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

# FORM 10-Q
**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2024
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 001-40321



## 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<br>Plano, TX | 75204 |
| (Address of Principal Executive Offices) | (Zip Code) |

(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 March 31, 2024 was 97,515,483.

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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)**

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 44,179 | $ 40,927 |
| Marketable securities | 43,125 | 51,196 |
| Accounts receivable, net | 35,717 | 35,499 |
| Deferred costs, current | 11,081 | 10,329 |
| Prepaid expenses and other current assets | 11,531 | 10,634 |
| Total current assets | 145,633 | 148,585 |
| Property and equipment, net | 18,217 | 16,946 |
| Right-of-use assets | 15,479 | 15,754 |
| Deferred costs, net of current portion | 31,499 | 30,734 |
| Intangibles, net | 34,111 | 35,807 |
| Goodwill | 148,050 | 148,050 |
| Other assets | 4,653 | 3,949 |
| Total assets | $ 397,642 | $ 399,825 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 6,533 | $ 7,478 |
| Accrued liabilities | 16,902 | 19,763 |
| Deferred revenues, current portion | 12,497 | 10,984 |
| Lease liabilities, current portion | 1,242 | 1,205 |
| Total current liabilities | 37,174 | 39,430 |
| Deferred revenues, net of current portion | 17,525 | 15,384 |
| Deferred income taxes | 1,738 | 1,713 |
| Lease liabilities, net of current portion | 18,065 | 18,052 |
| Other non-current liabilities | 233 | 305 |
| Total liabilities | 74,735 | 74,884 |
| Stockholders' Equity | | |
| Preferred stock, $0.001 par value, 10,000,000 shares authorized and 0 shares issued and outstanding as of March 31, 2024 and December 31, 2023 | — | — |
| Common stock, $0.001 par value, 500,000,000 shares authorized; and 97,515,483 and 96,722,098 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively | 98 | 97 |
| Additional paid-in capital | 769,608 | 760,210 |
| Accumulated deficit | (446,799) | (435,366) |
| Total stockholders' equity | 322,907 | 324,941 |
| Total liabilities and stockholders' equity | $ 397,642 | $ 399,825 |

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)**

| | Three months ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| Revenues | $ 76,127 | $ 59,996 |
| Cost of revenues[1] | 32,095 | 27,858 |
| Gross profit | 44,032 | 32,138 |
| Operating expenses: | | |
| Research and development | 22,820 | 20,549 |
| Sales and marketing | 13,843 | 10,878 |
| General and administrative | 19,315 | 17,111 |
| Acquisition-related expenses | 60 | 186 |
| Amortization of acquired intangibles | 359 | 360 |
| Total operating expenses | 56,397 | 49,084 |
| Loss from operations | (12,365) | (16,946) |
| Non-operating income (expense): | | |
| Interest income | 1,082 | 1,726 |
| Interest expense | (73) | (1,757) |
| Gain on financial instruments | 112 | 210 |
| Loss before income taxes | (11,244) | (16,767) |
| Provision for income taxes | 189 | 196 |
| Net loss | $ (11,433) | $ (16,963) |
| Net loss per share attributable to common stockholders: | | |
| Basic and diluted | $ (0.12) | $ (0.18) |
| Weighted-average number of shares of common stock outstanding: | | |
| Basic and diluted | 96,945,232 | 92,397,341 |

[1] Includes amortization of acquired technology of $1.3 million for both the three months ended March 31, 2024 and 2023.

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 STOCKHOLDERS' EQUITY**
**(in thousands, except share data)**
**(UNAUDITED)**

| | Three months ended March 31, 2024 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | | |
| Balance January 1, 2024 | 96,722,098 | $ 97 | $ 760,210 | $ (435,366) | $ 324,941 |
| Stock-based compensation | — | — | 13,906 | — | 13,906 |
| Issuance of common stock upon restricted stock unit vesting | 483,517 | 1 | (1) | — | — |
| Exercised stock options | 309,868 | — | 1,171 | — | 1,171 |
| Payments for taxes related to net settlement of equity awards | — | — | (5,678) | — | (5,678) |
| Net loss | — | — | — | (11,433) | (11,433) |
| Balance March 31, 2024 | 97,515,483 | $ 98 | $ 769,608 | $ (446,799) | $ 322,907 |

| | Three months ended March 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | | |
| Balance January 1, 2023 | 92,112,749 | $ 92 | $ 706,407 | $ (372,453) | $ 334,046 |
| Stock-based compensation | — | — | 11,612 | — | 11,612 |
| Issuance of common stock upon restricted stock unit vesting | 292,591 | — | — | — | — |
| Exercised stock options | 459,401 | 1 | 1,415 | — | 1,416 |
| Payments for taxes related to net settlement of equity awards | — | — | (1,984) | — | (1,984) |
| Net loss | — | — | — | (16,963) | (16,963) |
| Balance March 31, 2023 | 92,864,741 | $ 93 | $ 717,450 | $ (389,416) | $ 328,127 |

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)**

| | Three months ended March 31, | |
|---|---|---|
| | 2024 | 2023 |
| **Cash flows from operating activities:** | | |
| Net loss | $ (11,433) | $ (16,963) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 2,562 | 2,586 |
| Accrued interest on marketable securities, net | (294) | (398) |
| Stock-based compensation expense | 13,552 | 11,440 |
| Amortization of debt issuance costs | 32 | 45 |
| Gain on financial instruments | (112) | (210) |
| Deferred taxes | 25 | 47 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (218) | (2,183) |
| Prepaid expenses and other current assets | (1,633) | (2,654) |
| Accounts payable and accrued liabilities | (3,873) | (1,290) |
| Deferred costs | (1,311) | (859) |
| Deferred revenues | 3,654 | 824 |
| Net cash provided by (used in) operating activities | 951 | (9,615) |
| **Cash flows from investing activities:** | | |
| Purchase of marketable securities | (7,149) | (20,987) |
| Proceeds from sales, maturities and redemptions of marketable securities | 15,626 | 38,122 |
| Purchases of property and equipment | (306) | (229) |
| Capitalized software development costs[1] | (1,363) | (1,141) |
| Net cash provided by investing activities | 6,808 | 15,765 |
| **Cash flows from financing activities:** | | |
| Payments for taxes related to net settlement of equity awards | (5,678) | (1,984) |
| Proceeds from stock option exercises | 1,171 | 1,416 |
| Net cash used in financing activities | (4,507) | (568) |
| Net increase in cash and cash equivalents and restricted cash | 3,252 | 5,582 |
| Cash and cash equivalents and restricted cash, beginning of period | 40,927 | 112,337 |
| Cash and cash equivalents and restricted cash, end of period | $ 44,179 | $ 117,919 |

[1] See Note 3 for additional information regarding non-cash investing activities for the three months ended March 31, 2024 and 2023 related to capitalized software development costs.

