UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

OR

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

For the transition period from to

Commission File Number: 001-39413

VERTEX, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**23-2081753** **(I.R.S. Employer Identification No.)**
2301 Renaissance Blvd **King of Prussia, Pennsylvania** **(Address of principal executive offices)**	**19406** **(Zip Code)**

Registrant's telephone number, including area code: (800) 355-3500

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

Title of each class	Trading symbol	Name of each exchange on which registered
Class A Common Stock, Par Value $0.001 Per Share	**VERX**	**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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

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

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

As of August 9, 2021, the registrant had 39,963,083 shares of Class A common stock, $0.001 par value per share, and 108,017,000 shares of Class B common stock, $0.001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements made in this Quarterly Report on Form 10-Q that are not statements of historical fact, including statements about our beliefs and expectations and regarding future events or our future results of operations, financial condition, business, strategies, financial needs, and the plans and objectives of management, are forward-looking statements and should be evaluated as such. These statements often include words such as "anticipate," "believe," "expect," "suggests," "plans," "intend," "estimates," "targets," "projects," "should," "could," "would," "may," "will," "forecast," and other similar expressions or the negatives of those terms. 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. As you read and consider this Quarterly Report on Form 10-Q, you should understand that these statements are not guarantees of future performance or results. The forward-looking statements are subject to and involve risks, uncertainties and assumptions, and you should not place undue reliance on these forward-looking statements. 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. Important factors that may materially affect such forward-looking statements include, but are not limited to:

- the potential effects on our business of the coronavirus disease 2019 ("COVID-19") pandemic;
- our ability to attract new customers on a cost-effective basis and the extent to which existing customers renew and upgrade their subscriptions;
- our ability to sustain and expand revenues, maintain profitability, and to effectively manage our anticipated growth;
- the timing of our introduction of new solutions or updates to existing solutions;
- our ability to successfully diversify our solutions by developing or introducing new solutions or acquiring and integrating additional businesses, products, services or content;
- our ability to maintain and expand our strategic relationships with third parties;
- risks related to our expanding international operations;
- our ability to deliver our solutions to customers without disruption or delay;
- our exposure to liability from errors, delays, fraud or system failures, which may not be covered by insurance;
- risks related to our determinations of customers' transaction tax and tax payments;
- risks related to changes in tax laws and regulations or their interpretation or enforcement;
- our ability to manage cybersecurity and data privacy risks;
- risks related to failures in information technology, infrastructure and third-party service providers;
- our ability to effectively protect, maintain and enhance our brand;
- global economic weakness and uncertainties, and disruption in the capital and credit markets;
- business disruptions related to natural disasters, epidemic outbreaks, terrorist acts, political events or other events outside of our control;
- our ability to comply with anti-corruption, anti-bribery and similar laws;
- changes in interest rates, security ratings and market perceptions of the industry in which we operate, or our ability to obtain capital on commercially reasonable terms or at all;
- any statements of belief and any statements of assumptions underlying any of the foregoing; and
- other factors beyond our control.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in our Annual Report on Form 10-K for the year ended December 31, 2020 and in other sections of this Quarterly Report on Form 10-Q, including under Part II, Item 1A, Risk Factors. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for us to identify all such risk factors, nor can we assess the impact of all such risk factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on our forward-looking statements, and you should not rely on forward-looking statements as predictions of future events. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements. The forward-looking statements made in this Quarterly Report on Form 10-Q speak only as of the date of this report. We undertake no obligation to update any forward-looking statements made in this report to reflect events or circumstances after the date of this report or to reflect new information or the occurrence of unanticipated events, except as required by law. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Vertex, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
As of June 30, 2021 and December 31, 2020
(Amounts in thousands, except per share data)

	June 30, 2021 (unaudited)	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 101,593	$ 303,051
Funds held for customers	31,060	9,222
Accounts receivable, net of allowance of $9,399, and $8,592, respectively	73,130	77,159
Prepaid expenses and other current assets	17,593	13,259
Total current assets	223,376	402,691
Property and equipment, net of accumulated depreciation	61,611	56,557
Capitalized software, net of accumulated amortization	34,364	31,989
Goodwill and other intangible assets	220,818	18,711
Deferred commissions	11,545	11,743
Deferred income tax asset	32,573	29,974
Operating lease right-of-use assets	22,156	—
Other assets	3,086	3,263
Total assets	$ 609,529	$ 554,928
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 11,694	$ 8,876
Accrued expenses	19,974	19,176
Distributions payable	—	2,700
Customer funds obligations	31,462	9,235
Accrued salaries and benefits	22,994	17,326
Accrued and deferred compensation, current	15,648	24,429
Deferred revenue	210,587	207,560
Current portion of long-term debt	—	882
Current portion of operating lease liabilities	3,641	—
Current portion of finance lease liabilities	271	—
Deferred rent and other	—	939
Purchase commitment and contingent consideration liabilities, current	10,458	845
Total current liabilities	326,729	291,968
Deferred compensation, net of current portion	4,244	5,010
Deferred revenue, net of current portion	12,025	14,702
Debt, net of current portion	—	225
Operating lease liabilities, net of current portion	26,726	—
Finance lease liabilities, net of current portion	334	—
Purchase commitment and contingent consideration liabilities, net of current portion	11,610	8,905
Deferred other liabilities	17	8,632
Total liabilities	381,685	329,442
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred shares, $0.001 par value, 30,000 shares authorized; no shares issued and outstanding	—	—
Class A common stock, $0.001 par value, 300,000 shares authorized; 39,828 and 26,327 shares issued and outstanding, respectively	40	26
Class B common stock, $0.001 par value, 150,000 shares authorized; 108,017 and 120,117 shares issued and outstanding, respectively	108	120
Additional paid in capital	209,629	206,541
Retained earnings	25,530	21,926
Accumulated other comprehensive loss	(7,463)	(3,127)
Total stockholders' equity	227,844	225,486
Total liabilities and stockholders' equity	$ 609,529	$ 554,928

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vertex, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Loss
For the three and six months ended June 30, 2021 and 2020
(Amounts in thousands, except per share data)

	Three months ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Revenues:				
Software subscriptions	$ 89,604	$ 77,306	$ 172,884	$ 153,066
Services	15,334	13,965	30,290	27,450
Total revenues	104,938	91,271	203,174	180,516
Cost of revenues:				
Software subscriptions	26,829	26,001	52,419	50,685
Services	10,550	15,744	21,893	30,522
Total cost of revenues	37,379	41,745	74,312	81,207
Gross profit	67,559	49,526	128,862	99,309
Operating expenses:				
Research and development	11,926	13,617	23,385	26,696
Selling and marketing	24,865	24,544	45,015	48,877
General and administrative	24,865	37,758	49,717	75,394
Depreciation and amortization	2,878	2,505	5,705	5,374
Other operating expense, net	4,483	103	4,354	214
Total operating expenses	69,017	78,527	128,176	156,555
Income (loss) from operations	(1,458)	(29,001)	686	(57,246)
Interest (income) expense, net	(385)	1,059	150	1,628
Income (loss) before income taxes	(1,073)	(30,060)	536	(58,874)
Income tax benefit	(1,881)	(985)	(2,560)	(735)
Net income (loss)	808	(29,075)	3,096	(58,139)
Other comprehensive loss from foreign currency translation adjustments and revaluations, net of tax	3,359	276	4,336	3,274
Total comprehensive loss	$ (2,551)	$ (29,351)	$ (1,240)	$ (61,413)
Net income (loss) attributable to Class A stockholders	$ 190	$ (32)	$ 644	$ (16)
Net income (loss) per Class A share, basic	$ 0.01	$ (0.24)	$ 0.02	$ (0.24)
Weighted average Class A common stock, basic	34,726	132	30,592	66
Net income (loss) attributable to Class A stockholders, diluted	$ 229	$ (32)	$ 811	$ (16)
Net income (loss) per Class A share, diluted	$ 0.01	$ (0.24)	$ 0.02	$ (0.24)
Weighted average Class A common stock, diluted	44,711	132	41,357	66
Net income (loss) attributable to Class B stockholders	$ 618	$ (29,043)	$ 2,452	$ (58,123)
Net income (loss) per Class B share, basic	$ 0.01	$ (0.24)	$ 0.02	$ (0.48)
Weighted average Class B common stock, basic	112,804	120,417	116,460	120,417
Net income (loss) attributable to Class B stockholders, diluted	$ 579	$ (29,043)	$ 2,285	$ (58,123)
Net income (loss) per Class B share, diluted	$ 0.01	$ (0.24)	$ 0.02	$ (0.48)
Weighted average Class B common stock, diluted	112,804	120,417	116,460	120,417

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vertex, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity (Deficit)
For the three and six months ended June 30, 2021 (unaudited)
(Amounts in thousands)

	Before Recapitalization				After Recapitalization										
	Outstanding Class A Shares	Class A Common Stock	Outstanding Class B Shares	Class B Common Stock	Outstanding Class A Shares	Class A Common Stock	Outstanding Class B Shares	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Shares Issued	Treasury Stock	Total Stockholders' Equity	Options for Redeemable Shares
Balance, January 1, 2021	—	$ —	—	$ —	26,327	$ 26	120,117	$ 120	$ 206,541	$ 21,926	$ (3,127)	—	$ —	$ 225,486	$ —
ASC 842 transition adjustment	—	—	—	—	—	—	—	—	—	508	—	—	—	508	—
Exercise of stock options, net	—	—	—	—	640	1	—	—	(6,998)	—	—	—	—	(6,997)	—
Shares issued upon vesting of Restricted Stock Units, net	—	—	—	—	5	—	—	—	(34)	—	—	—	—	(34)	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	6,302	—	—	—	—	6,302	—
Foreign currency translation adjustments and revaluations, net of tax	—	—	—	—	—	—	—	—	—	—	(977)	—	—	(977)	—
Net income	—	—	—	—	—	—	—	—	—	2,288	—	—	—	2,288	—
Balance, March 31, 2021	—	—	—	—	26,972	27	120,117	120	205,811	24,722	(4,104)	—	—	226,576	—
Exercise of stock options, net	—	—	—	—	462	1	—	—	(3,293)	—	—	—	—	(3,292)	—
Shares issued upon vesting of Restricted Stock Awards	—	—	—	—	234	—	—	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	6,101	—	—	—	—	6,101	—
Shares issued under ESPP	—	—	—	—	60	—	—	—	1,010	—	—	—	—	1,010	—
Class B shares exchanged for Class A shares	—	—	—	—	12,100	12	(12,100)	(12)	—	—	—	—	—	—	—
Foreign currency translation adjustments and revaluations, net of tax	—	—	—	—	—	—	—	—	—	—	(3,359)	—	—	(3,359)	—
Net income	—	—	—	—	—	—	—	—	—	808	—	—	—	808	—
Balance, June 30, 2021	—	$ —	—	$ —	39,828	$ 40	108,017	$ 108	$ 209,629	$ 25,530	$ (7,463)	—	$ —	$ 227,844	$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vertex, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity (Deficit)
For the three and six months ended June 30, 2020 (unaudited)
(Amounts in thousands)

	Before Recapitalization				After Recapitalization										
	Outstanding Class A Shares	Class A Common Stock	Outstanding Class B Shares	Class B Common Stock	Outstanding Class A Shares	Class A Common Stock	Outstanding Class B Shares	Class B Common Stock	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Shares Issued	Treasury Stock	Total Stockholders' Deficit	Options fo Redeemab Shares
Balance, January 1, 2020	147	$ —	120,270	$ 54	—	$ —	—	$ —	$ —	$ (90,701)	$ (491)	41,910	$ (38,638)	$ (129,776)	$ 17,34
Remeasurement of options for redeemable shares	—	—	—	—	—	—	—	—	—	(15,242)	—	—	—	(15,242)	15,24
Distributions declared	—	—	—	—	—	—	—	—	—	(4,010)	—	—	—	(4,010)	–
Foreign currency translation adjustments and revaluations, net of tax	—	—	—	—	—	—	—	—	—	—	(2,998)	—	—	(2,998)	–
Net loss	—	—	—	—	—	—	—	—	—	(29,064)	—	—	—	(29,064)	–
Balance, March 31, 2020	147	—	120,270	54	—	—	—	—	—	(139,017)	(3,489)	41,910	(38,638)	(181,090)	32,58
Remeasurement of options for redeemable shares	—	—	—	—	—	—	—	—	—	(14,637)	—	—	—	(14,637)	14,63
Exercise of stock options, net	—	—	173	—	—	—	—	—	—	53	—	—	—	53	–
Distributions declared	—	—	—	—	—	—	—	—	—	(123,185)	—	—	—	(123,185)	–
Foreign currency translation adjustments and revaluations, net of tax	—	—	—	—	—	—	—	—	—	—	(276)	—	—	(276)	–
Net loss	—	—	—	—	—	—	—	—	—	(29,075)	—	—	—	(29,075)	–
Balance, June 30, 2020	147	$ —	120,443	$ 54	—	$ —	—	$ —	$ —	$ (305,861)	$ (3,765)	41,910	$ (38,638)	(348,210)	$ 47,22

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vertex, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2021 and 2020
(Amounts in thousands)

