognize approximately 47.0% of this amount as subscription services are transferred to customers over the next 24 months, an additional 33.6% in the next 25 to 48 months, and the balance thereafter. This estimate does not include estimated consideration for excess user and transaction processing fees that the Company expects to earn under its subscription contracts.

**Deferred Cost Recognition**

The Company capitalized \$0.3 million and \$0.8 million in deferred commissions costs during the three and nine months ended September 30, 2021, respectively and \$0.3 million and \$1.1 million for the three and nine months ended September 30, 2020, respectively, and recognized amortization of \$0.6 million and \$1.6 million during the three and nine months ended September 30, 2021, respectively, and \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2020, respectively. Amortization expense is included in sales and marketing expenses in the accompanying statements of operations. Deferred commissions are included in deferred implementation costs in the accompanying condensed consolidated balance sheets in the amount of \$8.4 million and \$9.0 million as of September 30, 2021 and December 31, 2020, respectively.

The Company capitalized implementation costs of \$1.3 million and \$4.0 million during the three and nine months ended September 30, 2021, respectively, and \$1.0 million and \$3.2 million for the three and nine months ended September 30, 2020, respectively, and recognized amortization of \$0.7 million and \$1.9 million during the three and nine months ended September 30, 2021, respectively, and \$0.5 million and \$1.5 million for the three and nine months ended September 30, 2020, respectively. Amortization expense is included in cost of revenues in the accompanying condensed consolidated statements of operations.

The Company periodically reviews the carrying amount of deferred costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit. No impairment loss was recognized in relation to these capitalized costs for the three and nine months ended September 30, 2021 and 2020.

**Note 6. Accounts Receivable**

Accounts receivable includes the following amounts at September 30, 2021 and December 31, 2020:

<i>(in thousands)</i>	September 30, 2021	December 31, 2020
Trade accounts receivable	\$ 15,507	\$ 11,804
Unbilled receivables	3,776	2,081
Other receivables	1,211	702
Total receivables	20,494	14,587
Allowance for doubtful accounts	(57)	(323)
Reserve for estimated credits	(156)	(161)
	<u>\$ 20,281</u>	<u>\$ 14,103</u>

**Note 7. Accrued Liabilities**

Accrued liabilities consisted of the following at September 30, 2021 and December 31, 2020:

<i>(in thousands)</i>	September 30, 2021	December 31, 2020
Bonus accrual	\$ 6,804	\$ 2,636
Accrued vendor purchases	1,950	2,542
Commissions accrual	1,118	1,309
Accrued hosting services	1,249	924
Client refund liability	1,106	1,362
Deferred compensation payable	2,500	625
Accrued consulting and professional fees	875	207
Accrued tax liabilities	2,947	2,394
Other accrued liabilities	6,183	1,100
Total accrued liabilities	<u>\$ 24,732</u>	<u>\$ 13,099</u>

**Note 8. Debt**

On October 16, 2020, the Company entered into a credit agreement with Silicon Valley Bank and KeyBank (“Credit Agreement”). The Credit Agreement replaced the prior credit facility provided by Comerica Bank. The Credit Agreement matures on October 16, 2023. The Credit Agreement includes the following:

- *Revolving Facility:* The Credit Agreement provides \$25.0 million in aggregate commitments for secured revolving loans, with sub-limits of \$10.0 million for the issuance of letters of credit and \$7.5 million for swingline loans (“Revolving Facility”).
- *Term Loan:* A Term Loan of \$25.0 million was borrowed on the closing date of the Credit Agreement. The proceeds from the Term Loan were used to fund the acquisition of ACH Alert which closed on October 4, 2020.
- *Accordion Feature:* The Credit Agreement also allows the Company, subject to certain conditions, to request additional revolving loan commitments in an aggregate principal amount of up to \$30.0 million.

Revolving Facility loans under the Credit Agreement may be voluntarily prepaid and re-borrowed. Principal payments on the Term Loan are due in quarterly installments equal to an initial amount of approximately \$0.3 million, which begin December 31, 2021 and continue through September 30, 2022 and increase to approximately \$0.6 million beginning on December 31, 2022 through the Credit Agreement maturity date. Once repaid or prepaid, the Term Loans may not be re-borrowed.

Borrowings under the Credit Agreement bear interest at a variable rate based upon, at the Company’s option, either the LIBOR rate or the base rate (in each case, as customarily defined) plus an applicable margin. The minimum LIBOR rate to be applied is 1.00%. The applicable margin for LIBOR rate loans ranges, based on an applicable recurring revenue leverage ratio, from 3.00% to 3.50% per annum, and the applicable margin for base rate loans ranges from 2.00 to 2.50% per annum. The Company’s minimum interest rate applied to term debt was 4.00% as of September 30, 2021. The Company is required to pay a commitment fee of 0.30% per annum on the undrawn portion available under the Revolving Facility, and variable fees on outstanding letters of credit.

All outstanding principal and accrued but unpaid interest is due, and the commitments for the Revolving Facility terminate, on the maturity date. The Term Loans are subject to mandatory repayment requirements in the event of certain asset sales or if certain insurance or condemnation events occur, subject to customary reinvestment provisions. The Company may prepay the Term Loans in whole or in part at any time without premium or penalty.

The Credit Agreement contains customary affirmative and negative covenants, as well as (i) an annual recurring revenue growth covenant requiring the loan parties to have recurring revenues in any four consecutive fiscal quarter period in an amount that is 10% greater than the recurring revenues for the corresponding four consecutive quarter period in the previous year and (ii) a liquidity (defined as the aggregate amount of cash in bank accounts subject to a control agreement plus availability under the Revolving Facility) covenant, requiring the loan parties to have liquidity, tested on the last day of each calendar month, of \$10.0 million or more. The Credit Agreement also contains customary events of default, which if



they occur, could result in the termination of commitments under the Credit Agreement, the declaration that all outstanding loans are immediately due and payable in whole or in part, and the requirement to maintain cash collateral deposits in respect of outstanding letters of credit. The Company was in compliance with all covenants as of September 30, 2021.

#### *Long-term Debt*

The following table summarizes long-term debt obligations as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Term Debt	\$ 25,000	\$ 25,000
Less unamortized debt issuance costs	(82)	(121)
Net amount	24,918	24,879
Less current maturities of long-term debt	(1,250)	(313)
Long-term portion	<u>\$ 23,668</u>	<u>\$ 24,566</u>

Maturities of long-term debt outstanding as of September 30, 2021, are summarized as follows (in thousands):

2021	\$ 313
2022	1,562
2023	23,125
Thereafter	—
Total	<u>\$ 25,000</u>

#### **Note 9. Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)**

In connection with its IPO, the Company's certificate of incorporation was amended and restated such that the total number of shares of common stock authorized to be issued was increased to 500,000,000 shares and the total number of shares of preferred stock authorized to be issued was reduced to 10,000,000 shares.

#### **Repurchase of Common Stock**

During the three months ended March 31, 2021, former employees obtained a third-party offer for the purchase of 0.2 million shares of common stock held in the Company. As the Company had the right of first refusal for the sale of these shares, the Company repurchased the shares for \$3.5 million from the former employees at the price offered.

#### **Redeemable Convertible Preferred Stock**

As of December 31, 2020, the Company was authorized to issue seven classes of stock: common stock, Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock, Series C redeemable convertible preferred stock, Series D redeemable convertible preferred stock, Series E redeemable convertible preferred stock and Series F redeemable convertible preferred stock. These preferred shares were classified as temporary equity within the Company's consolidated balance sheet as of December 31, 2020. Immediately prior to the effectiveness of the Company's registration statement relating to its IPO, the Company's outstanding shares of redeemable convertible preferred stock converted into an aggregate of 72,225,916 shares of common stock. With the proceeds from its IPO, the Company paid in full accumulated dividends on its previously outstanding shares of Series B redeemable convertible preferred stock, which totaled approximately \$5.0 million. As of September 30, 2021, there was no preferred stock issued or outstanding.