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 Digital Banking 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.

## Note 2. Summary of Significant Accounting Policies

The accompanying condensed consolidated 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 Securities and Exchange Commission (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, 2023, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 29, 2024. Operating results for the three months ended March 31, 2024 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2024.

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 and business combinations.

***Recent Accounting Pronouncements***

In November 2023, the FASB issued Accounting Standards Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. ASU No. 2023-07 amended the existing segment reporting requirements by requiring disclosure of the significant segment expenses based on how management internally views segment information and by allowing the disclosure of more than one measure of segment profit or loss, as well as by expanding the interim period segment requirements. The ASU also requires single-reportable segment entities to report the disclosures required under ASC Topic 280, Segment Reporting. ASU No. 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact the updated standard will have on its financial statement disclosures.

In December 2023, the FASB issued ASU No 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"). ASU 2023-09 expands disclosures in the rate reconciliation and requires disclosure of income taxes paid by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. ASU 2023-09 should be applied prospectively; however, retrospective application is permitted. The Company is currently evaluating the impact the updated standard will have on its financial statement disclosures.

## Note 3. Property and Equipment, Net

Depreciation and amortization expense was $0.9 million for both the three months ended March 31, 2024, and 2023.

Property and equipment, net, includes the following amounts at March 31, 2024 and December 31, 2023:

| *(in thousands)* | Useful Life | March 31, 2024 | December 31, 2023 |
|---|---|---|---|
| Software | 2 to 5 years | $ 920 | $ 920 |
| Capitalized software development costs | 5 years | 13,808 | 12,263 |
| Computers and equipment | 3 years | 6,584 | 6,359 |
| Furniture and fixtures | 5 years | 3,988 | 3,988 |
| Leasehold improvements | 3 to 10 years | 12,697 | 12,312 |
| | | $ 37,997 | $ 35,842 |
| Less: accumulated depreciation and amortization | | (19,780) | (18,896) |
| Property and equipment, net | | $ 18,217 | $ 16,946 |

For both the three months ended March 31, 2024 and 2023 the Company had non-cash investing activities of $0.2 million for capitalized stock-based compensation related to capitalized software development costs. Additionally, the Company recognized stock-based compensation expense on the amortization of capitalized stock-based compensation associated with capitalized software development costs of less than $0.1 million and none for the three months ended March 31, 2024 and March 31, 2023, respectively.

**Note 4. Revenues and Deferred Costs**

The Company derives the majority of its revenues from recurring monthly subscription fees charged for the use of its software-as-a-service ("SaaS") subscription services. Subscription revenues 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 usually charged a one-time, upfront implementation fee and recurring annual and monthly access fees for the use of the online digital relationship banking solution. Implementation and integration of the digital banking platform is complex, and the Company has determined that the one-time, upfront services do not transfer a promised service to the client. As these services are not distinct, they are bundled into the SaaS series of services, and the associated fees are recognized on a straight-line basis over the subscription term. Other services includes professional services and custom development.

The following table disaggregates the Company's revenue by major source for the three months ended March 31, 2024 and 2023:

| | Three months ended March 31, | |
|---|---|---|
| *(in thousands)* | 2024 | 2023 |
| SaaS subscription services | $ 73,012 | $ 57,519 |
| Implementation services | 1,848 | 1,670 |
| Other services | 1,267 | 807 |
| Total revenues | $ 76,127 | $ 59,996 |

The Company recognized approximately $2.4 million of revenue during the three months ended March 31, 2024 that was included in deferred revenues in the accompanying condensed consolidated balance sheets as of the beginning of the reporting period. For those contracts that were wholly or partially unsatisfied as of March 31, 2024, minimum contracted subscription revenues to be recognized in future periods total approximately $1.2 billion. The Company expects to recognize approximately 45.9% of this amount as subscription services are transferred to customers over the next 24 months, an additional 34.8% 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.

Contract assets totaled $1.4 million and $1.5 million as of March 31, 2024 and December 31, 2023, respectively, which are included in other assets in the accompanying condensed consolidated balance sheets.

***Deferred Cost Recognition***

The Company capitalized $1.2 million and $0.8 million in deferred commissions costs during the three months ended March 31, 2024 and 2023, respectively, and recognized amortization of $1.2 million and $0.9 million during the three months ended March 31, 2024 and 2023, respectively. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations. Deferred commissions are considered costs to obtain a contract and are included in deferred costs in the accompanying condensed consolidated balance sheets in the amount of $21.2 million as of both March 31, 2024 and December 31, 2023.

The Company capitalized implementation costs of $2.9 million and $2.1 million during the three months ended March 31, 2024 and 2023 respectively, and recognized amortization of $1.4 million and $1.1 million during the three months ended March 31, 2024 and 2023, respectively. Amortization expense is included in cost of revenues in the accompanying condensed consolidated statements of operations. These deferred costs are considered costs to fulfill client contracts and are included in deferred costs in the accompanying condensed consolidated balance sheets in the amount of $21.4 million and $19.8 million as of March 31, 2024 and December 31, 2023, respectively.

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 material impairment losses were recognized in relation to these capitalized costs for the three months ended March 31, 2024 and 2023.

**Note 5. Accounts Receivable**

Accounts receivable includes the following amounts at March 31, 2024 and December 31, 2023:

| *(in thousands)* | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Trade accounts receivable | $ 29,016 | $ 30,111 |
| Unbilled receivables | 7,179 | 5,975 |
| Total receivables | 36,195 | 36,086 |
| Allowance for credit losses | (53) | (59) |
| Reserve for estimated credits | (425) | (528) |
| | $ 35,717 | $ 35,499 |

**Note 6. Accrued Liabilities**

Accrued liabilities consisted of the following at March 31, 2024 and December 31, 2023:

| *(in thousands)* | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Bonus accrual | $ 3,388 | $ 7,798 |
| Accrued vendor purchases | 94 | 174 |
| Commissions accrual | 423 | 2,026 |
| Accrued hosting services | 397 | 428 |
| Client refund liability | 512 | 660 |
| Accrued consulting and professional fees | 571 | 713 |
| Accrued tax liabilities | 969 | 1,166 |
| ESPP liability | 2,204 | 682 |
| Other accrued liabilities | 8,344 | 6,116 |
| Total accrued liabilities | $ 16,902 | $ 19,763 |

**Note 7. Debt**

On June 27, 2023, the Company entered into a First Amendment (the "First Amendment") to the Company's Amended and Restated Credit Agreement dated as of April 29, 2022 (as amended by the First Amendment, the "Amended Credit Agreement"), with Silicon Valley Bank ("SVB"), Comerica Bank and Canadian Imperial Bank of Commerce. The First Amendment provided for Citibank, N.A. to join as a new lender, increased the amount of the Revolving Facility (as defined below) commitment by $20.0 million and extended the maturity date of the Amended Credit Agreement to April 29, 2026, as well as other changes discussed below. The Amended Credit Agreement, inclusive of changes established by the First Amendment, includes the following, among other features:

- *Revolving Facility:* The Amended Credit Agreement provides $ 60.0 million in aggregate commitments for secured revolving loans ("Revolving Facility"), of which there were no outstanding borrowings as of March 31, 2024.
- *Term Loan:* A term loan of $85.0 million (the "Term Loan") was borrowed on April 29, 2022, the proceeds of which were used to replenish cash used to fund the acquisition of Segmint, which closed on April 25, 2022. On December 29, 2023, the Company paid the remaining outstanding principal balance of its term loan of $82.9 million.
- *Accordion Feature:* The Amended Credit Agreement also permits the Company, subject to certain conditions, to request additional revolving loan commitments in an aggregate principal amount of up to $50.0 million, of which there were no outstanding borrowings as of March 31, 2024.