	Six Months Ended June 30,	
	2021	2020
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 3,096	$ (58,139)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	17,697	15,416
Provision for subscription cancellations and non-renewals, net of deferred allowance	994	154
Amortization of deferred financing costs	106	428
Stock-based compensation expense	12,828	76,596
Deferred income tax benefit	(2,812)	(1,057)
Non-cash operating lease costs	1,867	—
Other	66	14
Changes in operating assets and liabilities:		
Accounts receivable	10,993	7,093
Advances to stockholders	(2)	53
Prepaid expenses and other current assets	(3,396)	(1,717)
Deferred commissions	198	807
Accounts payable	2,515	2,911
Accrued expenses	(5,707)	(1,481)
Accrued and deferred compensation	(8,301)	(10,804)
Deferred revenue	(1,220)	(7,353)
Operating lease liabilities	(2,532)	—
Other	75	(2,165)
Net cash provided by operating activities	26,465	20,756
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(193,591)	(12,318)
Property and equipment additions	(15,888)	(10,565)
Capitalized software additions	(5,125)	(7,264)
Net cash used in investing activities	(214,604)	(30,147)
Cash flows from financing activities:		
Net increase in customer funds obligations	22,227	2,622
Proceeds from line of credit	—	12,500
Principal payments on line of credit	—	(12,500)
Proceeds from long-term debt	—	175,000
Principal payments on long-term debt	—	(51,009)
Payments for deferred financing costs, net	—	(2,904)
Proceeds from purchases of stock under ESPP	1,010	—
Payments for taxes related to net share settlement of stock-based awards	(10,715)	—
Proceeds from exercise of stock options	391	52
Distributions to stockholders	—	(140,378)
Distributions under Tax Sharing Agreement	(2,700)	—
Payments for purchase commitment liability	(788)	—
Payments on finance lease liabilities	(685)	—
Net cash provided by (used in) financing activities	8,740	(16,617)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(221)	(204)
Net decrease in cash, cash equivalents and restricted cash	(179,620)	(26,212)
Cash, cash equivalents and restricted cash, beginning of period	312,273	83,495
Cash, cash equivalents and restricted cash, end of period	$ 132,653	$ 57,283
Reconciliation of cash, cash equivalents and restricted cash to the Condensed Consolidated Balance Sheets, end of period:		
Cash and cash equivalents	$ 101,593	$ 47,295
Restricted cash—funds held for customers	31,060	9,988
Total cash, cash equivalents and restricted cash, end of period	$ 132,653	$ 57,283

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Vertex, Inc. ("Vertex") and its direct and indirect wholly owned subsidiaries (collectively, the "Company") operate as solutions providers of state, local and value added tax calculation, compliance and analytics, offering software products which are sold through software license and software as a service ("cloud") subscriptions. The Company also provides implementation and training services in connection with its software license and cloud subscriptions, transaction tax returns outsourcing, and other tax-related services. The Company sells to customers located throughout the United States of America ("U.S.") and internationally.

Basis of Consolidation

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") and include the accounts of the Company. All intercompany transactions have been eliminated in consolidation.

On May 12, 2021, the Company acquired 95% of the outstanding equity of EVAT Solutions Limited ("EVAT") and its subsidiaries, doing business as Taxamo (collectively "Taxamo"), a cloud-based provider of tax and payment automation for global eCommerce and marketplaces. As the Company has a controlling interest in Taxamo, its accounts have been included in the condensed consolidated financial statements from the acquisition date.

On January 7, 2020, the Company acquired a 60% controlling interest in Systax Sistemas Fiscais LTDA ("Systax"), a provider of Brazilian transaction tax content and software. Systax is considered a Variable Interest Entity ("VIE") and its accounts have been included in the condensed consolidated financial statements from the acquisition date. Systax was determined to be a VIE as Vertex is the primary beneficiary of the equity interests in Systax and participates significantly in the variability in the fair value of Systax's net assets.

Unaudited Interim Financial Information

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information and include the accounts of the Company. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes for the year ended December 31, 2020, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Annual Report") filed with the SEC on March 15, 2021. The interim condensed consolidated balance sheet as of December 31, 2020 has been derived from audited financial statements included in the 2020 Annual Report. The accompanying interim condensed consolidated balance sheet as of June 30, 2021, the interim condensed consolidated statements of comprehensive loss and changes in equity (deficit) for the three and six months ended June 30, 2021 and 2020, and interim condensed consolidated statements of cash flows for the six months ended June 30, 2021 and 2020 are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with that used to prepare the annual audited consolidated financial statements and include, in the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the condensed consolidated financial statements. The operating results for the three and six months ended June 30, 2021 are not necessarily indicative of the results expected for the full year ending December 31, 2021.

Segments

The Company operates its business as one operating segment. For the three and six months ended June 30, 2021 approximately 7% and 6%, respectively, of the Company's revenues were generated outside the U.S. For the three and six months ended June 30, 2020, revenues generated outside of the U.S. were approximately 3% in each respective period.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. A three-level fair value hierarchy (the "Fair Value Hierarchy") prioritizes the inputs used to measure fair value. The Fair Value Hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. Classification in the Fair Value Hierarchy is based on the lowest of the following levels that is significant to the measurement:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Inputs are unobservable inputs based on the Company's assumptions and valuation techniques used to measure assets and liabilities at fair value. The inputs require significant management judgment or estimation.

The Company's assessment of the significance of an input to a fair value measurement requires judgment, which may affect the determination of fair value and the measurement's classification within the Fair Value Hierarchy.

Use of Estimates

The preparation of condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity, revenues and expenses during the reporting period. Significant estimates used in preparing these condensed consolidated financial statements include: (i) the estimated allowance for subscription cancellations, (ii) expected credit losses associated with the allowance for doubtful accounts; (iii) the reserve for self-insurance, (iv) assumptions related to achievement of technological feasibility for software developed for sale, (v) product life cycles, (vi) estimated useful lives and potential impairment of long-lived assets, intangible assets, (vii) potential impairment of goodwill, (viii) determination of the fair value of tangible and intangible assets acquired, liabilities assumed and consideration transferred in acquisitions, (ix) amortization period of material rights and deferred commissions (x) valuation of the Company's stock used to measure stock-based compensation awards, (xi) Black-Scholes-Merton option pricing model ("Black-Scholes model") input assumptions used to determine the fair value of stock-based compensation awards, (xii) measurement of future purchase commitment and contingent consideration liabilities and (xiii) the potential outcome of future tax consequences of events that have been recognized in the condensed consolidated financial statements or tax returns. Actual results may differ from these estimates.

Software Development Costs

Internal-Use Software

The Company follows Accounting Standard Codification ("ASC") 350-40, *Goodwill and Other, Internal-Use Software*, to account for development costs incurred for the costs of computer software developed or obtained for internal use. ASC 350-40 requires such costs to be capitalized once certain criteria are met. Internal-use software is included in internal-use software developed in property and equipment in the condensed consolidated balance sheets once available for its intended use and is depreciated over periods between 3 to 5 years. Depreciation expense for internal-use software utilized for cloud-based solutions and for software for internal systems and tools is included in cost of revenues, software subscriptions and depreciation and amortization expense, respectively, in the condensed consolidated statements of comprehensive loss.

Software Developed for Sale

The costs incurred for the development of computer software to be sold, leased, or otherwise marketed are capitalized in accordance with ASC 985-20, *Costs of Software to be Sold, Leased or Marketed*, when technological feasibility has been established. Amortization of capitalized software development costs begins when the product is available for general release. Amortization is provided on a product-by-product basis using the straight-line method over periods between 3 to 5 years and is included in cost of revenues, software subscriptions in the condensed consolidated statements of comprehensive loss. Capitalized software costs are subject to an ongoing assessment of recoverability based on anticipated future revenues and changes in software technologies at least annually at December 31, and whenever events or circumstances make it more likely than not that impairment may have occurred.

Business Combinations

Upon acquisition of a company, the Company determines if the transaction is a business combination, which is accounted for using the acquisition method of accounting. Under the acquisition method, once control is obtained of a business, the assets acquired, liabilities assumed, consideration transferred and amounts attributed to noncontrolling interests, are recorded at fair value. The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired, liabilities assumed, consideration transferred, and amounts attributed to noncontrolling interests at the acquisition date. One of the most significant estimates relates to the determination of the fair value of these amounts. The determination of the fair values is based on estimates and judgments made by management. The Company's estimates of fair value are based upon assumptions it believes to be reasonable, but which are inherently uncertain and unpredictable. Measurement period adjustments to these values as of the acquisition date are reflected at the time identified, up through the conclusion of the measurement period, which is the time at which all information for determination of the values of assets acquired, liabilities assumed, consideration transferred and noncontrolling interests is received, and is not to exceed one year from the acquisition date (the "Measurement Period"). Thus the Company may record adjustments to the fair value of these tangible and intangible assets acquired, liabilities assumed, consideration transferred and noncontrolling interests, with the corresponding offset to goodwill during this Measurement Period. Additionally, uncertain tax positions and tax-related valuation allowances are initially recorded in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluate these estimates and assumptions periodically and record any adjustments to preliminary estimates to goodwill, provided the Company is within the Measurement Period, with any adjustments to amortization of new or previously recorded identifiable intangibles being recorded to the consolidated statements of comprehensive loss in the period in which they arise. In addition, if outside of the Measurement Period, any subsequent adjustments to the acquisition date fair values are reflected in the consolidated statements of comprehensive loss in the period in which they arise.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. The Company evaluates goodwill for impairment annually at October 1 and whenever events or circumstances make it more likely than not that impairment may have occurred.

Stock-Based Compensation

The Company's Registration Statement on Form S-1 with the SEC was declared effective on July 28, 2020, resulting in the Class A shares being registered and available for trading on the NASDAQ exchange (the "Offering"). On the effective date of the Offering, the Company adopted the 2020 Incentive Award Plan (the "2020 Plan") and the 2020 Employee Stock Purchase Plan (the "ESPP"), which provide for the award of stock appreciation rights ("SARs"), stock options ("options"), restricted stock awards ("RSAs"), restricted stock units ("RSUs"), and participation in the ESPP (collectively, the "awards").

The awards are subject to, and the Company applies, the guidance set forth in ASC 718, Compensation—Stock Compensation, ("ASC 718") for the award of equity-based instruments.

The provisions of ASC 718 require a company to measure the fair value of stock-based compensation as of the grant date of the award. Stock-based compensation expense reflects the cost of employee services received in exchange for the awards.

SARs are accounted for as liabilities under ASC 718 and, as such, the Company recognizes stock-based compensation expense by remeasuring the value of the SARs at the end of each reporting period and accruing the portion of the requisite service rendered at that date. Prior to July 2, 2020, the date management determined the Company was considered to have become a public entity, the Company measured SARs at their intrinsic value. After such date, management remeasured outstanding SARs using the fair value-based method under ASC 718.

Stock-based compensation expense for stock options issued under the 2020 Plan after the Offering is measured based on the grant date fair value of the award and is estimated using the Black-Scholes model. Compensation cost is recognized on a straight-line basis over the requisite service or performance period associated with the award.

Stock-based compensation expense for RSAs and RSUs is based on the fair value of the Company's underlying common stock on the date of grant. Compensation cost is recognized on a straight-line basis over the requisite service or performance period associated with the award. Stock-based compensation expense for awards subject to performance-based measurement criteria is recognized when achievement of performance targets is deemed probable.

The ESPP permits participants to purchase Class A common stock through payroll deductions, up to a specified percentage of their eligible compensation or a lump sum contribution amount for the initial offering period. The plan is a compensatory plan as it allows participants to purchase stock at a 15% discount from the lower of the fair value of the Class A common on the first or last day of the ESPP offering period (the "ESPP Discount").The ESPP is accounted for as an equity classified award. Stock-based compensation expense for the ESPP is measured based on the fair value of the ESPP award at the start of the offering period. The fair value is comprised of the value of the ESPP Discount and the value associated with the variability in the Class A common stock price during the offering period (the "Call/Put"), which is estimated using the Black-Scholes model. Compensation cost is recognized on a straight-line basis over the respective offering period.

The Company has elected to recognize award forfeitures as they occur.

Revenue Recognition

Revenue from contracts with customers

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration expected to be received in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct, and accounted for as separate performance obligations. Revenue is recognized net of allowance for subscription and non-renewal cancellations and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of goods and services

Licenses for on-premise software subscriptions provide the customer with a right to use the software as it exists when made available to the customer. Customers purchase a subscription to these licenses, which includes the related software and tax content updates (collectively "updates") and product support. The updates and support, which are part of the subscription agreement, are essential to the continued utility of the software; therefore, the Company has determined the software and the related updates and support to be a single performance obligation. Accordingly, when on-premise software is licensed, the revenue associated with this combined performance obligation is recognized ratably over the license term as these subscriptions are provided for the duration of the license term. Revenue recognition begins on the later of the beginning of the subscription period or the date the software is made available to the customer to download. The Company's on-premise software subscription prices in the initial subscription year are higher than standard renewal prices. The excess initial year price over the renewal price ("new sale premium") is a material right that provides customers with the right to this reduced renewal price. The Company recognizes revenue associated with this material right over the estimated period of benefit to the customer, which is generally three years.