#### **Warrants**

In conjunction with financing arrangements with prior lenders, the Company issued warrants for the purchase of shares of the Company's redeemable convertible preferred stock. All of the Company's outstanding warrants exercisable for shares of redeemable convertible preferred stock converted into warrants exercisable for 212,408 shares of common stock and were classified as equity immediately prior to the effectiveness of the Company's registration statement relating to its IPO. All warrants were exercised for aggregate proceeds of \$0.6 million during the three months ended September 30, 2021.

#### **Note 10. Equity Compensation**

On February 25, 2021, the Board approved, subject to stockholder approval which, was obtained on March 23, 2021, the ESPP, pursuant to which employees would be able to purchase shares of the Company's common stock at a 15% discount. The Board provided for a share reserve with respect to the ESPP of 2% of the total number of shares outstanding after the Company's IPO. The Board further provided that the share reserve will be refreshed by an evergreen provision of 1% of the Company's outstanding common stock at the end of the prior year, or such lesser amount as the Board or its Compensation Committee may determine. The Company reserved 2,205,790 shares of common stock for future issuance under the ESPP.

On February 25, 2021, the Board approved, subject to stockholder approval, which was obtained on March 23, 2021, the Company's 2021 Incentive Award Plan (the "2021 Plan"), pursuant to which incentive awards may be awarded to employees, directors and consultants. The Board



provided that the maximum number of shares of common stock (subject to stock splits, dividends, recapitalizations and the like) issuable under the 2021 Plan is equal to a number of shares equal to (i) 11.0% of the shares of common stock outstanding immediately prior to the effectiveness of its IPO after giving effect to the number of shares being sold in its IPO (including shares subject to outstanding equity awards, and the 2021 share reserve and the ESPP share reserve (as described above)) and assuming no exercise of the underwriters' option to purchase additional shares, plus (ii) an annual increase on the first day of each year beginning in 2022 and ending in 2031, equal to the lesser of: (a) 5.0% of the shares outstanding on the last day of the prior fiscal year or (b) such lesser amount as determined by the Board, plus (iii) any shares underlying awards outstanding under the 2011 Long-Term Incentive Plan, as amended (the "2011 Plan"), as of immediately prior to the effectiveness of its IPO, that are thereafter forfeited, terminated, expired or repurchased for the original purchase price thereof, subject to certain statutory limits related to "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code. The Company reserved 12,131,846 shares of common stock for issuance pursuant to future awards under the 2021 Plan.

### Stock Options

During the nine months ended September 30, 2021, the Company granted an aggregate of 2,811,098 stock options to purchase shares of its common stock to officers and employees pursuant to the 2011 Plan and 2021 Plan, with a weighted average exercise price of \$19.92 per share. The fair value of options granted was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions (i) expected term of 6.03 years, (ii) expected volatility of 36.9%, (iii) risk-free interest rate 0.7% and (iv) expected dividend yield of 0%.

### Restricted Stock Units

In the nine months ended September 30, 2021, the Company granted an aggregate of 467,351 RSUs to officers and employees pursuant to the 2021 Plan. The RSUs vest and settle upon the satisfaction of a service condition. The service condition for the awards is satisfied over generally three to four years.

### Employee Stock Purchase Plan

The first offering period commenced on May 15, 2021, and as of September 30, 2021, no shares had yet been issued under the plan.

Stock-based compensation expense was included as follows:

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cost of revenues	\$ 544	\$ 84	\$ 1,242	\$ 264
Research and development	793	97	1,795	303
Sales and marketing	266	35	609	101
General and administrative	1,748	223	4,147	680
Total stock-based compensation expenses	\$ 3,351	\$ 439	\$ 7,793	\$ 1,348

The amount of stock-based compensation capitalized as part of deferred implementation costs was insignificant for the three and nine months ended September 30, 2021 and September 30, 2020. Due to net operating losses, there was no tax expense or benefit recorded in connection with stock-based compensation expense.

### Note 11. Income Taxes

The provision for income taxes in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2021 and 2020 was \$0. The effective tax rate differs from the statutory tax rate primarily due to the impact of the full valuation allowance against the Company's deferred tax assets.

### Note 12. Earnings Per Share

Net loss attributable to common stockholders used in computing basic and diluted earnings per share ("EPS") has been calculated as the net loss less Series B cumulative dividends and other adjustments to redeemable convertible preferred stock of \$0.3 million for the nine months ended September 30, 2021 and \$4.5 million and \$5.0 million for the three and nine months ended September 30, 2020, respectively. The holders of the Company's redeemable convertible preferred stock did not have a contractual obligation to share in the Company's losses; therefore, no amount of total undistributed loss was allocated to redeemable convertible preferred stock. Upon the consummation of its IPO, all preferred stock converted to common stock, and therefore the Company had no issued or outstanding preferred stock as of September 30, 2021.

Basic net loss per share attributable to common stockholders is computed by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Because the Company has reported a net loss for the three and nine months ended September 30, 2021 and 2020, the number of shares used to calculate diluted net loss per share attributable to common stockholders is the same as the number of shares used to calculate basic net loss per share attributable to common stockholders for the period presented because the potentially dilutive shares would have been antidilutive if included in the calculation.

The computation of basic and diluted EPS is as follows for the three and nine months ended September 30, 2021 and 2020:

(In thousands, except shares and per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (11,219)	\$ (21,347)	\$ (33,473)	\$ (38,869)
Less: cumulative dividends and adjustments to redeemable convertible preferred stock	—	(4,459)	(277)	(5,013)
Net loss attributable to common stockholders	\$ (11,219)	\$ (25,806)	\$ (33,750)	\$ (43,882)
Weighted average shares of common stock outstanding - basic and diluted	87,641,416	4,833,079	56,320,288	4,679,933
Loss per common share - basic and diluted	\$ (0.13)	\$ (5.34)	\$ (0.60)	\$ (9.38)

For the three and nine months ended September 30, 2021 and 2020, the following potential shares of common stock were excluded from diluted EPS as the Company had a net loss in each period presented:

	As of September 30,	
	2021	2020
Stock options	10,015,930	12,366,781
Redeemable convertible preferred stock	—	72,225,916
Warrants	—	212,408
Restricted stock units (RSUs)	467,351	—
Total anti-dilutive common share equivalents	10,483,281	84,805,105

### Note 13. Commitments and Contingencies

#### Operating Lease Commitments

The Company leases office space under non-cancelable operating leases for its corporate headquarters in Plano, Texas pursuant to a ten-year lease agreement under which the Company leases approximately 125,000 square feet of office space with an initial term that expires on August 31, 2028, with the option to extend the lease for either two additional terms of five years each or one additional term of ten years. Rent expense under operating leases was \$1.2 million and \$3.5 million for the three and nine months ended September 30, 2021, respectively, and \$1.2 million and \$3.4 million for the three and nine months ended September 30, 2020, respectively.