Revolving Facility loans under the Amended 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 $1.1 million, beginning on June 30, 2023 and continuing through March 31, 2024, and increasing to approximately $2.1 million beginning on June 30, 2024 through the Amended Credit Agreement maturity date. Once repaid or prepaid, the Term Loan may not be re-borrowed.

The First Amendment added additional covenants that begin each fiscal quarter ending on or after April 29, 2025 (the "Financial Covenant Trigger Date"). Before the Financial Covenant Trigger Date, borrowings under the Amended Credit Agreement bear interest at a variable rate based upon the Secured Overnight Financing Rate (the "SOFR") plus a margin of 3.00% to 3.50% per annum depending on the applicable recurring revenue leverage ratio. After the Financial Covenant Trigger Date, borrowings under the Amended Credit Agreement bear interest at a variable rate based upon the SOFR plus a margin of 1.50%, 2.00%, 2.50% or 3.00% per annum depending on the applicable consolidated total leverage ratio. If the SOFR is ever less than 0%, then the SOFR shall be deemed to be 0%. The Amended Credit Agreement is subject to certain liquidity and operating covenants and includes customary representations and warranties, affirmative and negative covenants and events of default. The Company is required to pay a commitment fee of 0.25% per annum on the undrawn portion available under the Revolving Facility and variable fees on outstanding letters of credit. The Company has a standby letter of credit in the amount of $0.3 million, which serves as security under the lease relating to the Company's office space that expires in 2033.

Obligations under the Amended Credit Agreement are guaranteed by the Company's subsidiaries and secured by all or substantially all of the assets of the Company and its subsidiaries pursuant to an Amended and Restated Guarantee and Collateral Agreement.

The Amended Credit Agreement contains customary affirmative and negative covenants. Before the Financial Covenant Trigger Date, the following covenants are applicable: (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 $20.0 million or more. After the Financial Covenant Trigger Date, the existing annual recurring revenue growth and liquidity financial covenants are no longer applicable, and the following covenants take effect: (i) a consolidated total leverage ratio requiring the ratio, as calculated at the last day of such fiscal quarter for the period of 12 consecutive months then ending, to be less than 3.50:1.00; and (ii) a consolidated fixed charge ratio requiring the ratio, for any fiscal quarter ending as calculated at the last day of such fiscal quarter for the period of 12 consecutive months then ending, to be more than 1.25:1.00.

The First Amendment also added, applicable beginning June 30, 2023, a free cash flow covenant requiring, as calculated at the last day of such fiscal quarter for the period of 12 consecutive months then ending, free cash flow to be not less than $(75.0) million for the fiscal quarters ended June 30, 2023 and September 30, 2023, respectively, and $(50.0) million for the fiscal quarter ended December 31, 2023 and each fiscal quarter ending thereafter.

The Amended Credit Agreement also contains customary events of default, which if they occur, could result in the termination of commitments under the Amended 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 March 31, 2024.

On March 26, 2023, the FDIC announced that First-Citizens Bank & Trust Company would assume all of SVB's deposits and loans as of March 27, 2023. This resulted in no impact to the Company's condensed consolidated financial statements or changes to the terms of the Amended Credit Agreement.

**Note 8. Stockholders' Equity**

**Equity Compensation Plans**

Stock-based compensation expense was included in the condensed consolidated statements of operations as follows:

| | Three months ended March 31, | |
|---|---|---|
| *(in thousands)* | **2024** | **2023** |
| Cost of revenues | $ 1,178 | $ 1,146 |
| Research and development | 3,998 | 3,775 |
| Sales and marketing | 2,031 | 1,590 |
| General and administrative | 6,345 | 4,733 |
| Total stock-based compensation expenses | $ 13,552 | $ 11,244 |

**Note 9. Income Taxes**

The Company recorded income tax expense of $0.2 million for both the three months ended March 31, 2024 and 2023, resulting in an effective tax rate of (1.7)% and (1.2)%, respectively.

The Company's effective tax rate for the three months ended March 31, 2024 and March 31, 2023 differs from the statutory tax rate primarily due to the impact of the valuation allowance against its deferred tax assets and state tax expense.

The Company recognizes deferred tax assets and liabilities based on the estimated future tax effects of temporary differences between the financial statement basis and tax basis of assets and liabilities given the provisions of enacted tax law. Management reviews deferred tax assets to assess their future realization by considering all available evidence, both positive and negative, to determine whether a valuation allowance is needed for all or some portion of the deferred tax assets, using a "more likely than not" standard. The assessment considers, among other matters: historical losses, future reversals of taxable temporary differences, the duration of statutory carryback and carryforward periods, and ongoing prudent and feasible tax planning strategies. As a result, the Company has established a valuation allowance against most of its deferred tax assets as realization is not reasonably assured based upon a "more likely than not" threshold. The Company reassesses the realizability of deferred tax assets regularly, and it will adjust the valuation allowance as sufficient objective positive evidence becomes available.

**Note 10. Fair Value of Financial Instruments**

The Company's financial instruments consist primarily of cash, restricted cash and cash equivalents, marketable securities, accounts receivable and accounts payable. 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. Cash equivalents include amounts held in money market accounts that are measured at fair value using observable market prices. Marketable securities include debt securities that are measured at fair value using observable inputs.