Cloud-based subscriptions allow customers to use Company-hosted software over the contract period without taking possession of the software. The cloud-based offerings also include related updates and support. Cloud-based contracts consistently provide a benefit to the customer during the subscription period; thus, the associated revenue is recognized ratably over the related subscription period. Revenue recognition begins on the later of the beginning of the subscription period or the date the customer is provided access to the cloud-based solutions.

Revenue from deliverable-based services is recognized as services are delivered. Revenue from fixed fee services is recognized as services are performed using the percentage of completion input method.

The Company has elected the "right to invoice" practical expedient for revenue related to services that are billed on an hourly basis, which enables revenue to be recognized as the services are performed.

The Company has determined that the methods applied to measuring its progress toward complete satisfaction of performance obligations recognized over time are a faithful depiction of the transfer of control of software subscriptions and services to customers.

Significant Judgments

Contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Identification of the amortization periods of material rights and contract costs requires significant judgement by management.

Payment terms

Payment terms and conditions vary by contract, although the Company’s terms generally include a requirement of payment within 30-days. In instances where the timing of revenue recognition differs from the timing of payment, the Company has determined that its contracts do not include a significant financing component. The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing products and services, not to receive financing from customers or to provide customers with financing.

Cost of Revenues

Cost of revenues, software subscriptions includes the direct cost to develop, host and distribute software products, the direct cost to provide customer support, and amortization of costs capitalized for software developed for sale and for internal-use software utilized for cloud-based subscriptions. Cost of revenues, services includes the direct costs of implementation, training, transaction tax returns outsourcing and other tax-related services.

Reimbursable Costs

Reimbursable costs passed through and invoiced to customers of the Company are recorded as services revenues with the associated expenses recorded as cost of revenues, services in the condensed consolidated statements of comprehensive loss.

Income Taxes

On July 27, 2020, the Company’s S-Corporation election (the “S Election”) was terminated by the Company’s stockholders in connection with the Offering. As a result, Vertex became taxable at the corporate level as a C-Corporation for U.S federal and state income tax purposes. In connection with the S Election termination, the Company entered into an agreement with the S-Corporation stockholders pursuant to which the Company has indemnified them for unpaid income tax liabilities and may be required to make future payments in material amounts to them attributable to incremental income taxes resulting from an adjustment to S-Corporation related taxable income (the “Tax Sharing Agreement”). In addition, the Tax Sharing Agreement indemnifies the S-Corporation stockholders for any interest, penalties, losses, costs or expenses arising out of any claim under the agreement. Correspondingly, the S-Corporation stockholders have indemnified the Company with respect to unpaid tax liabilities (including interest and penalties) attributable to a decrease in S-Corporation stockholders’ taxable income and a corresponding increase in our taxable income as a C-Corporation for any period.

Prior to July 27, 2020, as Vertex was taxed as an S-Corporation for U.S. federal and certain states income tax purposes, net income or loss was allocated to and included on the income tax returns of the S-Corporation stockholders. Historically, the Company distributed amounts to the S-Corporation stockholders to satisfy their tax liabilities resulting from allocated net income or loss. Vertex was taxed at the corporate level in those states where the S-Corporation status was not recognized or where the state imposed a tax on an S-Corporation. Accordingly, the income tax provision or benefit was based on taxable income allocated to these states. In certain foreign jurisdictions, Vertex subsidiaries were taxed at the corporate level, and the income tax provision or benefit was based on taxable income sourced to these foreign jurisdictions.

Supplemental Cash Flow Disclosures

Supplemental cash flow disclosures are as follows for the respective periods:

	For the six months ended June 30,	
	2021	2020
	(unaudited)	
Cash paid for interest	$ 119	$ 1,360
Cash paid for income taxes, net of refunds	$ 966	$ 490
Operating cash flows from operating leases	$ 2,701	$ —
Non-cash investing and financing activities:		
Purchase commitment and contingent consideration liabilities	$ 12,736	$ 14,344
Remeasurement of options for redeemable shares	$ —	$ 29,879
Leased assets obtained in exchange for new finance lease liabilities	$ 173	$ —

Recently Issued Accounting Pronouncements

As an "emerging growth company," the Jumpstart Our Business Startups Act (the “JOBS Act”) allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. The Company has elected to delay adoption of certain new or revised accounting standards. As a result, the Company’s financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective date for new or revised accounting standards that are applicable to public companies.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This standard amends several of aspects of lease accounting, including requiring lessees to recognize operating leases with a initial term greater than one year on their balance sheet as a right-of-use asset, and a corresponding lease liability, measured at the present value of the future minimum lease payments. The standard is effective for public entities for fiscal years and interim periods beginning after December 15, 2018. The standard is effective for all other entities for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted.

The Company adopted ASU No. 2016-02 on January 1, 2021 using the modified retrospective transition method, which did not require the Company to adjust comparative periods. The Company’s lease assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments. The Company’s incremental borrowing rate, which is based on information available at the adoption date for existing leases and the commencement date for leases commencing after the adoption date, is used to determine the present value of lease payments.

The Company elected the "package of three" practical expedients permitted under the transition guidance, which allows (i) a carry forward of the historical lease classification conclusions, (ii) management to assess whether a contract is or contains a lease, and (iii) the retention of initial direct costs for any leases that exist prior to adoption of the new standard.

As a result of the adoption of ASC 842 on January 1, 2021, the Company recorded both operating lease right-of-use assets of $24,004 and operating lease liabilities of $32,562. An adjustment to retained earnings of $508, net of the deferred tax impact, was also recorded. The adoption of ASC 842 had an immaterial impact on the condensed consolidated statement of comprehensive loss for the three and six months ended June 30, 2021, and the condensed consolidated cash flow statement for the six months ended June 30, 2021. The adoption of this standard also resulted in a change in the naming convention for leases classified historically as capital leases. These leases are now referred to as finance leases within property and equipment, with corresponding short-term and long-term debt liabilities being presented as "Current portion of finance lease liabilities" and "Finance lease liabilities, net of current portion," respectively. See Note 7 for further information.

The Company does not recognize leases with an initial term less than one year ("short-term leases") on its condensed consolidated balance sheets, and recognizes such lease payments in the condensed consolidated statements of comprehensive loss on a straight-line basis over the lease term. Leases with an option to extend the related lease term or terminate early are reflected in the lease term when it is reasonably certain that the Company will exercise such options.

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*, ("ASU 2016-13") which replaces the existing incurred loss impairment model with an expected credit loss model and requires financial assets, including trade receivables, to be measured at amortized cost to be presented at the net amount expected to be collected. ASU 2016-13 is effective for annual periods, and interim periods within those years, beginning after December 15, 2019, for business entities that are public and meet the definition of an SEC filer (excluding smaller reporting companies), and after December 15, 2022 for all other entities. The Company adopted this standard effective January 1, 2021, and this guidance did not have a material impact on the Company's condensed consolidated financial statements.

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, ("ASU 2019-12") which simplifies the accounting for income taxes. The guidance in ASU 2019-12 is required for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2020, for business entities that are public, and after December 15, 2021, including interim periods within those annual periods, for all other entities, with early adoption permitted. The Company adopted this standard effective January 1, 2021, and this guidance did not have a material impact on the Company's condensed consolidated financial statements.

Risks and Uncertainties

In March 2020, the World Health Organization declared the outbreak of coronavirus disease 2019 ("COVID-19") to be a pandemic. The COVID-19 pandemic is continuing to have widespread, rapidly evolving and unpredictable impacts on global society, economies, financial markets and business practices. To protect the health and well-being of Company employees and customers, substantial modifications were made to employee travel policies, and our offices were closed, and remained closed through June 30, 2021, with employees directed to work from home. In addition, conferences and other marketing events were cancelled or shifted to virtual-only, and the Company continued to participate virtually through June 30, 2021. The COVID-19 pandemic has impacted, and may continue to impact, Company operations, including employees, customers and partners, and there is substantial uncertainty regarding the nature and degree of its continued effects over time.

The Company did not experience any significant reductions in sales, revenues or collections through June 30, 2021 as a result of COVID-19. The uncertainty caused by the COVID-19 pandemic could, however, impact Company billings to new customers for the remainder of 2021, and may also negatively impact Company efforts to expand revenues from existing customers as they continue to evaluate certain long-term projects and budget constraints. In addition to the potential impact on sales, the Company may see delays in collections during 2021 as customers adjust their operating protocols to accommodate implementation of new criteria to protect the health and well-being of their employees and customers. However, these delays are not expected to materially impact the business, and thus the Company has not recorded additional credit losses associated with the allowance for doubtful accounts in connection with any delays. The

Company believes it has ample liquidity and capital resources to continue to meet its operating needs and to service debt and other financial obligations.

The extent to which the COVID-19 pandemic impacts the business going forward will depend on numerous evolving factors that cannot reliably be predicted, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity, including the possibility of recession or financial market instability. These factors may adversely impact consumer, business and government spending on technology as well as customers' ability to pay for Company products and services on an ongoing basis. This uncertainty also affects management's accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions, including estimated allowance for subscription cancellations, product life cycles and estimated lives of long-lived assets.

Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on previously reported comprehensive income or loss.

2. REVENUE RECOGNITION

See Note 1 for a description of the Company's revenue recognition accounting policy.

Disaggregation of revenue

The table reflects revenue by major source for the following periods:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Software subscriptions:				
Software licenses	$ 57,525	$ 57,194	$ 113,875	$ 113,919
Cloud subscriptions	32,079	20,112	59,009	39,147
Software subscriptions	89,604	77,306	172,884	153,066
Services	15,334	13,965	30,290	27,450
Total revenues	$ 104,938	$ 91,271	$ 203,174	$ 180,516

Contract balances

Timing of revenue recognition may differ from the timing of invoicing customers. A receivable is recorded in the condensed consolidated balance sheets when customers are billed related to revenue to be collected and recognized for subscription agreements as there is an unconditional right to invoice and receive payment in the future related to these subscriptions. A receivable and related revenue may also be recorded in advance of billings to the extent services have been performed and the Company has a right under the contract to bill and collect for such performance. Subscription-based customers are generally invoiced annually at the beginning of each annual subscription period. Accounts receivable is presented net of an allowance for potentially uncollectible accounts and estimated cancellations of software license and cloud-based subscriptions (the "allowance") of $9,399 and $8,592 at June 30, 2021 and December 31, 2020, respectively.

The allowance represents future expected credit losses over the life of the receivables based on past experience, current information and forward-looking economic considerations.

The beginning and ending balances of accounts receivable, net of allowance, are as follows:

	For the six months ended June 30, 2021 (unaudited)	For the year ended December 31, 2020
Balance, beginning of period	$ 77,159	$ 70,367
Balance, end of period	73,130	77,159
(Decrease) increase, net	$ (4,029)	$ 6,792

A contract liability is recorded as deferred revenue on the condensed consolidated balance sheets when customers are billed in advance of performance obligations being satisfied, and revenue is recognized after invoicing ratably over the subscription period or over the amortization period of material rights. Deferred revenue is reflected net of a related deferred allowance for subscription cancellations (the “deferred allowance”) of $6,267 and $6,432 at June 30, 2021 and December 31, 2020, respectively. The deferred allowance represents the portion of the allowance for subscription cancellations associated with deferred revenue.

The beginning and ending balances of and changes to the allowance and the deferred allowance are as follows:

	For the three months ended June 30,			
	2021		2020	
	Balance	Net Change	Balance	Net Change
Allowance balance, April 1	$ (8,059)		$ (7,476)	
Allowance balance, June 30	(9,399)		(7,669)	
Change in allowance		$ 1,340		$ 193
Deferred allowance balance, April 1	5,515		5,118	
Deferred allowance balance, June 30	6,267		5,335	
Change in deferred allowance		(752)		(217)
Net amount charged to revenues		$ 588		$ (24)

	For the six months ended June 30,			
	2021		2020	
	Balance	Net Change	Balance	Net Change
Allowance balance, January 1	$ (8,592)		$ (7,515)	
Allowance balance, June 30	(9,399)		(7,669)	
Change in allowance		$ 807		$ 154
Deferred allowance balance, January 1	6,432		5,614	
Deferred allowance balance, June 30	6,267		5,335	
Change in deferred allowance		165		279
Net amount charged to revenues		$ 972		$ 433

The portion of deferred revenue expected to be recognized in revenue beyond one year is included in deferred revenue, net of current portion in the condensed consolidated balance sheets.