Future minimum payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at September 30, 2021 were as follows (in thousands):

	Operating Leases
2021	\$ 920
2022	3,710
2023	3,773
2024	3,835
2025	3,898
Thereafter	10,697
Total minimum lease payments	\$ 26,833

#### Deferred Rent and Tenant Allowances

Deferred rent and tenant allowances are amortized and applied against rental expense over the lease term on a straight-line basis. As of September 30, 2021 and December 31, 2020, the Company had deferred rent and tenant allowance balances as follows:

(in thousands)	September 30, 2021	December 31, 2020
Deferred rent and tenant allowance	\$ 6,066	\$ 6,463
Less: current portion	(691)	(596)
Deferred rent and tenant allowance, net of current portion	\$ 5,375	\$ 5,867

## Legal Proceedings

The Company may become party to various legal actions during the ordinary course of business. Defending such proceedings is costly and can impose a significant burden on management and employees, it may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained. In addition, the Company's industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights. Companies in its industry are often required to defend against litigation claims based on allegations of infringement or other violations of intellectual property rights. Furthermore, client agreements typically require the Company to indemnify clients against liabilities incurred in connection with claims alleging its solutions infringe the intellectual property rights of a third party. From time to time, the Company has been involved in disputes related to patent and other intellectual property rights of third parties, none of which has resulted in material liabilities. The Company expects these types of disputes may continue to arise in the future. Based upon present information, the Company believes that its liability, if any, arising from such pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, is not reasonably likely to be material to the Company's financial position, results of operations, or cash flows, taking into account established accruals for estimated liabilities.

## Note 14. Related Party Transactions

CU Cooperative Systems, Inc. ("CU Cooperative"), a stockholder of the Company who is also a vendor, was paid fees of \$1.3 million and \$3.4 million, for the three and nine months ended September 30, 2021, respectively, and \$1.0 million and \$3.7 million for the three and nine months ended September 30, 2020, respectively, which relate to services resold to the Company's clients. As of September 30, 2021, the Company had no payable balance due to CU Cooperative, and as of December 31, 2020, accounts payable included amounts due to CU Cooperative of \$0.3 million. Mr. Todd Clark, who has served as President and Chief Executive Officer of CU Cooperative since 2016, is a member of the Board and was designated to serve as a member of the Board by CU Cooperative. CU Cooperative held 5% or more of the Company's capital stock as of December 31, 2020.

For the three and nine months ended September 30, 2021, the Company employed a former owner of the acquired business ACH Alert. For certain operating and lease payments made on the former owner's behalf and lockbox cash receipts due to the Company, a receivable of \$1.4 million from the former owner was included in prepaid expenses and other current assets as of December 31, 2020. The Company had no significant receivable balance from the former owner as of September 30, 2021.

## Note 15. Goodwill and Other Intangibles

Goodwill and intangible assets deemed to have an indefinite life are not amortized, but are reviewed annually for impairment of value or when indicators of a potential impairment are present. As part of the Company's business planning cycle, the Company will perform an annual goodwill impairment test in the fourth quarter of the fiscal year beginning in 2021. There were no indications of impairment of goodwill noted for the three months ended September 30, 2021. Goodwill had a carrying value of \$48.4 million and \$16.2 million as of September 30, 2021 and December 31, 2020, respectively. The Company recorded \$31.8 million to goodwill during the three and nine months ended September 30, 2021 due to the purchase of MK and recorded \$0.3 million during the nine months ended September 30, 2021 due to a change in the purchase price allocation for ACH Alert as is appropriate during the measurement period. See Note 3 for additional information.

Total intangibles, net, consisted of the following as of September 30, 2021 and December 31, 2020:

(In thousands)	As of September 30, 2021		
	Carrying Value	Accumulated Amortization	Net Carrying Value
<b>Finite-lived:</b>			
Customer Relationships	\$ 5,270	\$ (340)	\$ 4,930
Developed Technology	6,800	(471)	6,329
Tradenames	50	(25)	25
<b>Subtotal amortizable intangible assets</b>	<b>12,120</b>	<b>(836)</b>	<b>11,284</b>
Website domain name	25	—	25
<b>Total intangible assets</b>	<b>\$ 12,145</b>	<b>\$ (836)</b>	<b>\$ 11,309</b>
	As of December 31, 2020		
(In thousands)	Carrying Value	Accumulated Amortization	Net Carrying Value
<b>Finite-lived:</b>			
Customer Relationships	\$ 5,100	\$ (85)	\$ 5,015
Developed Technology	3,300	(118)	3,182
Tradenames	50	(6)	44
<b>Subtotal amortizable intangible assets</b>	<b>8,450</b>	<b>(209)</b>	<b>8,241</b>
Website domain name	25	—	25
<b>Total intangible assets</b>	<b>\$ 8,475</b>	<b>\$ (209)</b>	<b>\$ 8,266</b>

Amortization expense recognized on intangible assets was \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2021, respectively. The Company did not recognize amortization expense related to intangible assets for the three and nine months ended September 30, 2020.

The following table shows the estimated annual amortization expense of the definite-lived intangible assets for the next five years and thereafter (in thousands):

2021	\$	426
2022		1,542
2023		1,523
2024		1,523
2025		1,523
Thereafter		4,747
	\$	<u>11,284</u>

#### Note 16. Subsequent Events

On November 3, 2021, the Board of Directors of the Company ("Board"), appointed Alex Shootman as Chief Executive Officer of the Company, effective November 5, 2021, replacing Michael Hansen who will remain with the Company as Advisor to the Board, effective November 5, 2021, and will continue to serve on the Board.

The Company entered into an employment agreement with Mr. Shootman. Under the employment agreement, Mr. Shootman will serve as Chief Executive Officer of the Company and a member of the Board. Mr. Shootman is also entitled to be granted 1,000,000 restricted stock units that vest as to 25% of the restricted stock units on December 8, 2022 and in equal quarterly installments over three years thereafter.

In connection with Mr. Hansen's departure, the Company entered into a transition and separation agreement with Mr. Hansen. Under the transition and separation agreement, Mr. Hansen will transition to the role of Advisor to the Board and remain employed by the Company through December 17, 2021. The transition and separation agreement also provides that Mr. Hansen will serve as a member of the Board through December 31, 2022. Mr. Hansen's sole compensation while serving on the Board will be in the continued vesting of his outstanding equity awards. In the event Mr. Hansen continues to serve on the Board through December 31, 2022, the vesting of all of his outstanding equity awards will be accelerated as of that date. Mr. Hansen will have one year after the end of his Board service date to exercise any vested options. The Company is evaluating the accounting for the modification of Mr. Hansen's unvested equity awards and the Company expects the acceleration of vesting to be significant to its consolidated financial statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and our final prospectus (the "Prospectus") for our Initial Public Offering ("IPO") of our common stock, filed with the Securities and Exchange Commission ("SEC") on April 15, 2021 pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the "Securities Act").

Unless the context otherwise requires, all references in this report to the "Company," "Alkami," "we," "us" and "our" refer to Alkami Technology, Inc., a Delaware corporation, and its consolidated subsidiary taken as a whole.

### Cautionary Note Regarding Forward-Looking Statements

Any statements made in this Quarterly Report on Form 10-Q that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements and should be evaluated as such. Forward-looking statements include information concerning possible or assumed future results of operations, including descriptions of our business plan and strategies. These statements often include words such as "anticipate," "expect," "suggests," "plan," "believe," "intend," "estimates," "targets," "projects," "should," "could," "would," "may," "will," "forecast" and other similar expressions. We base these forward-looking statements on our current expectations, plans and assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances at such time. Forward-looking statements are not guarantees of future performance or results and are subject to and involve risks, uncertainties and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions at the time they are made, you should be aware that many factors could affect our actual results or results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements. The following important factors, along with the factors discussed in "Risk Factors" in the Prospectus, may materially affect such forward-looking statements:

- Our limited operating history and history of operating losses;
- Our ability to manage future growth;
- Our ability to attract new clients and expand existing clients' use of our solutions;
- Our ability to maintain, protect and enhance our brand;
- Our ability to accurately predict the long-term rate of client subscription renewals or adoption of our solutions;
- Our reliance on third-party software, content and services;
- Our ability to effectively integrate our solutions with other systems used by our clients;
- Intense competition in our industry;
- Any downturn, consolidation or decrease in technology spend in the financial services industry;
- Our ability and the ability of third parties on which we rely to prevent and identify breaches of security measures and resulting disruptions of our systems or operations and unauthorized access to client customer and other data;
- Our ability to comply with regulatory and legal requirements and developments;
- Our ability to attract and retain key employees;
- The political, economic and competitive conditions in the markets and jurisdictions where we operate, including the impact of the COVID-19 pandemic and the various governmental, industry and consumer actions related thereto;
- Our ability to maintain, develop and protect our intellectual property;
- Our ability to respond to evolving technological requirements to develop or acquire new and enhanced products that achieve market acceptance in a timely manner; and
- Our ability to estimate our expenses, future revenues, capital requirements and needs for additional financing and our ability to obtain additional capital.

Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

### Overview

Alkami is a cloud-based digital banking solutions provider. We inspire and empower community, regional and super-regional financial institutions ("FIs") to compete with large, technologically advanced and well-resourced banks in the United States. Our solution, the Alkami Platform, allows FIs to onboard and engage new users, accelerate revenues and meaningfully improve operational efficiency, all with the support of a proprietary, true cloud-based, multi-tenant architecture. We cultivate deep relationships with our clients through long-term, subscription-based contractual arrangements, aligning our growth with our clients' success and generating an attractive unit economic model.

Alkami was founded to help level the playing field for FIs. Since then, our vision has been to create a platform that combines premium technology and fintech solutions in one integrated ecosystem, delivered as a software-as-a-service ("SaaS") solution and providing our clients' customers with a single point of access to all things digital. We have invested significant resources to build a technology stack that prioritized innovation velocity and speed-to-market given the importance of product depth and functionality in winning and retaining clients. In fiscal 2020, we acquired ACH Alert, LLC ("ACH Alert") to pursue adjacent product opportunities, such as fraud prevention and to expand our addressable market. In addition, in September 2021, we acquired MK Decisioning Systems, LLC (MK) a technology platform for digital account opening, credit card and loan origination solutions.

Our domain expertise in retail and business banking has enabled us to develop a suite of products tailored to address key challenges faced by FIs. Due to our architecture, adding products through our single code base is fast, simple and cost-effective. The key differentiators of the Alkami Platform include:

- **User experience:** Personalized and seamless digital experience across user interaction points, including mobile, chat and SMS, establishing durable connections between FIs and their customers.
- **Integrations:** Scalability and extensibility driven by 230 real-time integrations to back office systems and third-party fintech solutions as of September 30, 2021, including core systems, payment cards, mortgages, bill pay, electronic documents, money movement, personal financial management and account opening.
- **Deep data capabilities:** Data synchronized and stored from back office systems and third-party fintech solutions and synthesized into meaningful insights, targeted content and other areas of monetization.

The Alkami Platform offers an end-to-end set of software products. Our typical relationship with an FI begins with a set of core functional components, which can extend over time to include a rounded suite of products across account opening, card experience, client service, extensibility, financial wellness, security and fraud protection, marketing and analytics and money movement.

We primarily go to market through an internal sales force. Given the long-term nature of our contracts, a typical sales cycle can range from approximately three to 12 months, with the subsequent implementation timeframe generally ranging from six to 12 months depending on the depth of integration.

We derive our revenues almost entirely from multi-year contracts that are based on an average contract life of approximately 70 months as of September 30, 2021. We predominantly employ a per-registered-user pricing model, with incremental fees above certain contractual minimum commitments for each licensed solution. Our pricing is tiered, with per-registered-user discounts applied as clients achieve higher levels of customer penetration, incentivizing our clients to internally market and promote digital engagement.

To support our growth and capitalize on our market opportunity, we have increased our operating expenses across all aspects of our business. In research and development, we continue to focus on innovation and bringing novel capabilities to our platform, extending our product depth. Similarly, we continue to expand our sales and marketing organization focusing on new client wins, cross-selling opportunities and client renewals.

For the three months ended September 30, 2021 and 2020 our total revenues were \$39.8 million and \$28.9 million, respectively, representing a 37.4% increase period-over-period. For the nine months ended September 30, 2021 and 2020 our total revenues were \$109.7 million and \$78.8 million, respectively, representing a 39.2% increase period-over-period. SaaS subscription revenues, as further described below, represented 94.3% and 94.4% of total revenues for the three and nine months ended September 30, 2021, respectively and 93.5% and 93.5% for the three and nine months ended September 30, 2020, respectively. We incurred net losses of \$11.2 million and \$33.5 million for the three and nine months ended September 30, 2021, respectively, and net losses of \$21.3 million and \$38.9 million for the three and nine months ended September 30, 2020, respectively, largely on the basis of significant continued investment in sales, marketing, product development and post-sales client activities.

## Recent Developments

**Initial Public Offering.** On April 13, 2021, the Company's registration statement relating to our IPO of our common stock was declared effective by the SEC. In connection with our IPO, the Company issued and sold 6,900,000 shares of common stock (including 900,000 shares issued pursuant to the exercise in full of the underwriters' option to purchase additional shares) at a public offering price of \$30.00 per share for net proceeds of \$192.8 million, after deducting underwriters' discounts and commissions (excluding other IPO costs as of April 13, 2021).

**Acquisition of MK.** On September 10, 2021, the Company acquired substantially all of the assets of MK for approximately \$20 million in cash consideration due at closing subject to a \$2 million holdback provision held in escrow with \$1 million to be released at the 12-month anniversary of close and the remainder to be released at the 18-month anniversary of close. The Company also agreed to assume certain liabilities associated with MK's business. MK expands our total addressable market by over \$2.0 billion while gaining new cross-selling opportunities among a larger installed base.

## Factors Affecting our Operating Results

**Growing our FI Client Base.** A key part of our strategy is to grow our FI client base. As of September 30, 2021, we served 169 FIs through the Alkami Platform and an additional 114 clients through the ACH Alert suite of solutions, representing 92.5% annual client growth since September 30, 2020. Each of our digital banking client wins is a competitive takeaway, and as such, our historical ability to grow our client base has been a function of product depth, technological excellence and a sales and marketing function able to match our solutions with the strategic objectives of our clients. Our future success will significantly depend on our ability to continue to grow our FI client base through competitive wins.

**Deepening Client Customer Penetration.** We primarily generate revenues through a per-registered-user pricing model. Once we onboard a client, our ability to help drive incremental client customer digital adoption translates to additional revenues with very limited additional spend. Our FI clients are incentivized to market and encourage digital account sign-up based on identifiable improvement in customer engagement as well as discounts received based on certain levels of customer penetration. We expect to continue to support digital adoption by client customers through continued investments in new products and platform enhancements. Our future success will depend on our ability to continue to deepen client customer penetration.

**Expanding our Product Suite.** Product depth is a key determinant in winning new clients. In a replacement market, we win based on our ability to bring a product suite to market that is superior to the incumbent, as well as to our broader competition. Of equal importance is the ability to cohesively deliver a deep product suite with as little friction as possible to the client customer. The depth of our product suite is a function of technology and platform partnerships. Our platform model with 230 integrations as of September 30, 2021 enables us to deliver thousands of configurations aligned with the digital platform strategies adopted by our clients. We expect our future success in winning new clients to be partially driven by our ability to continue to develop and deliver new, innovative products to FI clients in a timely manner. Furthermore, expanding our product suite expands our RPU potential. For additional information regarding RPU, see “Key Business Metrics.”

**Client Renewals.** Our model and the stability of our revenue base is, in part, driven by our ability to renew our clients. In addition to extending existing relationships, renewals provide an opportunity to grow minimum contract value, as over the course of a contract term our clients often grow or their needs evolve. Client renewals are also an important lever in driving our long-term gross margin targets, as we generally achieve approximately 70% gross margin upon renewal. We had three and seven client renewals in the three and nine months ended September 30, 2021, respectively. We expect client renewals to continue to play a key role in our future success.