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 tables summarize the Company's financial assets measured at fair value as of March 31, 2024 and December 31, 2023 and indicate the fair value hierarchy of the valuation:

| | | Fair Value at Reporting Date Using | | |
|---|---|---|---|---|
| *(in thousands)* | **March 31, 2024** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | |
| Cash equivalents[1] | $ 37,235 | $ 37,235 | $ — | $ — |
| **Marketable securities:** | | | | |
| Corporate bonds | 11,656 | — | 11,656 | — |
| Commercial paper | 6,978 | — | 6,978 | — |
| U.S. Treasury debt securities | 22,325 | 22,325 | — | — |
| International debt securities | 2,166 | — | 2,166 | — |
| Total marketable securities | 43,125 | 22,325 | 20,800 | — |
| Total Assets | $ 80,360 | $ 59,560 | $ 20,800 | $ — |

[1] Includes insured cash sweep account, cash sweep account, money market account and money market funds that have investments primarily in U.S. Government Agency debt, U.S. Treasury debt, U.S. Treasury Repurchase Agreements, U.S. Government Agency Repurchase Agreements, and corporate bonds that have a maturity of three months or less from the original acquisition date.

| | | Fair Value at Reporting Date Using | | |
|---|---|---|---|---|
| *(in thousands)* | **December 31, 2023** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | |
| Cash equivalents[1] | $ 34,463 | $ 34,463 | $ — | $ — |
| **Marketable securities:** | | | | |
| Corporate bonds | 16,206 | — | 16,206 | — |
| Commercial paper | 7,279 | — | 7,279 | — |
| U.S. government-sponsored enterprise securities | 3,500 | — | 3,500 | — |
| U.S. Treasury debt securities | 22,067 | 22,067 | — | — |
| International debt securities | 2,144 | — | 2,144 | — |
| Total marketable securities | 51,196 | 22,067 | 29,129 | — |
| Total Assets | $ 85,659 | $ 56,530 | $ 29,129 | $ — |

[1] Includes insured cash sweep account, cash sweep account, money market account and money market funds that have investments primarily in U.S. Government Agency debt, U.S. Treasury debt, U.S. Treasury Repurchase Agreements, U.S. Government Agency Repurchase Agreements and corporate bonds that have a maturity of three months or less from the original acquisition date.

**Note 11. Earnings Per Share**

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 months ended March 31, 2024 and 2023, 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 anti-dilutive if included in the calculation.

The computation of basic and diluted net loss per share attributable to common stockholders is as follows for the three months ended March 31, 2024 and 2023:

| *(in thousands, except shares and per share amounts)* | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Net loss | $ (11,433) | $ (16,963) |
| Weighted-average shares of common stock outstanding - basic and diluted | 96,945,232 | 92,397,341 |
| Net loss per common share - basic and diluted | $ (0.12) | $ (0.18) |

For the three months ended March 31, 2024 and 2023, the following potential shares of common stock were excluded from diluted EPS as the Company had a net loss in each of the periods presented:

| | As of March 31, 2024 | As of March 31, 2023 |
|---|---|---|
| Stock options | 3,589,090 | 5,781,937 |
| RSUs[1] | 8,198,201 | 9,535,540 |
| ESPP | 103,610 | 190,971 |
| Total anti-dilutive common share equivalents | 11,890,901 | 15,508,448 |

[1] Revised to reflect an immaterial correction to a previously reported amount.

**Note 12. Commitments and Contingencies**

***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 during 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 our 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 13. Leases**

The Company leases office space under non-cancellable operating leases for its corporate headquarters in Plano, Texas pursuant to a ten-year lease agreement under which the Company leases approximately 125,468 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. Renewal options were not included in the right-of-use ("ROU") asset and lease liability calculation.

On September 5, 2023, the Company entered into an amendment to its office lease, which, among other things, reduces the leased space in Plano, Texas from approximately 125,468 square feet to 83,939 square feet, effective December 31, 2023, and also extends the term for the remaining reduced leased space to August 31, 2033. The Company determined that the amendment would be treated as a lease modification. The modification resulted in a remeasurement of the operating lease ROU asset and lease liability, and the effect was an increase to the ROU asset and lease liability of $3.1 million and $2.7 million, respectively, as of December 31, 2023. In addition, the Company recorded a gain on lease modification of $0.4 million during the three months ended December 31, 2023, which was included in general and administrative expenses in the consolidated statements of operations.

Operating lease expense consisted of:

| *(in thousands)* | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Operating lease expense | $ 669 | $ 784 |
| Short-term lease expense and other [1] | 303 | 318 |
| Total lease expense | $ 972 | $ 1,102 |

[1] Other lease expense includes variable lease expense and sublease income.

**Supplemental Cash Flow Information**

| *Cash flow information (in thousands)* | Three months ended March 31, 2024 | 2023 |
|---|---|---|
| Cash paid for operating lease liabilities | $ 662 | $ 938 |

The future maturities of operating lease liabilities are as follows:

| *(in thousands)* | March 31, 2024 |
|---|---|
| 2024 (nine months remaining) | $ 2,003 |
| 2025 | 2,707 |
| 2026 | 2,648 |
| 2027 | 2,620 |
| 2028 | 2,777 |
| Thereafter | 14,981 |
| Total minimum lease payments | 27,736 |
| Less: present value discount | (8,429) |
| Total lease liability balance | $ 19,307 |

**Note 14. 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 performs an annual goodwill impairment test in the fourth quarter of the fiscal year. There were no indications of impairment of goodwill noted as of March 31, 2024. Goodwill had a carrying value of $148.1 million as of both March 31, 2024 and December 31, 2023.

Total intangibles, net, consisted of the following as of March 31, 2024 and December 31, 2023:

| | As of March 31, 2024 | | |
|---|---|---|---|
| *(in thousands)* | Carrying Value | Accumulated Amortization | Net Carrying Value |
| Finite-lived: | | | |
| Customer Relationships | $ 20,470 | $ (3,161) | $ 17,309 |
| Developed Technology | 27,700 | (11,489) | 16,211 |
| Tradenames | 750 | (184) | 566 |
| Subtotal amortizable intangible assets | 48,920 | (14,834) | 34,086 |
| Website domain name | 25 | — | 25 |
| Total intangible assets | $ 48,945 | $ (14,834) | $ 34,111 |

| | As of December 31, 2023 | | |
|---|---|---|---|
| *(in thousands)* | Carrying Value | Accumulated Amortization | Net Carrying Value |
| Finite-lived: | | | |
| Customer Relationships | $ 20,470 | $ (2,820) | $ 17,650 |
| Developed Technology | 27,700 | (10,151) | 17,549 |
| Tradenames | 750 | (167) | 583 |
| Subtotal amortizable intangible assets | 48,920 | (13,138) | 35,782 |
| Website domain name | 25 | — | 25 |
| Total intangible assets | $ 48,945 | $ (13,138) | $ 35,807 |

Amortization expense recognized on intangible assets was $1.7 million for both the three months ended March 31, 2024 and 2023.