The tables provide information about the balances of and changes to deferred revenue for the following periods:

	As of June 30, 2021 (unaudited)	As of December 31, 2020
Balances:		
Deferred revenue, current	$ 210,587	$ 207,560
Deferred revenue, non-current	12,025	14,702
Total deferred revenue	$ 222,612	$ 222,262

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Changes to deferred revenue:				
Beginning balance	$ 218,133	$ 201,484	$ 222,262	$ 205,791
Additional amounts deferred	109,417	88,224	203,524	173,162
Revenues recognized	(104,938)	(91,271)	(203,174)	(180,516)
Ending balance	$ 222,612	$ 198,437	$ 222,612	$ 198,437

Contract costs

Deferred sales commissions earned by the Company's sales force and certain sales incentive programs and vendor referral agreements are considered incremental and recoverable costs of obtaining a contract with a customer. An asset is recognized for these incremental contract costs and reflected as deferred commissions in the condensed consolidated balance sheets. These contract costs are amortized on a straight-line basis over a period consistent with the transfer of the associated product and services to the customer, which is generally three years. Amortization of these costs are included in selling and marketing expense in the condensed consolidated statements of comprehensive loss. The Company periodically reviews these contract assets to determine whether events or changes in circumstances have occurred that could impact the period of benefit of these assets. There were no impairment losses recorded for the periods presented.

The table provides information about the changes to contract cost balances as of and for the following periods:

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Deferred commissions:	(unaudited)		(unaudited)	
Beginning balance	$ 11,693	$ 10,563	$ 11,743	$ 11,196
Additions	2,135	1,630	4,193	2,694
Amortization	(2,283)	(1,803)	(4,391)	(3,500)
Ending balance	$ 11,545	$ 10,390	$ 11,545	$ 10,390

3. BUSINESS COMBINATIONS

Taxamo

On May 12, 2021, the Company acquired 95% of the outstanding equity of EVAT and its wholly owned subsidiaries (collectively "Taxamo"), a cloud-based provider of tax and payment automation for global eCommerce and marketplaces. This acquisition supports the Company's growth strategies across eCommerce platforms and marketplaces in Europe and North America.

The preliminary purchase price for the Taxamo acquisition was $200,689 as of the acquisition date, consisting of (i) $190,153 of cash paid at closing, partially offset by $2,662 of Taxamo's cash received in the acquisition resulting in net cash consideration at closing of $187,491, (ii) an acquisition holdback with an estimated fair value upon acquisition of $502, and (iii) an option to purchase from and an option for the remaining shareholder to sell, the remaining 5% of the outstanding equity of EVAT (the "Option") at a fixed amount between August and December 2021 for an estimated fair value of $10,034. The Company recorded the estimated fair value of the Option payment amount in purchase commitment and contingent consideration liabilities, current on the condensed consolidated balance sheets. Cash consideration was funded by the Company from available cash on hand.

The following table summarizes the preliminary purchase price for Taxamo:

	May 12, 2021 (unaudited)
Cash paid to Taxamo sellers at closing	$ 190,153
Fair value of acquisition holdbacks	502
Fair value of purchase commitment liability	10,034
Total	$ 200,689

The Company's accounting for the Taxamo acquisition is preliminary. The purchase price is subject to purchase price adjustments related to the final determination of Taxamo's cash, net working capital, and taxes as of May 12, 2021. The Taxamo acquisition was accounted for as a business combination. The total preliminary purchase price was allocated to the net assets acquired based on management's determination of their estimated fair values using available information as of the acquisition date. The excess of purchase consideration over the net assets acquired is recorded as goodwill, which primarily reflects the value of acquired technology, and the existence of intangible assets not recognized under U.S. GAAP such as the value of the assembled workforce and other market factors. The Company expects that goodwill associated with the Taxamo acquisition will not be deductible for tax purposes. The preliminary values recorded, which are reflected in the table below, will be adjusted during the Measurement Period as more detailed analyses are performed and further information becomes available regarding the fair values of these amounts on the acquisition date. The Company does not have a preliminary estimate of identifiable intangible assets as of June 30, 2021. A third-party expert has been engaged to assist in the valuation of identifiable intangible assets as part of the acquisition. Any subsequent adjustments to the preliminary values not associated with determination of their fair values on the acquisition date will be recorded in the condensed consolidated statements of comprehensive loss in the period in which the change is identified. Taxamo's business and product offerings are being integrated into the Company's one operating segment.

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed as recorded in the Company's condensed consolidated balance sheet as of the acquisition date:

	May 12, 2021 (unaudited)
Cash and cash equivalents	$ 2,441
Funds held for customers	221
Accounts receivable	7,783
Prepaid expenses and other current assets	908
Property and equipment	46
Goodwill	201,580
Accounts payable	(304)
Accrued expenses	(6,615)
Accrued compensation	(3,939)
Deferred other income	(1,432)
Total	$ 200,689

The transaction costs associated with the acquisition were $4,522 and were recorded in other operating expense, net for the three and six months ended June 30, 2021.

The Company has included the financial results of Taxamo in the condensed consolidated statement of comprehensive loss from the date of acquisition. As the Taxamo acquisition did not have a material impact on the Company's reported revenue or net income for the three and six months ended June 30, 2021, pro forma financial information has not been presented.

Tellutax

On January 25, 2021, the Company executed an Asset Purchase Agreement with Tellutax LLC, a Portland, Oregon-based edge computing technology startup ("Tellutax"), to acquire substantially all of Tellutax's assets (the "Tellutax Acquisition"). Cash consideration paid for the acquisition was $6,100, funded through cash on hand, and serves to strengthen the Company’s technology roadmap and hybrid cloud strategy enabling it to better serve customers in an increasingly hyper-connected environment. The Tellutax Acquisition entitles the sellers to contingent consideration if sales targets are met during a period of time following the acquisition.

The Tellutax Acquisition was accounted for as a business combination. The total purchase price was allocated to the net assets acquired based on management’s determination of their estimated fair values using available information as of the acquisition date. The excess of purchase consideration over the net assets acquired is recorded as goodwill, which primarily reflects the value of expected future synergies, the existence of intangible assets not recognized under U.S. GAAP such as the value of the assembled workforce and other market factors. The Company expects that goodwill associated with the Tellutax Acquisition will be deductible for tax purposes. The fair values of these amounts on the acquisition date, which are reflected in the table below, have been finalized. Any subsequent adjustments to these values will be recorded in the condensed consolidated statements of comprehensive loss in the period in which the change is identified.

The purchase price for the Tellutax Acquisition includes cash paid at closing plus an estimated fair value of contingent consideration of $2,200 (the “Tellutax Contingent Consideration”) as of January 25, 2021. The following table presents the allocation of the purchase price recorded in the condensed consolidated balance sheet as of the acquisition date:

		January 25, 2021 (unaudited)
Capitalized Software - Developed technology	$	3,600
Goodwill		4,700
Total	$	8,300

The Company has included the financial results of Tellutax in the condensed consolidated statement of comprehensive loss from the date of acquisition. As the Tellutax Acquisition did not have a material impact on the Company’s reported revenue or net income for the three and six months ended June 30, 2021, pro forma financial information has not been presented.

The fair value of developed technology was valued using the multi-period excess earnings method, which is a variation of the income approach. This method estimates an intangible asset’s value based on the present value of the incremental after-tax cash flows attributable to the intangible asset. The significant assumptions used in the developed technology valuation included forecasted results and discount rate.

The fair value of Tellutax Contingent Consideration is estimated using a Monte Carlo Simulation to compute the expected cash flows from earn-out payments specified in the purchase agreement. The Tellutax Contingent Consideration is based on three potential earn-out payments determined by periodic revenue achievements over a thirty-month period. Earn-out payments have no maximum limit, but if certain targets are not met, there will be no earn-out payment for the applicable measurement period. The estimated fair value of the Tellutax Contingent Consideration recorded as of the acquisition date was $2,200, see Note 4 for information on recurring fair value adjustments after the acquisition date.

Systax

On January 7, 2020, the Company acquired a 60% controlling interest in Systax, a provider of Brazilian transaction tax content and software. Cash consideration for the purchase was $12,374. This acquisition provided the Company with full access to a sizeable database of Brazilian tax content that is critical to supporting its global multi-national customers’ business expansion into Brazil.

The Company has a contractual purchase commitment to acquire the remaining 40% equity interest from the original Systax Quotaholders incrementally between 2021 through 2024. Future purchase commitment payments for these incremental acquisition amounts are based on a multiple of Systax revenue and earnings before interest, depreciation, amortization and income taxes (“EBITDA”) performance at the end of 2020, 2022 and 2023, whereby the Company will have full ownership after the final transaction in 2024. Management determined these future purchase commitments to be a forward contract, resulting in the Company being required to estimate and record an estimated future purchase commitment amount (the “Purchase Commitment Liability”) in connection with recording the initial purchase. The fair value of the Purchase Commitment Liability at the acquisition date was finalized to be $12,592. This amount will fluctuate as a result of changes in foreign currency exchange rates and is reflected in purchase commitment and contingent consideration liabilities in the condensed consolidated balance sheets, with such changes in exchange rates being reflected in other comprehensive income or loss in the condensed consolidated statements of comprehensive loss. The Purchase Commitment Liability was $9,750 at December 31, 2020 reflecting the impacts of such fluctuations in foreign currency exchange rates. Adjustments to the settlement date value that arise as a result of remeasurement at future balance sheet dates will be recorded as interest expense related to financing costs in the consolidated statements of comprehensive income or loss in the period the change is identified. No such adjustments have been recorded through June 30, 2021.

The Company acquired an additional 5% equity interest of Systax through a Purchase Commitment Liability payment of $788 during the three and six months ended June 30, 2021, increasing the Company's equity interest in Systax to 65% and reducing the remaining Purchase Commitment Liability to $9,334 at June 30, 2021.

4. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company has investments in money market accounts, which are included in cash and cash equivalents on the condensed consolidated balance sheets. Fair value inputs for these investments are considered Level 1 measurements within the Fair Value Hierarchy since money market account fair values are known and observable through daily published floating net asset values.

The following table summarizes the Company's Fair Value Hierarchy for its financial assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurements Using		
As of June 30, 2021	**Fair Value**	**Prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Money market funds	$ 17,201	$ 17,201	$ -	$ -
Tellutax Contingent Consideration	$ (2,276)	$ -	$ -	$ (2,276)

		Fair Value Measurements Using		
As of December 31, 2020	**Fair Value**	**Prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Money market funds	$ 265,270	$ 265,270	$ -	$ -

Tellutax Contingent Consideration

As discussed in Note 3, the Tellutax Contingent Consideration is based on three potential earn-out payments determined by periodic revenue achievements over a thirty-month period. Such estimate represents a recurring fair value measurement with significant unobservable inputs, which management considers to be Level 3 measurements under the Fair Value Hierarchy. The significant assumptions used in these calculations included forecasted results and the estimated likelihood for each performance scenario.

The estimated fair value of the Tellutax Contingent Consideration was determined using a Monte Carlo Simulation valuation as of the acquisition date of January 25, 2021. Management performed a present value analysis as of June 30, 2021 using the outputs of the Monte Carlo Simulation as of the acquisition date, the term of 4.3 years as of the acquisition date was reduced to 3.9 years as of June 30, 2021 to reflect the passage of time, resulting in a $(76) fair value adjustment increasing the carrying value of the Tellutax Contingent Consideration liability at June 30, 2021 which was recorded in other operating expense, net for the three and six months ended June 30, 2021. Management used this approach as there were no significant changes identified in forecasted results or the estimated likelihood for each performance scenario since the acquisition date which could result in significant changes to potential earn-out payments.

Tellutax Contingent Consideration fair value as of June 30, 2021 and the acquisition date, and unobservable inputs used for the Monte Carlo Simulation valuation as of the acquisition date were as follows:

	June 30, 2021	January 25, 2021			
Liability	Fair Value	Fair Value	Valuation Technique	Unobservable Inputs	
Tellutax Contingent Consideration	$ (2,276)	$ (2,200)	Monte Carlo Simulation	Revenue volatility	95.0 %
				Revenue discount rate	20.3 %
				Term (in years)	4.3

Changes in the fair value of Level 3 Tellutax Contingent Consideration during the six months ended June 30, 2021 were as follows:

	Tellutax Contingent Consideration
Balance, January 1, 2021	$ —
Acquisition of Tellutax	(2,200)
Fair value adjustments	(76)
Foreign currency translation adjustments	—
Balance, June 30, 2021	$ (2,276)

Assets and Liabilities for Which Fair Value is Only Disclosed

The residual carrying amount of cash and cash equivalents and the carrying amount of funds held for customers were the same as their respective fair values and are considered Level 1 measurements.

The carrying amounts for accounts receivable, accounts payable, and accrued expenses approximate their relative fair values due to their short-term nature.

Non-recurring Fair Value Measurements

The Taxamo Acquisition on May 12, 2021 and the Tellutax Acquisition on January 25, 2021, were accounted for as business combinations and the total purchase price for each acquisiton was allocated to the net assets acquired and liabilities assumed based on their estimated fair values. See Note 3.

5. PROPERTY AND EQUIPMENT

The major components of property and equipment are as follows:

	As of June 30, 2021	As of December 31, 2020
	(unaudited)	
Leasehold improvements	$ 21,017	$ 20,907
Equipment	41,485	41,410
Computer software purchased	11,684	11,620
Internal-use software developed:		
Cloud-based customer solutions	67,037	65,423
Internal systems and tools	28,889	25,349
Furniture and fixtures	7,679	7,674
In-process internal-use software	12,636	3,304
	190,427	175,687
Less accumulated depreciation	(128,816)	(119,130)
Property and equipment, net	$ 61,611	$ 56,557

Depreciation expense for property and equipment, excluding all internal-use software developed and finance leases, was $1,902 and $1,773 for the three months ended June 30, 2021 and 2020, respectively, and $3,808 and $3,948 for the six months ended June 30, 2021 and 2020, respectively Depreciation for property and equipment, excluding internal-use software developed for cloud-based customer solutions, is reflected in depreciation and amortization in the condensed consolidated statements of comprehensive loss.