**Continued Leadership in Innovation.** Our ability to maintain a differentiated platform and offering is dependent upon our pace of innovation. In particular, our single code base, built on a multi-tenant infrastructure and combined with continuous software delivery enables us to bring new, innovative products to market quickly and positions us with what we believe is market-leading breadth in terms of product offerings and feature set. We remain committed to investing in our platform, notably through our research and development spend, which was 32.4% and 32.7% of our revenues for the three and nine months ended September 30, 2021. Our future success will depend on our continued leadership in innovation.

**COVID-19 Impact.** The continued global impact of COVID-19 has resulted in various measures to combat the spread of the virus. With the development of variants and increased vaccinations rates, the status of ongoing measures varies widely. We transitioned our employee base to work-from-home in March 2020, creating challenges in executing sales and implementations that have resurfaced due to the renewal of certain actions and restrictions in response to the COVID-19 pandemic and which may be exacerbated if such actions or restrictions are prolonged. We believe actions and restrictions in response to the COVID-19 pandemic have served to highlight the criticality of our products, which we expect to drive increased demand over time.

## Components of Results of Operations

### Revenues

Our client relationships are primarily based on multi-year contracts that have an average contract life of 70 months as of September 30, 2021. We derive the majority of our revenues from SaaS subscription services charged for the use of our digital banking solution. For each client, we invoice monthly a contractual minimum fee for each licensed solution. In addition, we invoice monthly an additional subscription fee for the number of registered users using each solution and the number of bill-pay and certain other transactions those registered users conduct through our digital banking platform in excess of their contractual minimum commitments. Our pricing is tiered, with per-registered-user discounts applied as clients achieve higher levels of customer penetration, incentivizing our clients to internally market our products and promote digital engagement. Variable consideration earned for subscription fees in excess of contractual minimums is recognized as revenues in the month of actual usage. SaaS subscription services also include annual and monthly charges for maintenance and support services which are recognized on a straight-line basis over the contract term.

We receive implementation and other upfront fees for the implementation, configuration and integration of our digital banking platform. We typically invoice these services as a fixed price per contract. These fees are not distinct from the underlying licensed SaaS subscription services. As a result, we recognize the resulting revenues on a straight-line basis over the client’s initial agreement term for our licensed SaaS solutions, commencing upon launch.

Occasionally, our clients request custom development and other professional services, which we provide. These are generally one-time in nature and involve unique, non-standard features, functions or integrations that are intended to enhance or modify their licensed SaaS solutions. We recognize revenues at the point in time the services are transferred to the client.

The following disaggregates our revenues for the three and nine months ended September 30, 2021 and 2020 by major source.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<b>(In thousands)</b>				
SaaS subscription services	\$ 37,486	\$ 27,065	\$ 103,582	\$ 73,723
Implementation services	1,591	1,419	4,604	3,741
Other services	684	457	1,538	1,353
Total revenues	\$ 39,761	\$ 28,941	\$ 109,724	\$ 78,817

See Note 5 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional detail.



## **Cost of Revenues and Gross Margin**

Cost of revenues is comprised primarily of salaries and other personnel-related costs, including employee benefits, bonuses, stock-based compensation, travel and related costs for employees supporting our SaaS subscription, implementation and other services. This includes the costs of our implementation, client support and client success teams, development personnel responsible for maintaining and releasing updates to our platform, as well as third-party cloud-based hosting services. Cost of revenues also includes the direct costs of bill-pay and other third-party intellectual property included in our solutions, the amortization of acquired technology and depreciation.

We capitalize certain personnel costs directly related to the implementation of our solutions to the extent those costs are recoverable from future revenues. We amortize the costs for an implementation once revenue recognition commences. The amortization period is typically five to seven years which represents the expected period of client benefit. Other costs not directly recoverable from future revenues are expensed in the period incurred.

We intend to continue to increase our investments in our implementation, client support and client success teams and technology infrastructure to serve our clients and support our growth. We expect cost of revenues to continue to grow in absolute dollars as we grow our business but to vary as a percentage of revenues from period to period as a function of the utilization of implementation and support personnel and the extent to which we recognize fees from bill-pay services and other third-party functionality integrated into our solutions. Our gross margin for the three and nine months ended September 30, 2021 was 56.3% and 55.3%, respectively, and 52.4% and 50.6% for the three and nine months ended September 30, 2020, respectively.

The major components of cost of revenues represented the following percentages of revenues for the three months ended September 30, 2021: third-party hosting services (7.9%), the direct costs of bill-pay and other third-party intellectual property included in our solutions (17.0%), our implementation team (9.3%), our client success team (5.4%), our development team responsible for maintaining and releasing updates to our platform (3.8%) and amortization of intangible assets (0.3%). The major components of cost of revenues represented the following percentages of revenues for the three months ended September 30, 2020: third-party hosting services (9.8%), the direct costs of bill-pay and other third-party intellectual property included in our solutions (14.9%), our implementation team (11.4%), our client success team (6.6%) and our development team responsible for maintaining and releasing updates to our platform (5.1%).

The major components of cost of revenues represented the following percentages of revenues for the nine months ended September 30, 2021: third-party hosting services (8.8%), the direct costs of bill-pay and other third-party intellectual property included in our solutions (16.2%), our implementation team (9.6%), our client success team (5.7%), our development team responsible for maintaining and releasing updates to our platform (4.1%) and amortization of intangible assets (0.3%). The major components of cost of revenues represented the following percentages of revenues for the nine months ended September 30, 2020: third-party hosting services (9.5%), the direct costs of bill-pay and other third-party intellectual property included in our solutions (16.4%), our implementation team (11.6%), our client success team (6.7%) and our development team responsible for maintaining and releasing updates to our platform (5.3%).

## **Operating Expenses**

**Research and Development.** Research and development costs consist primarily of personnel-related costs for our engineering, information technology and product, including salaries, bonuses, commissions, other incentive-related compensation, employee benefits and stock-based compensation. In addition, we also include third-party contractor expenses, software development and testing tools, allocated corporate expenses, and other expenses related to developing new solutions and upgrading and enhancing existing solutions. We expect research and development costs to increase as we expand our platform with new features and functionality as well as enhance the existing Alkami Platform.

**Sales and Marketing.** Sales and marketing expenses consist primarily of personnel-related costs of our sales, marketing and a portion of account management employees, including salaries, bonuses, commissions, other incentive-related compensation, employee benefits and stock-based compensation. Sales and marketing expenses also include travel and related costs, outside consulting fees and marketing programs, including lead generation, costs of our annual client conference, advertising, trade shows, other event expenses and amortization of acquired client relationships. We expect sales and marketing expenses will continue to increase as we expand our direct sales teams to pursue our market opportunity.

**General and Administrative.** General and administrative expenses consist primarily of personnel-related costs for our general and administrative teams including salaries, bonuses, commissions, other incentive-related compensation, employee benefits and stock-based compensation associated with our executive, finance, legal, human resources, information technology, security and compliance as well as other administrative personnel. General and administrative expenses also include accounting, auditing and legal professional services fees, travel and other unallocated corporate-related expenses such as the cost of our facilities, employee relations, corporate telecommunication and software. We expect that general and administrative expenses will continue to increase as we scale our business and as we incur costs associated with being a publicly traded company, including legal, audit, business insurance and consulting fees.

## **Non-operating Income (Expense)**

Non-operating income (expense) consists primarily of interest income from our cash balances, interest expense from borrowings under our revolving line of credit, amortization of deferred debt costs and changes in fair value of warrants (In connection with our IPO, warrants converted from a liability instrument to an equity instrument resulting in a reduction of the warrant liability to \$0.).