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

| | | |
|---|---|---|
| 2024 (remaining nine months) | $ | 5,090 |
| 2025 | | 6,786 |
| 2026 | | 6,554 |
| 2027 | | 3,162 |
| 2028 | | 1,435 |
| Thereafter | | 11,059 |
| | $ | 34,086 |

**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 in our other filings with the Securities and Exchange Commission ("SEC"), including the audited consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2023, which are included in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 29, 2024.*

*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 subsidiaries 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 "anticipates," "expects," "suggests," "plans," "believes," "intends," "estimates," "targets," "projects," "seeks," "should," "can," "could," "would," "may," "will," "forecasts" "strategy," "future," "likely" or the negative of these terms or 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 Annual Report on Form 10-K, may materially affect such forward-looking statements:

- managing our rapid growth;
- attracting new clients and retaining and broadening our existing clients' use of our solutions;
- maintaining, protecting and enhancing our brand;
- predicting the long-term rate of client subscription renewals or adoption of our solutions;
- the unpredictable and time-consuming nature of our sales cycles;
- integration with and reliance on third-party software, content and services;
- integrating our solutions with other systems used by our clients;
- satisfying our clients and meeting their digital banking needs;
- our dependence on the data centers operated by third parties and third-party internet hosting providers;
- defects, errors or performance problems associated with our solutions;
- retaining our management team and key employees and recruiting and retaining new employees;
- managing the increased complexity of our clients' integration and functionality requirements;
- shifts in the number of account holders and registered users of our solutions, their use of our solutions and our clients' implementation and client support needs;
- acquiring or investing in other companies or pursuing business partnerships;
- natural or man-made disasters;
- cybersecurity breaches or other compromises of our security measures or those of third parties upon which we rely;
- privacy and data security concerns, laws, regulations and standards and our processing and use of the PI of end users;
- intense competition in the markets we serve;
- reliance on the financial services industry as the source of our revenue in the event of any downturn, consolidation or decrease in technological spend in such industry;
- evolving technological requirements and changes and additions to our solution offerings;
- the political, economic and competitive conditions in the markets and jurisdictions where we operate;
- regulations and laws applicable to us, our clients and our solutions;
- protecting our intellectual property rights and defending ourselves against claims that we are misappropriating the intellectual property rights of others;
- using open-source software in our solutions or risks resulting in the disclosure our proprietary source code to our clients;
- complying with license or technology agreements with third parties and our ability to enter into additional license or technology agreements on reasonable terms;
- litigation or threats of litigation;
- the fluctuation of our quarterly and annual results of operations relative to our expectations and guidance;
- the way we recognize revenue, which has the effect of delaying changes in the subscriptions for our solutions from being reflected in our operating results;
- our limited operating history, our history of operating losses and our ability to use our net operating loss ("NOL") carryforwards;
- our ability to raise sufficient capital and the resulting dilution and the terms of our Amended Credit Agreement (as defined below);
- our status as an emerging growth company;
- future sales of shares of our common stock, our lack of an intention to pay dividends and significant influence of our principal stockholders; and
- anti-takeover and exclusive forum provisions in our governing documents.

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 Digital Banking 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. In April 2022, we acquired Segmint, a leading cloud-based financial data analytics and transaction data cleansing provider.

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 Digital Banking Platform include:

- ***User experience:*** Personalized and seamless digital experience across user interaction points, including desktop, mobile, chat and SMS, establishing durable connections between FIs and their customers.

- ***Integrations***: Scalability and extensibility driven by more than 300 real-time integrations to back-office systems and third-party fintech solutions as of March 31, 2024, 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 Digital Banking 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, marketing, data insights, card experience, money movement, customer service, commercial banking, financial wellness, security and fraud protection and extensibility.

We primarily go to market through an internal sales force. Given the long-term nature of our Alkami Digital Banking Platform 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 Alkami Digital Banking Platform revenues almost entirely from multi-year contracts that are based on an average contract life of approximately 70 months as of March 31, 2024. We predominantly employ a per-registered-user pricing model, with incremental fees above certain contractual client minimum commitments for each licensed solution. In these cases, 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 March 31, 2024 and 2023, our total revenues were $76.1 million and $60.0 million, respectively, representing a growth rate of 26.9% period-over-period. SaaS subscription revenues, as further described below, represented 95.9% of total revenues for both the three months ended March 31, 2024 and 2023. We incurred net losses of $11.4 million and $17.0 million for the three months ended March 31, 2024 and 2023, respectively, largely on the basis of significant continued investment in sales, marketing, product development and post-sales client activities.

**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 March 31, 2024, we served 244 FIs through the Alkami Digital Banking Platform and over 650 clients when including unique clients only subscribing to one or a combination of ACH Alert, MK or Segmint products. 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 300 integrations as of March 31, 2024 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 Revenue per Registered User ("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 6 client renewals for the three months ended March 31, 2024. 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. 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 sets. We remain committed to investing in our platform, notably through our research and development spend, which was 30.0% and 34.3% of our revenues for the three months ended March 31, 2024 and 2023, respectively. Our future success will depend on our continued leadership in innovation.

**Components of Results of Operations**

***Revenues***

Our client relationships are predominantly based on multi-year contracts for the Alkami Digital Banking Platform that have had an average contract life of approximately 70 months as of March 31, 2024. We derive the majority of our revenues from SaaS subscription services charged for the use of our digital banking solution. Subscription services are recognized over time on a ratable basis over the client agreement term beginning on the date our solution is made available to our client. The promised consideration may include fixed or variable amounts. For our clients with enterprise license contracts, they are invoiced on an agreed upon monthly rate throughout the contract term which may include fixed monthly or annual rate escalations. Fixed dollar or percentage escalations that are not based on registered users are considered part of the fixed transaction price and recognized on a straight line basis over the SaaS subscription period evenly. The majority of our client contracts are based on registered users, which 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 client 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 requests 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 months ended March 31, 2024 and 2023 by major source:

| | Three months ended March 31, | |
|---|---|---|
| *(in thousands)* | **2024** | **2023** |
| SaaS subscription services | $ 73,012 | $ 57,519 |
| Implementation services | 1,848 | 1,670 |
| Other services | 1,267 | 807 |
| Total revenues | $ 76,127 | $ 59,996 |

See Note 4 of the Notes to the 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 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 services 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 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 months ended March 31, 2024 and 2023 was 57.8% and 53.6%, respectively.

The major components of cost of revenues represented the following percentages of revenues for the three months ended March 31, 2024: third-party hosting services (6.4%), the direct costs of bill-pay and other third-party intellectual property included in our solutions (18.5%), our implementation and client support teams (9.5%), our development team responsible for maintaining and releasing updates to our platform (3.9%), amortization (2.3%), and stock-based compensation (1.6%).

The major components of cost of revenues represented the following percentages of revenues for the three months ended March 31, 2023: third-party hosting services (7.6%), the direct costs of bill-pay and other third-party intellectual property included in our solutions (17.5%), our implementation and client support teams (13.5%), our development team responsible for maintaining and releasing updates to our platform (3.2%), amortization (2.6%), stock-based compensation (1.9%), and depreciation (0.1%).

***Operating Expenses***

***Research and Development.*** Research and development costs consist primarily of personnel-related costs for our engineering, information technology and product employees, including salaries, bonuses, 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 Digital Banking Platform.