Finance lease amortization was $240 and $464 for the three and six months ended June 30, 2021, respectively, and depreciation expense for assets held under capital leases was $167 and $335 for the three and six months ended June 30, 2020, respectively. Finance lease amortization and depreciation expense for assets held under capital leases are included in depreciation and amortization expense in the condensed consolidated statements of comprehensive loss. Assets under finance leases of $1,070, net of accumulated amortization of $464, at June 30, 2021 are included in property and equipment in the condensed consolidated balance sheets. Assets under capital leases of $1,360, net of accumulated depreciation of $1,370, at December 31, 2020, are included in property and equipment in the condensed consolidated balance sheets.

The major components of internal-use software are as follows:

	As of June 30, 2021	As of December 31, 2020
	(unaudited)	
Internal-use software developed	$ 95,926	$ 90,772
Less accumulated depreciation	(71,868)	(65,090)
	24,058	25,682
In-process internal-use software	12,636	3,304
Internal-use software developed, net	$ 36,694	$ 28,986

Amounts capitalized for internal-use software and included in property and equipment additions on the condensed consolidated statements of cash flows are as follows:

	For the six months ended June 30, 2021	For the six months ended December 31, 2020
	(unaudited)	(unaudited)
Cloud-based customer solutions	$ 8,232	$ 7,731
Internal systems and tools	6,253	939
Total	$ 14,485	$ 8,670

In-process internal-use software developed is not depreciated until it is available for its intended use. Depreciation expense for internal-use software developed for cloud-based customer solutions for the three months ended June 30, 2021 and 2020, was $2,669 and $2,453, respectively, and was $5,345 and $4,464 for the six months ended June 30, 2021 and 2020, respectively, and is included in cost of revenues, software subscriptions in the condensed consolidated statements of comprehensive loss.

Depreciation expense for internal-use software developed for internal systems and tools for the three months ended June 30, 2021 and 2020, was $736 and $565, respectively, and was $1,433 and $1,091 for the six months ended June 30, 2021 and 2020, respectively, and is included in depreciation and amortization in the condensed consolidated statements of comprehensive loss.

6. CAPITALIZED SOFTWARE

Capitalized software includes acquired software and direct labor and related expenses for software developed for sale for new products and enhancements to existing products.

The major components of capitalized software are as follows:

	As of June 30, 2021 (unaudited)	As of December 31, 2020
Capitalized software	$ 65,980	$ 63,071
Less accumulated amortization	(38,567)	(32,217)
	27,413	30,854
In-process capitalized software	6,951	1,135
Capitalized software, net	$ 34,364	$ 31,989

Software development costs capitalized for the three months ended June 30, 2021 and 2020 were $2,904 and $3,558, respectively, and were $8,725 and $7,264 for the six months ended June 30, 2021 and 2020, respectively. During the six months ended June 30, 2021, an acquisition date value of $3,600 for developed technology the Company acquired in the Tellutax business combination was recorded and is reflected in in-process capitalized software as the Company undertakes necessary enhancements to integrate it with the Company's existing software architecture.

Capitalized software amortization expense for the three months ended June 30, 2021 and 2020 was $3,182 and $3,022, respectively, and was $6,350 and $5,578 for the six months ended June 30, 2021 and 2020, respectively, and is included in cost of revenues, software subscriptions in the condensed consolidated statements of comprehensive loss.

7. LEASES

The Company leases office space, IT equipment and office equipment. Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheets and lease expense is recognized over the term of these leases on a straight-line basis. The Company's leases have remaining terms of up to 8 years.

The following table sets forth the Company's lease assets and liabilities and their balance sheet location as follows:

	Balance Sheet Location	As of June 30, 2021 (unaudited)
Lease assets:		
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 22,156
Finance lease assets	Property and equipment, net (Note 5)	1,070
Total lease assets		$ 23,226
Lease liabilities:		
Current:		
Operating lease liabilities	Current portion of operating lease liabilities	$ 3,641
Finance lease liabilities	Current portion of finance lease liabilities	271
Total current lease liabilities		3,912
Non-current:		
Operating lease liabilities	Operating lease liabilities, net of current portion	26,726
Finance lease liabilities	Finance lease liabilities, net of current portion	334
Total non-current lease liabilities		27,060
Total lease liabilities		$ 30,972

The major components of lease cost are as follows:

	For the three months ended June 30, 2021 (unaudited)	For the six months ended June 30, 2021 (unaudited)
Operating lease cost	$ 1,181	$ 2,350
Finance lease cost:		
Amortization of lease assets	240	463
Interest on lease liabilities	3	10
Total lease cost	$ 1,424	$ 2,823

The weighted-average term and discount rate for leases are as follows:

	As of June 30, 2021 (unaudited)
Weighted-average remaining lease term (years):	
Operating leases	7.0
Finance leases	1.5
Weighted-average discount rate:	
Operating leases	2.3 %
Finance leases	2.3 %

Lease liability maturities for the next five years and thereafter are as follows as of June 30, 2021:

	Operating Leases	Finance Leases
	(unaudited)	
Remainder of 2021 (six months remaining)	$ 2,810	$ 269
2022	4,542	289
2023	4,460	60
2024	4,464	10
2025	4,382	—
Thereafter	12,531	—
Total lease payments	33,189	628
Less: Imputed interest	(2,822)	(23)
Present value of lease liabilities	$ 30,367	$ 605

Lease liability maturities for the next five years and thereafter under the previous lease accounting standard are as follows:

	As of December 31, 2020	
	Operating Leases	Capital Leases
2021	$ 5,442	$ 915
2022	4,518	230
2023	4,459	—
2024	4,464	—
2025	4,382	—
Thereafter	12,531	—
Total Lease Payments	$ 35,796	1,145
Less amount representing interest		(38)
Present value of minimum lease payments		1,107
Less current portion		(882)
Capital lease obligations, net of current portion		$ 225

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are as follows:

	As of June 30, 2021	As of December 31, 2020
	(unaudited)	
Goodwill	$ 218,184	$ 16,329
Other intangible assets, net	2,167	2,382
	$ 220,818	$ 18,711

The changes in the carrying amount of goodwill for the six months ended June 30, 2021 are as follows:

Balance, January 1, 2021	$ 16,329
Acquisition of Taxamo	201,580
Acquisition of Tellutax	4,700
Foreign currency translation adjustments	(4,425)
Balance, June 30, 2021, gross	218,184
Accumulated impairment losses	—
Balance, June 30, 2021, net	$ 218,184

The Company has recognized various amortizable other intangible assets in connection with acquisitions, including related to customer relationships, technology, and tradenames. The following tables provide additional information for other intangible assets, which are individually not material to the condensed consolidated financial statements:

	As of June 30, 2021 (unaudited)	As of December 31, 2020
Other intangible assets		
Weighted average amortization period (years)	5.5	5.5
Gross value	$ 2,952	$ 2,825
Accumulated amortization	(785)	(443)
Carrying value	$ 2,167	$ 2,382

	For the three months ended June 30, 2021		
	Cost of Revenues, Software Subscriptions	Selling and Marketing Expense	
Amortization of acquired intangible assets	$ 66	$ 86	152

	For the six months ended June 30, 2021		
	Cost of Revenues, Software Subscriptions	Selling and Marketing Expense	
Amortization of acquired intangible assets	$ 127	$ 170	297

9. DEBT

Credit Agreement

On March 31, 2020, the Company entered into a credit agreement with a bank, which was subsequently amended on April 3, 2020 to permit another bank to be a party to the agreement, consisting of a $175,000 term loan (the “Term Loan”) and a $100,000 committed line of credit (the “Line of Credit”) (collectively, the “Credit Agreement”).

A portion of the Offering proceeds was used to repay the $175,000 Term Loan in full on July 31, 2020.

The Line of Credit matures in March 2025 and had no outstanding borrowings at June 30, 2021 or December 31, 2020. The Company has the option to select an applicable interest rate at either the bank base rate plus an applicable margin (the “Base Rate Option”) or the LIBOR plus an applicable margin (the “LIBOR Option”). The applicable margins are determined by certain financial covenant performance as defined in the Credit Agreement. At June 30, 2021, the Base Rate Option and LIBOR Option applicable to Line of Credit borrowings were 3.25% and 2.00%, respectively.

The Credit Agreement is collateralized by certain assets of the Company and contains financial and operating covenants. The Company was in compliance with these covenants at June 30, 2021.

10. STOCKHOLDERS’ EQUITY

Recapitalization

On July 28, 2020, the Company filed its amended and restated certificate of incorporation with the Delaware Secretary of State to: (i) effect a three-for-one forward stock split (the “Stock Split”); (ii) establish a new capital structure for the Company (the “New Capital Structure”); and (iii) effect a share exchange (the “Share Exchange”) (collectively, the “Recapitalization”). The Stock Split resulted in each one share owned by a stockholder being exchanged for three shares of common stock, and the number of shares of the Company’s common stock issued and outstanding was increased proportionately based on the Stock Split. After the Stock Split, the Share Exchange occurred, resulting in stockholders of record exchanging their existing Class A and Class B common stock (“former Class A” and “former Class B,” respectively) for newly created shares of Class A and Class B common stock (“Class A” and “Class B,” respectively) issued in connection with the New Capital Structure. The effect of the Stock Split and Share Exchange are recognized retrospectively in the condensed consolidated financial statements.

In connection with the New Capital Structure, Treasury Stock was retired and amounts associated with the Treasury Stock were reclassified to additional paid in capital. Thus, at June 30, 2021 and December 31, 2020, there was no Treasury Stock.

Common Stock

During the three months ended March 31, 2021 and June 30, 2021, the Company issued 640 and 462 shares of Class A, respectively, related to the exercise of stock options, net of 356 and 219 shares, respectively, returned to the Company in lieu of payment of the exercise price and taxes due on these exercises.

During the three months ended March 31, 2021 the Company issued 5 shares of Class A in connection with the vesting of RSUs, net of 1 share returned to the Company in lieu of payment of taxes due on the vesting of these RSUs. During the three months ended June 30, 2021, 234 shares of Class A were issued in connection with the vesting of RSAs. No Class A shares were issued during the three months ended March 31, 2021 and June 30, 2021 in connection with the vesting of RSAs and RSUs, respectively.

During the three months ended June 30, 2021, a stockholder exchanged 12,100 shares of Class B for an equivalent number of shares of Class A.

At June 30, 2020, the Company had 147 shares of former Class A common stock and 120,443 shares of former Class B common stock outstanding. At June 30, 2020, members of a family (the “Family”) owned all 147 outstanding shares of former Class A common stock and 120,270 shares of the former Class B common stock. The remaining 173 shares of former Class B common stock outstanding were owned by non-Family members in connection with the exercise of stock options in April 2020 for cash of $53. There were no dividend or liquidation preference differences between the former Class A and former Class B shares. There were common stock equivalents outstanding at June 30, 2020 held by non-Family members that entitled such holders to receive an equivalent number of former Class B shares upon exercise.

In connection with establishing the New Capital Structure in July 2020, the stockholders authorized 450,000 shares of common stock, par value $0.001 per share, and 30,000 shares of preferred stock, par value $0.001 per share. In connection with the New Capital Structure, common stock is divided into two classes, Class A with one vote per share, and Class B with ten votes per share. The rights of the holders of Class A and Class B are identical, except with respect to voting and conversion rights. Upon transfer of Class B shares to a non-Family member, such shares will automatically convert to an equivalent number of Class A shares with the respective voting rights attributable to such new shares. Authorized Class A and Class B shares are 300,000 and 150,000 shares, respectively. There are no dividend or liquidation preference differences between Class A and Class B.

In connection with the Share Exchange in July 2020, the Family members exchanged each share of former Class A and former Class B for the equivalent number of Class B shares established as part of the New Capital Structure. In addition, the non-Family members exchanged their former Class B shares for an equivalent number of Class A shares established as part of the New Capital Structure. No funds were exchanged in connection with the Share Exchange, and the aggregate number of shares outstanding both immediately prior to and after the Share Exchange remained the same at 120,590. In addition, common stock equivalents, all of which were held by non-Family members and which were previously exercisable into former Class B shares, became exercisable into Class A shares established as part of the New Capital Structure. Historical earnings per share information for all periods presented prior to the Offering was retrospectively restated similar to the treatment of a stock split to reflect the Share Exchange as management concluded that there was no economic value attributable to such exchange of shares in connection with the Recapitalization. See Note 11.

Distributions

The board of directors (the “Board”) declared and paid aggregate distributions pro rata to stockholders of the former Class A and Class B common stock of $123,185 ($1.02 per share) and $4,010 ($0.03 per share) during the three months ended June 30, 2020 and March 31, 2020, respectively.