### Provision for Income Taxes

Our effective tax rate differs from the statutory tax rate primarily due to the impact of the full valuation allowance against our deferred tax assets.

### Results of Operations

The results of operations presented below should be reviewed in conjunction with the condensed consolidated financial statements and notes included elsewhere in this filing. The following table presents our selected condensed consolidated statements of operations data for the three and nine months ended September 30, 2021 and 2020.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<b>(\$ In thousands, except share and per share amounts)</b>				
Revenues	\$ 39,761	\$ 28,941	\$ 109,724	\$ 78,817
Cost of revenues <sup>(1)</sup>	17,387	13,776	49,064	38,914
Gross profit	22,374	15,165	60,660	39,903
Operating expenses <sup>(1)</sup> :				
Research and development	12,877	9,898	35,897	29,367
Sales and marketing	7,309	3,998	18,132	12,548
General and administrative	13,330	7,859	36,525	21,867
Total operating expenses	33,516	21,755	90,554	63,782
Loss from operations	(11,142)	(6,590)	(29,894)	(23,879)
Non-operating income (expense):				
Interest income	223	8	364	45
Interest expense	(300)	(22)	(908)	(225)
Loss on financial instruments	—	(14,743)	(3,035)	(14,809)
Loss before income taxes	(11,219)	(21,347)	(33,473)	(38,868)
Provision for income taxes	—	—	—	—
Net loss	\$ (11,219)	\$ (21,347)	\$ (33,473)	\$ (38,868)

<sup>(1)</sup> Includes stock-based compensation expenses as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<b>(\$ in thousands)</b>				
Cost of revenues	\$ 544	\$ 88	\$ 1,242	\$ 180
Research and development	793	101	1,795	206
Sales and marketing	266	33	609	66
General and administrative	1,748	228	4,147	457
Total stock-based compensation expenses	\$ 3,351	\$ 439	\$ 7,793	\$ 909

The following table presents our reconciliation of GAAP net loss to adjusted EBITDA for the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<b>(\$ in thousands)</b>				
Net loss	\$ (11,219)	\$ (21,347)	\$ (33,473)	\$ (38,869)
Provision for income taxes	—	—	—	—
Loss on financial instruments	—	14,743	3,035	14,810
Interest expense, net	77	14	544	179
Amortization of intangible assets	209	—	627	—
Depreciation	593	653	1,757	1,970
Stock-based compensation expense	3,352	439	7,793	1,348
Acquisition-related expenses <sup>(1)</sup>	915	112	2,177	112
Adjusted EBITDA <sup>(2)</sup>	\$ (6,073)	\$ (5,386)	\$ (17,540)	\$ (20,450)

<sup>(1)</sup> Acquisition-related expenses are associated with the accrual of deferred compensation due to the former owner of the acquired business, ACH Alert, in addition to acquisition related-expenses associated with purchase of MK, primarily related to legal, consulting, and professional fees.

<sup>(2)</sup> Adjusted EBITDA is a non-GAAP financial measure and should not be considered an alternative to GAAP net loss as a measure of operating performance or as a measure of liquidity. For additional information regarding adjusted EBITDA, see “Key Business Metrics.”

### Key Business Metrics

**Adjusted EBITDA.** Adjusted EBITDA is a non-GAAP financial measure and should not be considered an alternative to GAAP net loss as a measure of operating performance or as a measure of liquidity. We define adjusted EBITDA as net loss before provision for income taxes; (gain) loss on financial instruments; interest (income) expense, net; amortization of intangible assets; depreciation; stock-based compensation expense; and acquisition-related costs. We believe adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations. Adjusted EBITDA was \$(6.1) million and \$(17.5) million for the three and nine months ended September 30, 2021, respectively and \$(5.4) million and \$(20.5) million for the three and nine months ended September 30, 2020, respectively.

**Annual Recurring Revenue (ARR).** We calculate ARR by aggregating annualized recurring revenue related to SaaS subscription services recognized in the last month of the reporting period as well as the next 12 months of expected implementation services revenues for all clients on the platform in the last month of the reporting period. We believe ARR provides important information about our future revenue potential, our ability to acquire new clients, and our ability to maintain and expand our relationship with existing clients. ARR was \$154.8 million as of September 30, 2021 and \$113.9 million as of September 30, 2020, an increase of \$40.9 million, or 35.9%, period-over-period.

**Registered Users.** We define a registered user as an individual or business related to an account holder of an FI client on our digital banking platform who has registered to use one or more of our solutions and has current access to use those solutions as of the last day of the reporting period presented. We price our digital banking platform based on the number of registered users, so as the number of registered users of our digital banking platform increases, our ARR grows. We believe growth in the number of registered users provides important information about our ability to expand market adoption of our digital banking platform and its associated software products, and therefore to grow revenues over time. We had 11.4 million registered users as of September 30, 2021 and 9.0 million as of September 30, 2020, an increase of 2.4 million, or 26.1%, period-over-period.

**Revenue per Registered User (RPU).** We calculate RPU by dividing ARR as of the last day of the reporting period by the number of registered users as of the last day of the reporting period. We believe RPU provides important information about our ability to grow the number of software products adopted by new clients over time, as well as our ability to expand the number of software products that our existing clients add to their contracts with us over time. RPU was \$13.57 as of September 30, 2021 and \$12.59 as of September 30, 2020, an increase of \$0.98, or 7.8%, period-over-period.

### Comparison of Three and Nine Months ended September 30, 2021 and 2020

#### Revenues

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2021	2020	\$	%	2021	2020	\$	%
<b>(\$ in thousands)</b>								
Revenues	\$ 39,761	\$ 28,941	\$ 10,820	37.4 %	\$ 109,724	\$ 78,817	\$ 30,907	39.2 %



For the nine months ended September 30, 2021, the increase was primarily due to a \$5.9 million increase in personnel-related costs (which includes stock-based compensation) resulting from headcount growth in our engineering, information technology and product teams dedicated to platform enhancements and innovation. In addition we incurred \$0.5 million in higher incremental hosting costs.

### ***Sales and Marketing***

Sales and marketing expenses increased \$3.3 million, or 82.8%, and \$5.6 million, or 44.5%, for the three and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. For the three months ended September 30, 2021, the increase was primarily due to a \$1.5 million increase in personnel-related costs (which includes stock-based compensation) resulting from headcount growth in our sales and marketing teams. In addition, we incurred \$1.3 million in higher conference and trade show costs primarily due to conducting our annual client conference in September 2021 instead of our typical April timing. We also incurred \$0.3 million in higher consulting costs and \$0.2 million in higher travel costs.

For the nine months ended September 30, 2021, the increase was primarily due to a \$3.9 million increase in personnel-related costs (which includes stock-based compensation) resulting from headcount growth in our sales and marketing teams. In addition, we incurred \$0.8 million in higher conference and trade show costs due to conducting our annual client conference in September 2021 instead of our typical April timing, \$0.7 million in higher consulting costs and \$0.2 million in higher travel and other costs.

### ***General and Administrative***

General and administrative expenses increased \$5.5 million, or 69.6%, and \$14.7 million, or 67.0%, for the three and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. For the three months ended September 30, 2021, the increase was primarily due to a \$2.7 million increase in personnel-related and other costs (which includes stock-based compensation) from increased headcount, including the impact from the acquisition of ACH Alert, and a \$0.6 million increase in non-personnel related costs from the acquisitions of ACH Alert and MK. In addition, we incurred a \$1.1 million increase in insurance costs for public company D&O coverage, a \$0.3 million increase in accounting, audit and consulting expenses, primarily in support of our public company operations, and a \$0.4 million increase in software costs.