***Sales and Marketing.*** Sales and marketing expenses consist primarily of personnel-related costs of our sales, marketing and our client success 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 and other event expenses. 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 executive, finance, legal, human resources, information technology, security and compliance and other administrative employees, including salaries, bonuses, commissions, other incentive-related compensation, employee benefits and stock-based compensation. 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.

***Acquisition-Related Expenses.*** Acquisition-related expenses are primarily related to legal, consulting and professional fees.

***Amortization of Acquired Intangibles.*** Amortization of acquired intangibles represents the amortization of intangible assets recorded in connection with our business acquisitions, which are amortized on a straight-line basis over the estimated useful lives of the related assets.

***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, unrealized gains or losses on marketable securities, realized gains on sales of marketable securities, and changes in fair value of warrants and tranche rights.

***Provision for Income Taxes***

Our effective tax rate differs from the statutory tax rate primarily due to the impact of the valuation allowance against our deferred tax assets and state tax expense. As a result of our valuation allowance, provision for income taxes consists primarily of state income taxes and deferred taxes related to the tax amortization of acquired goodwill.

**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 consolidated statements of operations data for the three months ended March 31, 2024 and 2023.

| | Three months ended March 31, | |
|---|---|---|
| *(in thousands)* | **2024** | **2023** |
| Revenues | $ 76,127 | $ 59,996 |
| Cost of revenues [1] [2] | 32,095 | 27,858 |
| Gross profit | 44,032 | 32,138 |
| Operating expenses [2]: | | |
| Research and development | 22,820 | 20,549 |
| Sales and marketing | 13,843 | 10,878 |
| General and administrative | 19,315 | 17,111 |
| Acquisition-related expenses | 60 | 186 |
| Amortization of acquired intangibles | 359 | 360 |
| Total operating expenses | 56,397 | 49,084 |
| Loss from operations | (12,365) | (16,946) |
| Non-operating income (expense): | | |
| Interest income | 1,082 | 1,726 |
| Interest expense | (73) | (1,757) |
| Gain on financial instruments | 112 | 210 |
| Loss before income taxes | (11,244) | (16,767) |
| Provision for income taxes | 189 | 196 |
| Net loss | $ (11,433) | $ (16,963) |

[1] Includes amortization of acquired technology of $1.3 million for both the three months ended March 31, 2024 and 2023.

[2] Includes stock-based compensation expenses as follows:

| | Three months ended March 31, | |
|---|---|---|
| *(in thousands)* | **2024** | **2023** |
| Cost of revenues | $ 1,178 | $ 1,146 |
| Research and development | 3,998 | 3,775 |
| Sales and marketing | 2,031 | 1,590 |
| General and administrative | 6,345 | 4,733 |
| Total stock-based compensation expenses | $ 13,552 | $ 11,244 |

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

| *(in thousands)* | Three months ended March 31, 2024 | 2023 |
|---|---|---|
| Net loss | $ (11,433) | $ (16,963) |
| Provision for income taxes | 189 | 196 |
| Gain on financial instruments | (112) | (210) |
| Interest (income) expense, net | (1,009) | 31 |
| Depreciation and amortization | 2,562 | 2,586 |
| Stock-based compensation expense | 13,552 | 11,244 |
| Acquisition-related expenses | 60 | 186 |
| Adjusted EBITDA [1] | $ 3,809 | $ (2,930) |

[1] 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 on financial instruments; interest (income) expense, net; depreciation and amortization; stock-based compensation expense; and acquisition-related expenses. 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 $3.8 million and $(2.9) million for the three months ended March 31, 2024 and 2023, 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 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 $302.7 million as of March 31, 2024 and $240.1 million as of March 31, 2023, an increase of $62.6 million, or 26.1%.

***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 18.1 million registered users as of March 31, 2024 and 15.1 million as of March 31, 2023, an increase of 3.0 million, or 19.8%.

***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 $16.71 as of March 31, 2024 and $15.88 as of March 31, 2023, an increase of $0.83, or 5.2%.

***Comparison of Three Months ended March 31, 2024 and 2023***

***Revenues***

| *($ in thousands)* | Three months ended March 31, 2024 | 2023 | Change $ | Change % |
|---|---|---|---|---|
| Revenues | $ 76,127 | $ 59,996 | $ 16,131 | 26.9 % |

| | March 31, 2024 | 2023 | | |
|---|---|---|---|---|
| Annual Recurring Revenue (ARR) | $ 302,659 | $ 240,050 | $ 62,609 | 26.1 % |
| Registered Users | 18,113 | 15,119 | 2,994 | 19.8 % |
| Revenue per Registered User (RPU) | $ 16.71 | $ 15.88 | $ 0.83 | 5.2 % |

Revenues increased $16.1 million, or 26.9% for the three months ended March 31, 2024, compared to the same period in 2023. The increase of $16.1 million in revenues for the three months ended March 31, 2024 was primarily due to registered user growth of 3.0 million when compared to March 31, 2023, comprised of 1.5 million in registered user growth from existing clients and 1.5 million in registered users from new clients implemented through our digital banking platform (contractual minimums). In addition, increased revenues were due to RPU growth of 5.2% when compared to March 31, 2023. RPU growth was primarily driven by cross-sell activity to existing clients and higher average RPU of new clients implemented on our digital banking platform compared to aggregate RPU. The average RPU of users from new clients implemented on our digital platform in the last 12 months of $19.33 as of March 31, 2024, is 15.7% higher than the aggregate RPU as of March 31, 2024.

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

| *($ in thousands)* | Three months ended March 31, 2024 | 2023 | Change $ | Change % |
|---|---|---|---|---|
| Cost of revenues | $ 32,095 | $ 27,858 | $ 4,237 | 15.2 % |
| Percentage of revenues | 42.2 % | 46.4 % | (4.2)% | (9.1)% |

***Cost of Revenues***

Cost of revenues increased $4.2 million, or 15.2%, for the three months ended March 31, 2024 compared to the same period in 2023. Our revenue growth outpaced our cost of revenues growth, leading to an improved gross margin of 57.8% for the three months ended March 31, 2024, compared to a gross margin of 53.6% for the same period in 2023.

The increase in cost of revenues for the three months ended March 31, 2024 was primarily driven by $3.5 million in higher costs of our third-party partners where we resell their solutions as part of the digital platform, a $0.3 million increase in hosting costs and $0.4 million in higher various other costs.