Tax Sharing Agreement Payments

In connection with termination of the Company’s S-Corporation status effective July 27, 2020, the Company entered into a Tax Sharing Agreement with the former S-Corporation shareholders. See Note 1. The Tax Sharing Agreement, as amended on June 30, 2021, requires the Company to finalize the S-Corporation income tax returns for the short period ended July 26, 2020 no later than August 15, 2021 (previously June 30, 2021 prior to the amendment). The Company is required to settle any remaining liability for taxes to the former S-Corporation shareholders within 15 days thereafter under the amended Tax Sharing Agreement. All obligations of the Company under the Tax Sharing Agreement are satisfied by adjustments of additional paid in capital.

During the three months ended June 30, 2021, the Company distributed $2,700 to the former S-Corporation shareholders under the Tax Sharing Agreement in connection with preliminary estimates of obligations for income taxes related to the allocation of taxable income to the S-Corporation short tax period ended July 26, 2020.

11. EARNINGS PER SHARE

The table below illustrates the calculation of basic and diluted net income (loss) per common share for the Class A common and Class B common for the periods reflected below. The weighted average shares outstanding have been retrospectively restated to reflect the Share Exchange for all periods prior to the Offering, resulting in the Class A shares representing non-Family-owned shares and Class B representing Family-owned shares for all periods presented. See Note 10 for further information on the Share Exchange.

	For the three months ended June 30,		For the six months ended June 30,	
Class A common stock:	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Numerator, basic:				
Net income (loss) attributable to all stockholders	$ 808	$ (29,075)	$ 3,096	$ (58,139)
Class A common stock as a percentage of total shares outstanding, basic[1]	23.54 %	0.11 %	13.08 %	0.03 %
Net income (loss) attributable to Class A stockholders, basic[1]	$ 190	$ (32)	$ 644	$ (16)
Numerator, diluted:				
Net income (loss) attributable to all stockholders	$ 808	$ (29,075)	$ 3,096	$ (58,139)
Class A common stock as a percentage of total shares outstanding, diluted[1]	28.37 %	0.11 %	26.20 %	0.03 %
Net income (loss) attributable to Class A stockholders, diluted[1]	$ 229	$ (32)	$ 811	$ (16)
Denominator, basic and diluted:				
Weighted average Class A common stock, basic[1]	34,726	132	30,592	66
Dilutive effect of common stock equivalents[2]	9,985	—	10,765	—
Weighted average Class A common stock, diluted[1]	44,711	132	41,357	66
Net income (loss) per Class A share, basic[1]	$ 0.01	$ (0.24)	$ 0.02	$ (0.24)
Net income (loss) per Class A share, diluted[1]	$ 0.01	$ (0.24)	$ 0.02	$ (0.24)

[1] The net income (loss) attributable to Class A stockholders, basic and diluted, and the weighted average Class A common stock basic and diluted, as of and for the three and six months ended June 30, 2020 were retrospectively restated to effect the Share Exchange. This resulted in a reduction in the loss per Class A share, basic and diluted, for the six months ended June 30, 2020 from $(0.48) per share to $(0.24) per share as a result of there being no Class A shares outstanding during the three months ended March 31, 2020 after effecting the Share Exchange.

[2] The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net income (loss) per share attributable to Class A stockholders because the impact of including them would have been anti-dilutive: 251 and 3,653 for the three months ended June 30, 2021 and 2020, respectively, and 168 and 3,693 for the six months ended June 30, 2021 and 2020, respectively.

Class B common stock:	For the three months ended June 30, 2021 (unaudited)	For the three months ended June 30, 2020 (unaudited)	For the six months ended June 30, 2021 (unaudited)	For the six months ended June 30, 2020 (unaudited)
Numerator, basic:				
Net income (loss) attributable to all stockholders	$ 808	$ (29,075)	$ 3,096	$ (58,139)
Class B common stock as a percentage of total shares outstanding, basic[1]	76.46 %	99.89 %	79.20 %	99.97 %
Net income (loss) attributable to Class B stockholders, basic[1]	$ 618	$ (29,043)	$ 2,452	$ (58,123)
Numerator, diluted:				
Net income (loss) attributable to all stockholders	$ 808	$ (29,075)	$ 3,096	$ (58,139)
Class B common stock as a percentage of total shares outstanding, diluted[1]	71.63 %	99.89 %	73.80 %	99.97 %
Net income (loss) attributable to Class B stockholders, diluted[1]	$ 579	$ (29,043)	$ 2,285	$ (58,123)
Denominator, basic and diluted:				
Weighted average Class B common stock, basic[1]	112,804	120,417	116,460	120,417
Dilutive effect of common stock equivalents[1]	—	—	—	—
Weighted average Class B common stock, diluted[1]	112,804	120,417	116,460	120,417
Net income (loss) per Class B share, basic[1]	$ 0.01	$ (0.24)	$ 0.02	$ (0.48)
Net income (loss) per Class B share, diluted[1]	$ 0.01	$ (0.24)	$ 0.02	$ (0.48)

[1] The net income (loss) attributable to Class B stockholders, basic and diluted, and the weighted average Class B common stock basic and diluted, as of and for the three and six months ended June 30, 2020 were retrospectively restated to effect the Share Exchange. As there were no changes to the total number of shares outstanding as a result of the Share Exchange, there was no change to net loss per Class B share, basic or diluted from previously disclosed results for the three and six months ended June 30, 2020.

12. STOCK-BASED AWARD PLANS

On the effective date of the Offering, the Company adopted the 2020 Plan and the ESPP.

The 2020 Plan provides the ability to grant cash and equity-based incentive awards to eligible employees, directors and service providers in order to attract, retain and motivate those that make important contributions to the Company. The 2020 Plan provides for the award of stock options, RSAs, RSUs, SARs and other cash compensation.

The ESPP provides eligible employees with rights during each six-month ESPP offering period to purchase shares of the Company's Class A common at the ESPP Discount through payroll deductions, except for the initial offering period (July 28 to November 30, 2020) whereby the participants were permitted to make lump sum contributions to the ESPP for such period. Amounts withheld or received from participants are reflected in accrued salaries and benefits in the condensed consolidated balance sheets until such shares are purchased. Amounts withheld from participants for the offering period ending November 30, 2021 aggregated $152 as of June 30, 2021.

Prior to the adoption of the 2020 Plan, the Company had a SAR plan for the purpose of providing incentives to key members of management and consultants to contribute to the growth and financial success of the Company. As a result of the Offering, SAR participants were offered the option to either redeem their SARs upon the occurrence of the Offering or amend their SARs pursuant to which, upon effectiveness of the 2020 Plan, such SARs would become options to purchase shares of Class A common stock under the 2020 Plan (the "SAR Exchange Offer"). All SAR participants eligible to receive the SAR Exchange Offer accepted and had their outstanding SARs converted to stock options with equivalent terms under the 2020 Plan at the Offering effective date (the "Converted SARs") of July 28, 2020. This was considered a modification of these SAR awards which was recorded in the respective quarter this occurred. The SAR plan was subsequently retired ("Retired SAR Plan") and any SARs issued after such date will be granted under the 2020 Plan.

Prior to the adoption of the 2020 Plan, the Company had options outstanding to purchase shares of former Class B common stock. Upon the effectiveness of the Offering these options were amended and exchanged for options to purchase an equivalent number of Class A shares at the same exercise price and vesting, subject to many of the terms of the 2020 Plan. These options remain subject to expiration in connection with a Triggering Event under the terms of the original option agreements (the “Amended Options”). Any options issued subsequent to this exchange will be granted under the 2020 Plan.

2020 Plan

As of June 30, 2021, 854 shares of Class A common were available for issuance under the 2020 Plan.

Awards issued under the 2020 Plan vest based on service criteria established by the Board. The Company has elected to account for forfeitures as they occur rather than estimate forfeitures at date of grant.

Retired SAR Plan

At June 30, 2020, the fair value of the common stock underlying the SAR Awards was determined by the Board with assistance from management and an independent third-party valuation firm. The determination of value used the market and income approaches, with an adjustment for marketability discount pertinent to private company entities in arriving at the per share fair value (the “valuation methodology”). Under the market approach, the guideline public company method is used, which estimates the fair value of the Company based on market prices of stock of guideline public companies. The income approach involves projecting the future benefits of owning an asset and estimating the present value of those future benefits by discounting them based upon the time value of money and the investment risks associated with ownership. At the end of 2019, due to the consideration by the Board of pursuing the Offering, the valuation methodology began to consider the impact of such an event on the value of the Company’s common stock underlying the awards. As the Company approached the Offering effective date, this resulted in increases in the value of the SAR Awards which resulted in corresponding increases to compensation expense during 2020 which exceeded historical results.

Amended Options

Prior to the amendment of the options in connection with the Offering in July 2020, the options permitted holders to put their exercised shares back to the Company, thus the options were classified as temporary equity and included in “Options for Redeemable Shares” on the condensed consolidated statements of changes in equity (deficit) at June 30, 2020 and March 31, 2020. The Company recorded an increase in the value of Options for Redeemable Shares of $14,637 and $29,879 during the three and six months ended June 30, 2020, respectively, pertaining to the 3,676 options outstanding at June 30, 2020. As all options outstanding were fully vested, no related compensation expense was recorded for the six months ended June 30, 2020.

In connection with the amendment, the option holders’ ability to put the exercised Amended Option shares to the Company in order to attain liquidity was exchanged for the right by the holders to exercise these options and sell the related shares on the NASDAQ exchange. As a result of the put right no longer being applicable, the options were no longer considered temporary equity and were reclassified to stockholders’ equity at the time of the exchange.

Options under 2020 Plan

The following table summarizes activity for options outstanding under the 2020 Plan:

2020 Plan Option Activity	Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2021	11,876	$ 2.44		
Granted	263	$ 31.51		
Forfeited	(281)	$ 3.50		
Exercised	(1,677)	$ 2.14		$ 35,882
2020 Plan options outstanding at June 30, 2021	10,181	$ 3.21	5.11	$ 190,675
2020 Plan options exercisable at June 30, 2021	5,895	$ 1.77	3.36	$ 118,920

The detail of options outstanding, vested and exercisable under the 2020 Plan as of June 30, 2021 is as follows:

	Options Outstanding		Options Vested and Exercisable	
Exercise Prices	Units	Weighted Average Life (Years)	Units	Weighted Average Life (Years)
$0.15 to $0.71	2,234	*	2,234	—
$2.15	548	3.61	548	3.61
$2.50	2,431	4.99	1,801	4.86
$2.67	650	5.68	273	5.69
$3.17	1,415	6.78	665	6.76
$3.73	1,957	8.31	371	8.01
$4.70	683	8.61	—	—
$17.66	12	9.87	—	—
$32.16	251	9.67	3	9.67
	10,181		5,895	

*Amended Options have indefinite contractual lives

The Board intends all options granted to be exercisable at a price per share not less than the per share fair market value of the Company's Class A common stock underlying the options on the date of grant. Compensation expense for new option awards issued subsequent to the Offering to participants under the 2020 Plan are measured based on the grant date fair value of the awards and recognized in the condensed consolidated statements of comprehensive loss over the period during which the participant is required to perform the requisite services. The vesting period is generally one to four years. The grant date fair value of options is estimated using the Black-Scholes model.

There were no options issued or outstanding under the 2020 Plan for the three months ended June 30, 2020. The Company issued 251 options and 12 options under the 2020 Plan during the three months ended March 31 and June 30, 2021, respectively. The assumptions used in the Black-Scholes model to determine the value of the options issued during these periods are as follows:

	Option Valuation Period	
	Q1 2021	Q2 2021
Fair market value of common stock	$ 32.16	$ 17.66
Volatility	36.8 %	36.8 %
Expected term (years)	6.0	6.0
Expected dividend yield	— %	— %
Risk-free interest rate	0.4 %	0.4 %

The fair market value of common stock reflects the market closing price on NASDAQ on the respective option grant date. As of the valuation dates, the Company lacked sufficient historical data on the volatility of its stock price. Selected volatility is representative of expected future volatility and was based on the historical and implied volatility of comparable publicly traded companies over a similar expected term. The expected term represents the term the options are expected to be exercised over, which differs from the term of the option grants which is ten years. The Company does not expect to pay dividends. The risk-free interest rate was based on the rate for a U.S. Treasury zero-coupon issue with a term that closely approximates the expected term of the option grants.

During the three and six months ended June 30, 2021, the Company recognized aggregate stock-based compensation expense for options and Converted SARs that were exchanged for options under the 2020 Plan of $3,913 and $7,681, respectively, net of forfeitures related to these awards. At June 30, 2021, $25,025 of unrecognized compensation expense associated with options and Converted SARs is expected to be recognized over a weighted average period of approximately 3.0 years.

Restricted Stock Units

The following table summarizes RSU activity for the six months ended June 30, 2021:

	Units	Weighted Average Grant Date Fair Value Per Share
Outstanding at January 1, 2021	101	$ 23.80
Granted	352	30.73
Vested	(7)	34.78
Forfeited	(15)	28.86
Outstanding at June 30, 2021	431	$ 29.50

There were no RSUs issued or outstanding for the six months ended June 30, 2020. Stock-based compensation cost for RSUs is measured based on the fair value of the Company's underlying common stock on the date of grant and is recognized on a straight-line basis in the condensed consolidated statements of comprehensive loss over the period during which the participant is required to perform services in exchange for the award, which is generally one to four years. Vested RSUs are settled by issuing Class A shares or the equivalent value in cash at the Board's discretion. During the three and six months ended June 30, 2021, the Company recognized stock-based compensation expense for RSUs of $793 and $1,229, respectively, net of forfeitures related to these awards. At June 30, 2021, $11,108 of unrecognized compensation cost for RSUs is expected to be recognized over a weighted average period of approximately 3.6 years.