For the nine months ended September 30, 2021, the increase was primarily due to a \$7.8 million increase in personnel-related and other costs (which includes stock-based compensation) from increased headcount, including the impact from the acquisition of ACH Alert, and a \$1.9 million increase in non-personnel related costs from the acquisitions of ACH Alert and MK. In addition, we incurred a \$1.6 million increase in accounting, audit and consulting expenses primarily in support of our IPO and public company operations, a \$2.2 million increase in insurance costs for public company D&O coverage and a \$0.9 million increase in software costs.

### ***Non-Operating Expense, Net***

Non-operating expense, net decreased \$14.7 million and \$11.4 million for the three and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. For the three months ended September 30, 2021, the decrease was primarily due to \$14.7 million in non-operating loss related to the increase in fair value of our warrant liabilities for the three months ended September 30, 2020. For the nine months ended September 30, 2021, the decrease was primarily due to \$14.8 million in non-operating loss related to the increase in fair value of our warrant liabilities for the nine months ended September 30, 2020, partially offset by \$3.0 million in non-operating loss related to the increase in fair value of our warrant liabilities for the nine months ended September 30, 2021. In connection with our IPO, warrants converted from a liability instrument to an equity instrument resulting in a reduction of the warrant liability to \$0.

### ***Provision for Income Taxes***

We had no provision for income taxes for the three and nine months ended September 30, 2021 and 2020. Our effective tax rate differs from the statutory tax rate primarily due to the impact of the full valuation allowance against our deferred tax assets.

### ***Liquidity and Capital Resources***

As of September 30, 2021, we had \$314.4 million in cash and cash equivalents, and an accumulated deficit of \$300.5 million. Our net losses have been driven by our investments in developing our digital banking platform, expanding our sales, marketing and implementation organizations and scaling our administrative functions to support our rapid growth.

We have financed our operations primarily through the net proceeds we have received from the sales of our redeemable convertible preferred stock and common stock, cash generated from the sale of SaaS subscription services and borrowings under our Credit Agreement (as defined below).

On April 15, 2021, we completed our IPO, in which we issued and sold 6,900,000 shares of our common stock, including 900,000 shares of common stock that were sold pursuant to the exercise in full of the underwriters' option to purchase additional shares of common stock at \$30.00 per share. Our IPO resulted in net proceeds of \$192.8 million after deducting underwriting discounts, commissions and other offering costs. With the proceeds from our IPO, the Company paid in full accumulated dividends on our previously outstanding shares of Series B redeemable convertible preferred stock, which totaled approximately \$5.0 million.

Our future capital requirements will depend on many factors, including revenue growth and costs incurred to support client usage and growth in our client base, increased research and development expenses to support the growth of our business and related infrastructure, increased general and administrative expenses associated with being a publicly traded company, investments in office facilities and other capital expenditure requirements and any potential future acquisitions or other strategic transactions.

We believe that our existing cash resources, including our Credit Agreement, will be sufficient to finance our continued operations, growth strategy, planned capital expenditures and the additional expenses we expect to incur as a public company for at least the next 12 months. We may from time to time seek to raise additional capital to support our growth. Any equity financing we may undertake could be dilutive to our existing stockholders, and any additional debt financing we may undertake could require debt service and financial and operational requirements that could adversely affect our business.

### **Cash Flows**

The following table summarizes our cash flows for the periods indicated:

(in thousands)	Nine months ended September 30,	
	2021	2020
Net cash used in operating activities	\$ (16,802)	\$ (23,122)
Net cash used in investing activities	(20,471)	(1,478)
Net cash provided by financing activities	186,886	218,270

### **Net Cash Used in Operating Activities**

During the nine months ended September 30, 2021, net cash used in operating activities was \$16.8 million, which consisted of a net loss of \$33.5 million, adjusted by non-cash charges of \$13.3 million and net cash inflows from the change in net operating assets and liabilities of \$3.4 million. The non-cash charges were primarily comprised of a non-operating loss related to the increase in fair value of warrant liabilities of \$3.0 million, depreciation and amortization expense of \$2.4 million, and stock-based compensation expense of \$7.8 million. The net cash inflows from the change in our net operating assets and liabilities were primarily due to a \$12.8 million increase in accounts payable and accrued liabilities, partially offset by a \$5.7 million increase in accounts receivable, a \$0.7 million increase in prepaid expenses and other current assets, and a net \$3.0 million in other balance sheet changes.

During the nine months ended September 30, 2020, net cash used in operating activities was \$23.1 million, which consisted of a net loss of \$38.9 million, adjusted by non-cash charges of \$18.2 million, and net cash outflows from the change in net operating assets and liabilities of \$2.4 million. Non-cash charges were primarily comprised of depreciation expense of \$2.0 million and stock-based compensation expense of \$1.3 million. The net cash outflows from the change in our net operating assets and liabilities were primarily due to a \$4.1 million increase in accounts payable and accrued liabilities, offset by a \$2.6 million increase in accounts receivable, a \$1.7 million increase in prepaid expenses and other current assets, and a \$2.2 million increase in deferred implementation costs.

### **Net Cash Used in Investing Activities**

During the nine months ended September 30, 2021, net cash used in investing activities was \$20.5 million, primarily consisting of \$18 million for the purchase of MK, \$0.3 million related to the finalization of working capital adjustments on our acquisition of ACH Alert, \$1.3 million related to capitalized software development costs, and capital expenditures related to updates for computer and other equipment of \$0.9 million.

During the nine months ended September 30, 2020, net cash used in investing activities was \$1.5 million, primarily consisting of capital expenditures related to the expansion and updates to our corporate facilities of \$1.1 million and purchases of computer and other equipment of \$0.4 million.

### **Net Cash Provided by Financing Activities**

For the nine months ended September 30, 2021, net cash provided by financing activities was \$186.9 million, which was primarily due to the receipt of proceeds from our IPO of \$192.8 million and proceeds of \$6.4 million from the exercise of stock options to purchase 4.1 million shares of our common stock, partially offset by the cash payment of our Series B dividend of \$5.0 million upon the consummation of our IPO, the \$4.5 million payment of deferred IPO issuance costs, and the repurchase of shares of our common stock in the amount of \$3.5 million.

During the nine months ended September 30, 2020, cash provided by financing activities was \$218.3 million, consisting primarily of proceeds from the sale of preferred stock of \$218.0 million.

### **Credit Agreement**

On October 16, 2020, we entered into our credit agreement with Silicon Valley Bank and KeyBank National Association ("Credit Agreement"). The Credit Agreement replaced our prior credit facility provided by Comerica Bank. The Credit Agreement matures on October 16, 2023, and is secured by a first priority lien on substantially all of our tangible and intangible personal property and the tangible and intangible personal property of our subsidiaries that are guarantors. In addition, the Credit Agreement includes the following:

- **Revolving Facility:** The Credit Agreement provides \$25.0 million in aggregate commitments for secured revolving loans, with sub-limits of \$10.0 million for the issuance of letters of credit and \$7.5 million for swingline loans (“Revolving Facility”).
- **Term Loan:** A term loan of \$25.0 million (“Term Loan”) was borrowed on October 16, 2020. The proceeds from the Term Loan were used to partially fund the acquisition of ACH Alert.
- **Accordion Feature:** The Credit Agreement also allows us, subject to certain conditions, to request additional revolving loan commitments in an aggregate principal amount of up to \$30.0 million.

Revolving Facility loans under the Credit Agreement may be voluntarily prepaid and re-borrowed. Principal payments on the Term Loan are due in quarterly installments equal to an initial amount of approximately \$0.3 million, which begin December 31, 2021 and continue through September 30, 2022 and increase to approximately \$0.6 million beginning on December 31, 2022 through the Credit Agreement maturity date. Once repaid or prepaid, the Term Loan may not be re-borrowed.