***Operating Expenses***

| *($ in thousands)* | Three months ended March 31, 2024 | 2023 | Change $ | Change % |
|---|---|---|---|---|
| Research and development | $ 22,820 | $ 20,549 | $ 2,271 | 11.1 % |
| Sales and marketing | 13,843 | 10,878 | 2,965 | 27.3 % |
| General and administrative | 19,315 | 17,111 | 2,204 | 12.9 % |
| Acquisition-related expenses | 60 | 186 | (126) | (67.7)% |
| Amortization of acquired intangibles | 359 | 360 | (1) | (0.3)% |
| Total operating expenses | $ 56,397 | $ 49,084 | $ 7,313 | 14.9 % |
| Percentage of revenues | 74.1 % | 81.8 % | | |

***Research and Development***

Research and development expenses increased $2.3 million, or 11.1%, for the three months ended March 31, 2024, compared to the same period in 2023. For the three months ended March 31, 2024, the increase was primarily due to a $1.2 million higher costs for consulting and an $0.8 million increase in personnel-related costs (which includes stock-based compensation of $0.2 million), resulting from headcount growth in our engineering, information technology and product teams dedicated to platform enhancements and innovation. In addition, we incurred $0.1 million higher costs for hosting and $0.2 million of higher various other costs.

***Sales and Marketing***

Sales and marketing expenses increased $3.0 million, or 27.3% for the three months ended March 31, 2024, compared to the same periods in 2023. For the three months ended March 31, 2024, the increase was primarily due to a $1.8 million increase in personnel-related costs (which includes stock-based compensation of $0.4 million), resulting from headcount growth in our sales and marketing teams. In addition, we incurred $0.6 million of higher costs for consulting, $0.4 million of higher travel costs for the sales team, and $0.2 million of higher various other costs.

***General and Administrative***

General and administrative expenses increased by $2.2 million, or 12.9% for the three months ended March 31, 2024, compared to the same periods in 2023. For the three months ended March 31, 2024, the increase was primarily due to a $1.6 million increase in stock-based compensation, $0.7 million of higher audit and consulting costs, $0.3 million of higher software costs and $0.2 million of higher various other costs, partially offset by a decrease of $0.2 million in personnel-related costs (exclusive of stock-based compensation), $0.2 million of lower facilities costs and $0.2 million of lower insurance costs.

***Acquisition-Related Expenses***

Acquisition-related expenses, decreased $0.1 million for the three months ended March 31, 2024, compared to the same period in 2023. For the three months ended March 31, 2024, we incurred $0.1 million of acquisition-related expenses. For the three months ended March 31, 2023, we incurred $0.2 million of acquisition-related expenses related to legal, consulting and professional fees for the acquisition of Segmint.

***Amortization of Acquired Intangibles***

Amortization of acquired intangibles was $0.4 million for both the three months ended March 31, 2024 and 2023.

***Non-Operating Income (Expense), Net***

Non-operating income increased $0.9 million for the three months ended March 31, 2024, compared to the same period in 2023. For the three months ended March 31, 2024, the increase was primarily due to an increase in net interest income of $1.0 million, partially offset by a decrease of $0.1 million in gain on financial instruments related to marketable securities.

***Provision for Income Taxes***

The Company recorded income tax expense of $0.2 million for both the three months ended March 31, 2024 and 2023, resulting in an effective tax rate of (1.7)% and (1.2)%, respectively.

Our effective tax rate for the three months ended March 31, 2024 and March 31, 2023 differs from the statutory tax rate primarily due to the impact of the valuation allowance against its deferred tax assets and state tax expense.

**Liquidity and Capital Resources**

As of March 31, 2024, we had $87.3 million in cash and cash equivalents and marketable securities, and an accumulated deficit of $446.8 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 cash generated from the sale of SaaS subscription services. 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 Amended 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 the short term (at least the next 12 months) and longer term (beyond 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)* | Three months ended March 31, 2024 | 2023 |
|---|---|---|
| Net cash provided by (used in) operating activities | $ 951 | $ (9,615) |
| Net cash provided by investing activities | $ 6,808 | $ 15,765 |
| Net cash used in financing activities | $ (4,507) | $ (568) |

***Net Cash Provided by (Used in) Operating Activities***

During the three months ended March 31, 2024, net cash provided by operating activities was $1.0 million, which consisted of a net loss of $11.4 million, adjusted by non-cash charges of $15.8 million and net cash outflows from the change in net operating assets and liabilities of $3.4 million. The non-cash charges were primarily comprised of depreciation and amortization expense of $2.6 million and stock-based compensation expense of $13.6 million, partially offset by accrued interest on marketable securities, net of $0.3 million and a gain on financial instruments of $0.1 million. The net cash outflows from the change in our net operating assets and liabilities were primarily due to a $0.2 million increase in accounts receivable, a $1.6 million increase in prepaid expenses and other current assets, a decrease in accounts payable and accrued liabilities of $3.9 million and an increase in deferred costs of $1.3 million, partially offset by an increase of $3.7 million in deferred revenues.

During the three months ended March 31, 2023, net cash used in operating activities was $9.6 million, which consisted of a net loss of $17.0 million, adjusted by non-cash charges of $13.5 million and net cash outflows from the change in net operating assets and liabilities of $6.2 million. The non-cash charges were primarily comprised of depreciation and amortization expense of $2.6 million and stock-based compensation expense of $11.4 million, partially offset by net other changes in non-cash charges of $0.5 million. The net cash outflows from the change in our net operating assets and liabilities were primarily due to a $2.2 million increase in accounts receivable, a $2.7 million increase in prepaid expenses and other current assets, a $1.3 million decrease in accounts payable and accrued liabilities and a $0.9 million increase in deferred costs, partially offset by a $0.8 million increase in deferred revenues.

***Net Cash Provided by Investing Activities***

During the three months ended March 31, 2024, net cash provided by investing activities was $6.8 million, primarily consisting of $15.6 million in proceeds from maturities and redemptions of marketable securities, partially offset by $7.1 million in purchases of marketable securities, $1.4 million related to capitalized software development costs and $0.3 million related to capital expenditures related to updates for computer and other equipment.

During the three months ended March 31, 2023, net cash provided by investing activities was $15.8 million, primarily consisting of $38.1 million in proceeds from maturities and redemption of marketable securities, partially offset by $21.0 million for the purchase of marketable securities, $1.1 million related to capitalized software development costs and capital expenditures related to updates for computer and other equipment of $0.2 million.

***Net Cash Used in Financing Activities***

For the three months ended March 31, 2024, net cash used in financing activities was $4.5 million, which was primarily due to payments for taxes related to net settlement of equity awards of $5.7 million, partially offset by proceeds of $1.2 million from the exercise of stock options to purchase 0.3 million shares of our common stock.

For the three months ended March 31, 2023, net cash used in financing activities was $0.6 million, which was primarily due to payments for taxes related to net settlement of equity awards of $2.0 million, partially offset by proceeds of $1.4 million from the exercise of stock options to purchase 0.5 million shares of our common stock.