In connection with the Taxamo acquisition, certain continuing employees of Taxamo received RSUs with service and performance conditions covering up to 1,230 shares of our Class A common stock ("PSUs") with an aggregate grant date fair value of $21,729 that will be accounted for as post-acquisition compensation expense over the vesting period. The performance-based condition will be satisfied upon meeting certain performance targets for the year ended 2023. As of June 30, 2021, it is not probable that these targets will be met, thus no compensation expense has been recorded to date related to these PSUs.

Restricted Stock Awards

The following table summarizes RSA activity for the six months ended June 30, 2021:

	Units	Weighted Average Grant Date Fair Value Per Share
Outstanding at January 1, 2021	670	$ 19.00
Granted	59	17.66
Vested	(234)	19.00
Forfeited	(18)	19.00
Outstanding at June 30, 2021	477	$ 18.90

There were no RSAs issued or outstanding for the six months ended June 30, 2020. Stock-based compensation cost for RSAs is measured based on the fair value of the Company's underlying common stock on the date of grant and is recognized on a straight-line basis in the condensed consolidated statements of comprehensive loss over the period during which the participants are required to perform services in exchange for the award, which is generally one to four years. Vested RSAs are settled by issuing Class A shares upon vesting. During the three and six months ended June 30, 2021, the Company recognized stock-based compensation expense for RSAs of $1,446 and $3,655, respectively, net of forfeitures related to these awards. At June 30, 2021, $5,903 of unrecognized compensation cost for RSAs is expected to be recognized over a weighted average period of approximately 2.2 years.

Employee Stock Purchase Plan

The ESPP permits participants to purchase Class A common stock through payroll deductions of up to a specified percentage of their eligible compensation. The maximum number of shares that may be purchased by a participant during any offering period is determined by the plan administrator in advance of each offering period.

On the first trading day of each offering period, each participant will automatically be granted an option to purchase shares of Class A common. The option will expire at the end of the applicable offering period and will be exercised at that time to the extent of the payroll deductions accumulated or contributions made during such offering period. The purchase price of the shares, in the absence of a contrary designation, is 15% of the lower of the fair value of the Class A common on the first or last day of the ESPP offering period. Participants may voluntarily end their participation in the plan at any time during a specified period prior to the end of the applicable offering period and will be paid their accrued payroll deductions and related contributions, if applicable, that have not yet been used to purchase shares of Class A common. If a participant withdraws from the plan during an offering period, the participant cannot rejoin until the next offering period. Participation ends automatically upon a participant's termination of employment.

A total of 1,000 shares of Class A common were initially reserved for issuance under the ESPP. The number of shares available for issuance under the ESPP will be increased annually on January 1 of each calendar year beginning in 2021 and ending in and including 2030, by an amount equal to the lesser of (i) 1% of the shares of Class A and Class B common stock outstanding on the final day of the immediately preceding calendar year and (ii) such smaller number of shares as is determined by the Board, provided that no more than 16,000 shares of Class A common stock may be issued. The ESPP is administered by a committee of the Board.

The Company recorded stock-based compensation expense of $133 and $263 for the three and six months ended June 30, 2021, respectively, related to the ESPP. Class A common stock purchased under the ESPP for the six-month offering period ended May 31, 2021 aggregated 60 shares. As of June 30, 2021, there was approximately $227 of unrecognized ESPP stock-based compensation cost that is expected to be recognized on a straight-line basis over the remaining term of the six-month offering period that started June 1, 2021.

The fair value of ESPP purchase rights is comprised of the value of the 15% ESPP Discount and the value associated with the Call/Put over the respective ESPP offering period. The value of the Call/Put for the previous offering period (December 1, 2020 – May 31, 2021) and the current offering period (June 1, 2021 – November 30, 2021) was estimated using the Black-Scholes model with the following assumptions:

	Previous Offering Period	Current Offering Period
Fair market value of common stock	$ 25.83	$ 19.89
Volatility	35.10 %	35.10 %
Expected term (years)	0.50	0.50
Expected dividend yield	— %	— %
Risk-free interest rate	0.12 %	0.12 %

The Company lacks sufficient historical data on the volatility of its stock price. Selected volatility is representative of expected future volatility and was based on the historical and implied volatility of comparable publicly traded companies over a similar expected term. The expected term represents the term of the ESPP offering period, which is generally six months. The Company does not expect to pay dividends. The risk-free interest rate was based on the rate for a U.S. Treasury zero-coupon issue with a term that closely approximates the expected term of the award at the date nearest the offering term.

Stock-Based Compensation

The Company recognized total stock-based compensation cost related to incentive awards as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Stock-based compensation expense:				
SARs and Converted SARs	$ 3,520	$ 41,676	$ 6,911	$ 76,596
Stock options	393	—	770	—
RSUs	793	—	1,229	—
RSAs	1,446	—	3,655	—
ESPP	133	—	263	—
Total stock-based compensation expense	$ 6,285	$ 41,676	$ 12,828	$ 76,596

The Company recognized stock-based compensation cost in the condensed consolidated statements of comprehensive loss as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Stock-based compensation expense:				
Cost of revenues, software subscriptions	$ 572	$ 4,168	$ 1,132	$ 7,660
Cost of revenues, services	622	6,251	1,216	11,489
Research and development	571	4,168	1,132	7,660
Selling and marketing	1,433	8,335	2,720	15,319
General and administrative	3,087	18,754	6,628	34,468
Total stock-based compensation expense	$ 6,285	$ 41,676	$ 12,828	$ 76,596

13. LEGAL PROCEEDINGS

The Company may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the Company’s business. The Company is not aware of any such legal proceedings or claims that management believes will have a material adverse effect on its business, financial condition, or operating results.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, beliefs and expectations that involve risks and uncertainties. Our actual results and the timing of events could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in the section titled "Special Note Regarding Forward-Looking Statements" above.

Overview

Vertex is a leading global provider of indirect tax software and solutions. Our mission is to deliver the most trusted tax technology enabling global businesses to transact, comply and grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for every major line of indirect tax, including sales and consumer use, value added and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,200 professionals and serves companies across the globe.

We have pioneered tax technology for over 40 years. We first began electronic delivery of tax rules in the early 1980s, and we first sold transaction tax processing software in 1982. Today, our software enables tax determination, compliance and reporting, tax data management and document management with powerful pre-built integrations to core business applications used by most companies, particularly those applications that have a significant impact on global commerce. Our software is fueled by over 300 million data-driven effective tax rules and supports indirect tax compliance in more than 19,000 jurisdictions worldwide. In order to maintain the quality of our content, our team includes many global tax and regulatory experts from industry and the public sector, who deliver monthly updates to our tax content, which are then incorporated directly into our software. Our solutions can be deployed on-premise, in the cloud, or both, with implementation services available to enable optimal customer outcomes and satisfy their unique business requirements.

We have accumulated industry-specific tax knowledge for over four decades, and our customers leverage our in-depth content through their use of our software. This allows our customers to comply with the dynamic regulatory landscape in real time and mitigates our customers' risk exposure. As our customers expand their global footprint and business models, we are actively supporting their expansion by continuously strengthening our content offering and allowing for additional jurisdiction-specific tax compliance.

We derive the majority of our revenue from software subscriptions. These subscriptions include use of our software and ongoing monthly content updates. Our software is offered on a subscription basis to our customers, regardless of their deployment preferences. On-premise subscriptions are typically sold through one-year contracts and cloud-based subscriptions are typically sold through one- to three-year contracts. We bill almost all of our customers annually in advance of the subscription period.

Our customers include a majority of the Fortune 500, as well as a majority of the top 10 companies by revenue in multiple industries such as retail, technology and manufacturing, in addition to leading marketplaces. As our customers expand geographically and pursue omnichannel business models, their tax determination and compliance requirements increase and become more complex, providing sustainable organic growth opportunities for our business. Our flexible, tiered transaction-based pricing model also results in our customers growing their spend with us as they grow and continue to use our solutions. We principally price our solutions based on a customer's revenue base, in addition to a number of other factors.

We employ a hybrid deployment model to align to our customers' technology preferences for their core financial management software across on-premise, cloud deployments or any combination of these models. Over time, we expect both existing and newly acquired customers to continue to shift towards cloud deployment models. Cloud-based subscription sales to new customers have grown at a significantly faster rate than on-premise software subscription sales, which is a trend that we expect to continue over time. We generated 36% and 26% of software subscription revenue from cloud-based subscriptions during the three months ended June 30, 2021 and 2020, respectively, and 34% and 26% for the six months ended June 30, 2021 and 2020, respectively. While our on-premise software subscription revenue comprised 64% and 74% of our software subscription revenues during the three months ended June 30, 2021 and 2020, respectively, and 66% and 74% for the six months ended June 30, 2021 and 2020, respectively, it continues to decrease as a percentage of total software subscriptions revenues as cloud-based subscriptions accelerate.

We license our solutions primarily through our direct sales force, which focuses on selling to qualified leads provided by our marketing efforts, and through our network of referral partners. We also utilize indirect sales to a lesser extent to efficiently grow and scale our enterprise and mid-market revenues.

Our partner ecosystem is a differentiating, competitive strength in both our software development and our sales and marketing activities. We integrate with key technology partners that span ERP, CRM, procurement, billing, POS and e-commerce. These partners include Adobe/Magento, Coupa, Microsoft Dynamics, NetSuite, Oracle, Salesforce, SAP, SAP Ariba, Workday and Zuora. We also collaborate with numerous accounting firms who have built implementation practices around our software to serve their customer base.

We believe that global commerce and the compliance environment provides durable and accelerating growth opportunities for our business. We generated revenue of $104.9 million and $91.3 million for the three months ended June 30, 2021 and 2020, respectively. We generated revenue of $203.2 million and $180.5 million for the six months ended June 30, 2021 and 2020, respectively. We had a net income of $0.8 million and a net loss of $(29.1) million for the three months ended June 30, 2021 and 2020, respectively. We had a net income of $3.1 million and a net loss of $(58.1) million for the six months ended June 30, 2021 and 2020, respectively. Net income is presented in accordance with generally accepted accounting principles in the U.S. (“GAAP”).

We define Adjusted EBITDA as net income or loss before interest, taxes, depreciation, and amortization, as adjusted to exclude charges for asset impairments, stock-based compensation expense, severance expense and transaction costs. Adjusted EBITDA was $19.2 million and $21.5 million for the three months ended June 30, 2021 and 2020, respectively. Adjusted EBITDA was $37.4 million and $36.8 million for the six months ended June 30, 2021 and 2020, respectively. Adjusted EBITDA is a non-GAAP financial measure. Refer to “Key Business Metrics” and “Use and Reconciliation of Non-GAAP Financial Measures” for further discussion of key business metrics and non-GAAP financial measures and their comparison to GAAP financial measures.

Recent Developments

Taxamo Acquisition

On May 12, 2021, the Company acquired 95% of the outstanding equity of EVAT Solutions Limited (“EVAT”) and its wholly owned subsidiaries (collectively “Taxamo”), a cloud-based provider of tax and payment automation for global eCommerce and marketplaces. This acquisition supports the Company’s growth strategies across eCommerce platforms and marketplaces in Europe and North America. The preliminary purchase price for the Taxamo acquisition was $200.7 million as of the acquisition date, consisting of (i) $190.2 million of cash paid at closing, (ii) an acquisition holdback of $0.5 million, and (iii) an option to purchase from and an option for the remaining shareholder to sell the remaining 5% of the outstanding equity of EVAT at a fixed amount between August and December 2021 for $10.0 million.

Impact of COVID-19

During 2020 and for the six months ended June 30, 2021, the COVID-19 pandemic had minimal impact on our revenues and results of operations, as we continue to derive the significant majority of our revenues from our existing software subscriptions. As we principally price our solutions based on our customers’ revenues within certain revenue bands, elongated declines in our existing customers’ revenues may impact our ability to grow our existing customer revenues. We did not experience an abnormal number of non-renewals in 2020 or for the six months ended June 30, 2021, nor any material declines in revenues associated with declines in our customers’ revenues, and we currently expect our existing customer base to remain largely stable, as it did through the recession in 2008 and 2009. However, significant increases in non-renewals or concessions to renewal customers would have a material impact on our revenues and cash flows. During 2020 and through the six months ended June 30, 2021, we have seen some delays in signing deals due to prospects ongoing adjustments to working remotely for extended periods of time, and some due to economic uncertainty. We expect that the uncertainty caused by the COVID-19 pandemic could impact our billings to new customers beyond 2020 and the six months ended June 30, 2021 as the pandemic continues to generate economic uncertainty. In addition, it may also negatively impact our efforts to maintain or expand revenues from our existing customers as they continue to evaluate certain long-term projects and budget constraints. However, we do not anticipate that overall demand for our software and solutions, our ability to deliver such software and solutions, or our growth strategies will be materially impacted by the COVID-19 pandemic, as companies continue to rely on us for their indirect tax solutions.