Borrowings under the Credit Agreement bear interest at a variable rate based upon, at our option, either the LIBOR rate or the base rate (in each case, as customarily defined) plus an applicable margin. The minimum LIBOR rate to be applied is 1.00%. The applicable margin for LIBOR rate loans ranges, based on an applicable recurring revenue leverage ratio, from 3.00% to 3.50% per annum, and the applicable margin for base rate loans ranges from 2.00 to 2.50% per annum. Our minimum interest rate applied to term debt was 4.00% as of September 30, 2021. We are required to pay a commitment fee of 0.30% per annum on the undrawn portion available under the Revolving Facility, and variable fees on outstanding letters of credit.

All outstanding principal and accrued but unpaid interest is due, and the commitments for the Revolving Facility terminate, on the maturity date. The loans are subject to mandatory prepayment requirements in the event of certain asset sales or if certain insurance or condemnation events occur, subject to customary reinvestment provisions. We may prepay the Term Loan in whole or in part at any time without premium or penalty.

The Credit Agreement contains customary affirmative and negative covenants, as well as (i) an annual recurring revenue growth covenant requiring the loan parties to have recurring revenues in any four consecutive fiscal quarter period in an amount that is 10% greater than the recurring revenues for the corresponding four consecutive quarter period in the previous year and (ii) a liquidity (defined as the aggregate amount of cash in bank accounts subject to a control agreement plus availability under the Revolving Facility) covenant, requiring the loan parties to have liquidity, tested on the last day of each calendar month, of \$10.0 million or more. The Credit Agreement also contains customary events of default, which if they occur, could result in the termination of commitments under the Credit Agreement, the declaration that all outstanding loans are immediately due and payable in whole or in part, and the requirement to maintain cash collateral deposits in respect of outstanding letters of credit.

Total interest expense, including commitment fees and unused line fees, for the three and nine months ended September 30, 2021 was \$0.3 million and \$0.9 million, respectively, and none and \$0.2 million for the three and nine months ended September 30, 2020, respectively. In conjunction with closing the Credit Agreement in 2020, we incurred issuance costs of \$0.1 million which were deferred and will be amortized over the three-year term. Unamortized debt issuance costs totaled \$0.1 million and \$0.1 million as of September 30, 2021 and December 31, 2020, respectively. Amortization expense totaled \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2021, respectively. The Company recognized no amortization expense for the three and nine months ended September 30, 2020.

#### **Contractual Obligations and Commitments**

There were no material changes to our contractual obligations and commitments as of September 30, 2021 compared to those discussed as of December 31, 2020 in the Prospectus filed with the SEC on April 15, 2021 pursuant to Rule 424(b)(4) under the Securities Act.

#### **Off-Balance Sheet Arrangements**

We did not have during the periods presented, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

#### **Critical Accounting Policies and Significant Judgments and Estimates**

Our unaudited condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these judgments and estimates under different assumptions or conditions and any such differences may be significant.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in the Prospectus filed with the SEC on April 15, 2021 pursuant to Rule 424(b)(4) under the Securities Act.

#### **Recently Issued Accounting Pronouncements**

See Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements included elsewhere in this report for a discussion of recent accounting pronouncements and future application of accounting standards.

## **Emerging Growth Company Status**

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to use this extended transition period to enable us to comply with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our condensed consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks 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 the result of fluctuations in interest rates.

### ***Interest Rate Risk***

We are subject to interest rate risk in connection with our Credit Agreement. Interest rate changes generally impact the amount of our interest payments and, therefore, our future net income and cash flows, assuming other factors held constant. Assuming the amounts outstanding under our Credit Agreement are fully drawn, a hypothetical 10% change in interest rates would not have a material impact on our condensed consolidated financial statements.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the company’s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures at September 30, 2021, the last day of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, at September 30, 2021, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting, identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) under the Exchange Act, that occurred during the period covered by this Quarterly Report on Form 10-Q 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**

From time to time, we may be involved in various legal proceedings arising from the normal course of business activities. We are currently not a party to any litigation the outcome of which we believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial condition.

### **Item 1A. Risk Factors**

There are no material changes to the risk factors previously disclosed under the heading "Risk Factors" in the Prospectus filed with the SEC on April 15, 2021 pursuant to Rule 424(b)(4) under the Securities Act.

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

#### ***Unregistered Sales of Equity Securities***

None.

#### ***Use of Proceeds from our IPO***

On April 13, 2021, the SEC declared effective our registration statement on Form S-1 (File No. 333-254108), as amended, filed in connection with our IPO. On April 16, 2021, we completed our IPO, selling 6,900,000 shares of our common stock at a price of \$30.00 per share (including shares subject to the underwriters' over-allotment option) for net proceeds of \$192.8 million after deducting underwriting discounts and commissions of approximately \$14.2 million. The offer and sale of the shares in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-254108), which was declared effective by the SEC on April 13, 2021. The underwriters of the offering were represented by Goldman Sachs & Co., LLC, J.P. Morgan Securities LLC and Barclays Capital Inc. There has been no material change in the use of proceeds from our IPO as described in the Prospectus, where we stated that we would use the proceeds to finance our growth, develop new or enhanced solutions and fund capital expenditures and may, in the future, use a portion of the remaining net proceeds, if any, to acquire complementary businesses, products, services or technologies. As described in the Prospectus, we paid approximately \$5.0 million of the net proceeds in accumulated dividends to holders of our Series B redeemable convertible preferred stock, including an aggregate of \$3.8 million to certain holders of 5% or more of our capital stock, directors and their affiliated entities and our executive officers. No other payments from the proceeds were made by us to directors, officers or persons owning 10% or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries.

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

None.

### **Item 4. Mine Safety Disclosures**

None.

### **Item 5. Other Information**

None.



**Item 6. Exhibits****EXHIBIT INDEX**

Exhibit	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1*	<a href="#">Asset Purchase Agreement, dated September 10, 2021, among Alkami Technology, Inc., MK Decisioning Systems, LLC., and individuals named therein</a>	8-K	001-40321	2.1	9/13/2021
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Alkami Technology, Inc.</a>	8-K	001-40321	3.1	4/16/2021
3.2	<a href="#">Amended and Restated Bylaws of Alkami Technology, Inc.</a>	8-K	001-40321	3.2	4/16/2021
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934</a>				
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934</a>				
32.1**	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350</a>				
32.2**	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350</a>				
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

\*Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company will furnish supplementally copies of omitted schedules and exhibits to the SEC or its staff upon its request. Certain confidential portions of this Exhibit, marked by brackets and asterisks ([\*\*\*]), have been omitted because the confidential omitted information is both (i) not material and (ii) information that the registrant customarily and actually treats as private or confidential.

\*\* The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the SEC and are not to be incorporated by reference into any filing of the Company under the Securities Act or the Exchange Act whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

**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, on the date set forth below.

Alkami Technology, Inc.

Date: November 4, 2021

By: /s/ Michael Hansen

Michael Hansen  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 4, 2021

By: /s/ W. Bryan Hill

W. Bryan Hill  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Michael Hansen, certify that:

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

Date: November 4, 2021

/s/ Michael Hansen

\_\_\_\_\_  
Michael Hansen

President and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, W. Bryan Hill, certify that:

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

Date: November 4, 2021

/s/ W. Bryan Hill

W. Bryan Hill

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Alkami Technology, Inc. (the "Company") on Form 10-Q for the quarterly period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

/s/ Michael Hansen

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Michael Hansen

President and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Alkami Technology, Inc. (the "Company") on Form 10-Q for the quarterly period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

/s/ W. Bryan Hill

W. Bryan Hill

Chief Financial Officer

(Principal Financial Officer)