***Amended Credit Agreement***

On June 27, 2023, the Company entered into a First Amendment (the "First Amendment") to the Company's Amended and Restated Credit Agreement dated as of April 29, 2022 (as amended by the First Amendment, the "Amended Credit Agreement"), with Silicon Valley Bank ("SVB"), Comerica Bank and Canadian Imperial Bank of Commerce. The First Amendment provided for Citibank, N.A. to join as a new lender, increased the amount of the Revolving Facility (as defined below) commitment by $20.0 million and extended the maturity date of the Amended Credit Agreement to April 29, 2026, as well as other changes discussed below. The Amended Credit Agreement, inclusive of changes established by the First Amendment, includes the following, among other features:

- *Revolving Facility:* The Amended Credit Agreement provides $60.0 million in aggregate commitments for secured revolving loans ("Revolving Facility"), of which there were no outstanding borrowings as of March 31, 2024.
- *Term Loan:* A term loan of $85.0 million (the "Term Loan") was borrowed on April 29, 2022, the proceeds of which were used to replenish cash used to fund the acquisition of Segmint, which closed on April 25, 2022. On December 29, 2023, the Company paid the remaining outstanding principal balance of its term loan of $82.9 million.
- *Accordion Feature:* The Amended Credit Agreement also permits the Company, subject to certain conditions, to request additional revolving loan commitments in an aggregate principal amount of up to $50.0 million, of which there were no outstanding borrowings as of March 31, 2024.

Revolving Facility loans under the Amended 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 $1.1 million, beginning on June 30, 2023 and continuing through March 31, 2024, and increasing to approximately $2.1 million beginning on June 30, 2024 through the Amended Credit Agreement maturity date. Once repaid or prepaid, the Term Loan may not be re-borrowed.

The First Amendment added additional covenants that begin each fiscal quarter ending on or after April 29, 2025 (the "Financial Covenant Trigger Date"). Before the Financial Covenant Trigger Date, borrowings under the Amended Credit Agreement bear interest at a variable rate based upon the Secured Overnight Financing Rate (the "SOFR") plus a margin of 3.00% to 3.50% per annum depending on the applicable recurring revenue leverage ratio. After the Financial Covenant Trigger Date, borrowings under the Amended Credit Agreement bear interest at a variable rate based upon the SOFR plus a margin of 1.50%, 2.00%, 2.50% or 3.00% per annum depending on the applicable consolidated total leverage ratio. If the SOFR is ever less than 0%, then the SOFR shall be deemed to be 0%. The Amended Credit Agreement is subject to certain liquidity and operating covenants and includes customary representations and warranties, affirmative and negative covenants and events of default. The Company is required to pay a commitment fee of 0.25% per annum on the undrawn portion available under the Revolving Facility and variable fees on outstanding letters of credit. The Company has a standby letter of credit in the amount of $0.3 million, which serves as security under the lease relating to the Company's office space that expires in 2033.

Obligations under the Amended Credit Agreement are guaranteed by the Company's subsidiaries and secured by all or substantially all of the assets of the Company and its subsidiaries pursuant to an Amended and Restated Guarantee and Collateral Agreement.

The Amended Credit Agreement contains customary affirmative and negative covenants. Before the Financial Covenant Trigger Date, the following covenants are applicable: (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 $20.0 million or more. After the Financial Covenant Trigger Date, the existing annual recurring revenue growth and liquidity financial covenants are no longer applicable, and the following covenants take effect: (i) a consolidated total leverage ratio requiring the ratio, as calculated at the last day of such fiscal quarter for the period of 12 consecutive months then ending, to be less than 3.50:1.00; and (ii) a consolidated fixed charge ratio requiring the ratio, for any fiscal quarter ending as calculated at the last day of such fiscal quarter for the period of 12 consecutive months then ending, to be more than 1.25:1.00.

The First Amendment also added, applicable beginning June 30, 2023, a free cash flow covenant requiring, as calculated at the last day of such fiscal quarter for the period of 12 consecutive months then ending, free cash flow to be not less than $(75.0) million for the fiscal quarters ended June 30, 2023 and September 30, 2023, respectively, and $(50.0) million for the fiscal quarter ended December 31, 2023 and each fiscal quarter ending thereafter.

The Amended Credit Agreement also contains customary events of default, which if they occur, could result in the termination of commitments under the Amended 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 March 31, 2024.

On March 26, 2023, the FDIC announced that First-Citizens Bank & Trust Company would assume all of SVB's deposits and loans as of March 27, 2023. This resulted in no impact to the Company's condensed consolidated financial statements or changes to the terms of the Amended Credit Agreement.

Total interest expense, including commitment fees and unused line fees, for the three months ended March 31, 2024 and 2023 was $0.1 million and $1.8 million, respectively. In conjunction with closing the Amended Credit Agreement in 2022 and the First Amendment in 2023, we incurred issuance costs of $0.8 million and $0.3 million, which were deferred and were scheduled to be amortized over the remaining term of the agreement. Unamortized debt issuance costs totaled $0.3 million as of both March 31, 2024 and December 31, 2023. Amortization expense was less than $0.1 million and $0.1 million for the three months ended March 31, 2024 and 2023, respectively.

**Contractual Obligations and Commitments**

There were no material changes to our contractual obligations and commitments as of March 31, 2024, compared to those discussed as of December 31, 2023 in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 29, 2024.

**Off-Balance Sheet Arrangements**

During the period presented, we did not have, 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**

In preparing our unaudited condensed consolidated financial statements in conformity with GAAP, we must make decisions that impact the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the condensed consolidated financial statements are prepared.

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 our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 29, 2024.

**Recently Issued Accounting Pronouncements**

See Note 2 of the Notes to the 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 (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 that 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 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 Amended 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 Amended Credit Agreement are fully drawn, a hypothetical 10% change in interest rates would not have a material impact on our consolidated financial statements. Our cash, cash equivalents and restricted cash consist primarily of interest-bearing accounts. Such interest-earning instruments carry a degree of interest rate risk. To minimize interest rate risk in the future, we intend to maintain our portfolio of cash equivalents in a variety of investment-grade securities, which may include commercial paper, money market funds and government and non-government debt securities. Because of the short-term maturities of our cash, cash equivalents, restricted cash and marketable securities, we do not believe that an increase in market rates would have any significant negative impact on the realized value of our investments.

**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 March 31, 2024, 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 March 31, 2024, 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 our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 29, 2024.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

On March 11, 2024, W. Bryan Hill, our Chief Financial Officer, adopted a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. Subject to certain conditions, the trading plan provides for the sale of up to 600,000 shares of our common stock (less shares withheld by the Company for the payment of taxes) through January 17, 2025, for a duration of 312 days.

**Item 6. Exhibits**

**EXHIBIT INDEX**

| Exhibit | Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 | | | | |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 | | | | |
| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 | | | | |
| 32.2* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 | | | | |
| 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) | | | | |

* 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 of 1933, as amended, 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.

Alkami Technology, Inc.

Date: May 2, 2024

By: /s/ Alex Shootman
Alex Shootman
Chief Executive Officer
(Principal Executive Officer)

Date: May 2, 2024

By: /s/ W. Bryan Hill
W. Bryan Hill
Chief Financial Officer
(Principal Financial Officer)