Our cash collections for 2020 were consistent with our expectations as some of the procedural disruptions that customers experienced as they shifted to remote work early in the year stabilized by the end of 2020. We believe that we may see delays in collections in 2021 as the recent resurgence of COVID-19 continues to generate economic uncertainty. However, we do not believe that these delays will materially impact our business; we continue to expect that we will be able to collect amounts due under subscription contracts from customers experiencing issues as a result of the COVID-19 pandemic, and we have not recorded additional credit losses associated with the allowance for doubtful accounts in connection with any delays. Given that customers cannot forgo our monthly content updates, which are necessary to remain compliant with the most current regulations, we believe customers will continue to pay our renewal invoices in a timely, even if slightly elongated, manner. We believe that we currently have ample liquidity and capital resources to continue to meet our operating needs, and our ability to continue to service our debt or other financial obligations is not currently impaired. For a further description of our liquidity, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

The extent to which the COVID-19 pandemic impacts our business going forward will depend on numerous evolving factors that cannot reliably be predicted, including the duration and scope of the pandemic; governmental, business, and individuals’ actions in response to the pandemic; and the impact on economic activity, including the possibility of recession or financial market instability. These factors may adversely impact consumer, business and government spending on technology as well as customers’ ability to pay for our products and services on an ongoing basis. This uncertainty also affects management’s accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions, including estimated allowance for subscription cancellations, product life cycles, estimated useful lives and potential impairment of long-lived assets and intangible assets, and potential impairment of goodwill.

Components of Our Results of Operations

Revenue

We generate revenue from software subscriptions and services.

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration expected to be received in exchange for those products or services. We enter into contracts that include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowance for subscription and non-renewal cancellations and any taxes collected from customers that are subsequently remitted to governmental authorities.

Software Subscriptions

Licenses for on-premise software subscriptions, which are generally one year, provide the customer with a right to use the software as it exists when made available to the customer. Customers purchase a subscription to these licenses, which includes the related software and tax content updates and product support. The updates and support, which are part of the subscription agreement, are essential to the continued utility of the software; therefore, we have determined the software and the related updates and support to be a single performance obligation. Accordingly, when on-premise software is licensed, the revenue associated with this combined performance obligation is recognized ratably over the license term as these subscriptions are provided for the duration of the license term. Revenue recognition begins on the later of the beginning of the subscription period or the date the software is made available to the customer to download.

Our on-premise software subscription prices in the initial subscription year are higher than standard renewal prices. The excess initial year price over the renewal price is a material right that provides customers with the right to this reduced renewal price. We recognize revenue associated with this material right over the estimated period of benefit to the customer, which is generally three years.

Our cloud-based subscriptions allow customers to use Vertex-hosted software over the contract period without taking possession of the software. The contracts are generally for one to three years and are generally billed annually in advance of the subscription period. Our cloud-based offerings also include related updates and support. All services within the cloud-based contracts consistently provide a benefit to the customer during the subscription period, thus the associated revenue is recognized ratably over the subscription period. Revenue recognition begins on the later of the beginning of the subscription period or the date the customer is provided access to the cloud-based solutions.

Revenue is impacted by the timing of sales and our customers' growth or contractions resulting in their need to expand or contract their subscription usage, the purchase of new solutions or the non-renewal of existing solutions. In addition, revenue will fluctuate with the cessation of extended product support fees charged for older versions of our software subscription solutions when they are retired and these fees are no longer charged. Contracts for on-premise licenses permit cancellations at the end of the license term, which is generally one year. Legacy cloud-based subscription contracts for multi-year periods previously provided customers the right to terminate their contract for services prior to the end of the subscription period at a significant penalty. This penalty requires the payment of a percentage of the remaining months of the then current contract term. Current cloud-based contracts do not contain such termination rights. Terminations of cloud-based subscriptions prior to the end of the subscription term have occurred infrequently and the impact has been immaterial. The allowance for subscription and non-renewal cancellations reflects an estimate of the amount of such cancellations and non-renewals based on past experience, current information and forward-looking economic considerations.

Services Revenue

We generate services revenue primarily in support of our customers' needs associated with our software and to enable them to realize the full benefit of our solutions. These software subscription-related services include configuration, data migration and implementation, and premium support and training. In addition, we generate services revenue through our managed services offering which allows customers to outsource all or a portion of their indirect tax operations to us. These services include indirect tax return preparation, filing and tax payment and notice management. We generally bill for services on a per-transaction or time and materials basis, and we recognize revenue from deliverable-based professional services as services are performed.

Fluctuations in services revenue are directly correlated to fluctuations in our subscription revenues with respect to implementation and training services as we have historically experienced an attachment rate to subscription sales for these services in excess of 60%. However, demand for services in 2020 exceeded historical levels as certain customers migrated to a newer version of the software which is not expected to be a significant driver of our services revenues growth in 2021. In addition, our managed services offering has continued to experience increased revenues associated with returns processing volume increases attributable to regulatory changes, as customers expanded their tax filings into more jurisdictions.

Cost of Revenue

Software Subscriptions

Cost of software subscriptions revenue consists of costs related to providing and supporting our software subscriptions and includes personnel and related expenses, including salaries, benefits, bonuses and stock-based compensation. In addition, cost of revenue includes direct costs associated with information technology, such as data center and software hosting costs, and tax content maintenance. Cost of revenue also includes amortization associated with direct labor and related expenses for capitalized internal-use software for cloud-based subscription solutions and software developed for sale for new products and enhancements to existing products, and costs associated with the amortization of acquired intangible assets. We plan to continue to significantly expand our infrastructure and personnel to support our future growth and increases in transaction volumes of our cloud-based solutions, including through acquisitions. We expect growth in our business will result in an increase in cost of revenue in absolute dollars.

Services

Cost of services revenue consists of direct costs of software subscription-related services and our managed services offering. These costs include personnel and related expenses, including salaries, benefits, bonuses, stock-based compensation and the cost of third-party contractors and other direct expenses. We plan to continue to expand our infrastructure and personnel as necessary to support our future growth and related increases in our service revenue. We expect growth in our business will result in an increase in the cost of services revenue in absolute dollars, but may decrease as a percentage of revenues as we scale our operations.

Research and Development

Research and development expenses consist primarily of personnel and related expenses for our research and development activities, including salaries, benefits, bonuses and stock-based compensation, and the cost of third-party developers and other contractors. Research and development costs, other than software development expenses qualifying for capitalization, are expensed as incurred.

We devote substantial resources to developing new products and enhancing existing products, conducting quality assurance testing and improving our core technology. We believe continued investments in research and development are critical to attain our strategic objectives and expect research and development costs to increase in absolute dollars. These investments include enhancing our solution offerings to address changing customer needs to support their growth, as well as implementing changes required to keep pace with our partners' technology to ensure the continued ability of our solutions to work together and deliver value to our customers. The market for our solutions is characterized by rapid technological change, frequent new product and service introductions and enhancements, changing customer demands and evolving industry standards. As a result, although we are making significant research and development expenditures, which may be incurred and certain of which may be capitalized, there is no guarantee these solutions will be accepted by the market. This could result in increased costs or an impairment of capitalized development costs with no resulting future revenue benefit.

Selling and Marketing Expenses

Selling expenses consist primarily of personnel and related expenses in support of sales and marketing efforts. These costs include salaries, benefits, bonuses and stock-based compensation. In addition, selling expense includes costs related to advertising and promotion efforts, branding costs, partner-based commissions, costs associated with our annual customer conferences and amortization of certain acquired intangible assets. We intend to continue to invest in our sales and marketing capabilities in the future to continue to increase our brand awareness and expect these costs to increase on an absolute dollar basis as we grow our business and continue to expand our market and partner ecosystem penetration. Sales and marketing expense in absolute dollars and as a percentage of total revenue may fluctuate from period-to-period based on total revenue levels and the timing of our investments in our sales and marketing functions as these investments may vary in scope and scale over future periods. In addition, travel restrictions due to COVID-19 continue to result in reductions in travel and external marketing events. These costs are expected to increase once travel and conference restrictions are lifted, although it is uncertain whether they will return to historical levels experienced pre-COVID-19.

General and Administrative

General and administrative expenses consist primarily of personnel and related expenses for administrative, finance, information technology, legal, risk management, facilities and human resources staffing, including salaries, benefits, bonuses, severance, stock-based compensation, professional fees, insurance premiums, facility costs and other internal support costs.

We expect our general and administrative expenses to increase in absolute dollars as we continue to expand our operations, hire additional personnel, integrate future acquisitions and incur additional costs associated with becoming a publicly listed company. As a public company, we expect to incur increased expenses related to accounting, tax and auditing activities, legal, insurance, SEC compliance and internal control compliance, including the design, implementation and testing of increasingly formalized systems of internal control over financial reporting.

Depreciation and Amortization

Depreciation and amortization expense consists of the allocation of purchased and developed asset costs over the future periods benefitted by the use of these assets. These assets include leasehold improvements for our facilities, computers and equipment needed to support our customers and our internal infrastructure and capitalized internal-use software associated with our internal infrastructure and tools. Depreciation and amortization will fluctuate in correlation with our ongoing investment in internal infrastructure costs to support our growth.

Other Operating Expense, net

Other operating expense, net consists primarily of transactions costs associated with merger and acquisition activities, quarterly remeasurement of contingent consideration associated with completed acquisitions, realized gains and losses on foreign currency changes and other operating gains and losses. These amounts will fluctuate as a result of ongoing merger and acquisition activities and for changes in foreign currency rates.

Interest (Income) Expense, net

Interest (income) expense, net reflects the amount of our interest expense that exceeds interest income over the same period.

Interest expense consists primarily of interest payments and other financing costs on our bank credit facility. Interest expense includes amortization of deferred financing fees over the term of the credit facility or write-downs of such costs upon redemption of debt. Interest expense will vary as a result of fluctuations in the level of debt outstanding as well as interest rates on such debt. In addition, interest expense will include adjustments to the fair value of contracts that may be entered into to hedge risks associated with currency fluctuations for cash receipts or cash payments denominated in currencies other than U.S. dollars and which do not qualify for hedge accounting. In addition, changes in the settlement value of the future payment obligation for the Systax Sistemas Fiscais Limited ("Systax") acquisition will be recorded as interest expense.

Interest income reflects earnings on investments of our cash on hand and on funds held for customers related to our managed outsourcing services. Interest income will vary as a result of fluctuations in the future level of funds available for investment and the rate of return available in the market on such funds.

Provision for Income Taxes

Prior to July 27, 2020, Vertex was taxed as an S-Corporation for U.S. federal and certain state income tax purposes. As a result, net income or loss prior to this date has been allocated to and included on the income tax returns of the S-Corporation stockholders. Vertex was taxed at the corporate level in certain states where the S-Corporation status was not recognized or where the state imposed a tax on S-Corporations. Accordingly, the income tax provision or benefit for such periods was based on taxable income allocated to those states. In certain foreign jurisdictions, our subsidiaries were taxed at the corporate level, and the income tax provision or benefit is based on taxable income sourced to these foreign jurisdictions.

Effective as of July 27, 2020, Vertex converted to a C-Corporation, which resulted in our net income being taxed at the corporate level. As such, our provision for income taxes has increased since we are now subject to U.S. federal and state corporate income taxes.

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Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q, our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 15, 2021. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

The following table sets forth our consolidated statements of comprehensive loss for the periods indicated.

	Three months ended June 30,				Six months ended June 30,			
(Dollars in thousands)	**2021**	**2020**	**Period-Over-Period Change**		**2021**	**2020**	**Period-Over-Period Change**	
Revenues:								
Software subscriptions	$ 89,604	$ 77,306	$ 12,298	15.9 %	$ 172,884	$ 153,066	$ 19,818	12.9 %
Services	15,334	13,965	1,369	9.8 %	30,290	27,450	2,840	10.3 %
Total revenues	104,938	91,271	13,667	15.0 %	203,174	180,516	22,658	12.6 %
Cost of revenues:								
Software subscriptions[1]	26,829	26,001	828	3.2 %	52,419	50,685	1,734	3.4 %
Services[1]	10,550	15,744	(5,194)	(33.0)%	21,893	30,522	(8,629)	(28.3)%
Total cost of revenues	37,379	41,745	(4,366)	(10.5)%	74,312	81,207	(6,895)	(8.5)%
Gross profit	67,559	49,526	18,033	36.4 %	128,862	99,309	29,553	29.8 %
Operating expenses:								
Research and development[1]	11,926	13,617	(1,691)	(12.4)%	23,385	26,696	(3,311)	(12.4)%
Selling and marketing[1]	24,865	24,544	321	1.3 %	45,015	48,877	(3,862)	(7.9)%
General and administrative[1]	24,865	37,758	(12,893)	(34.1)%	49,717	75,394	(25,677)	(34.1)%
Depreciation and amortization	2,878	2,505	373	14.9 %	5,705	5,374	331	6.2 %
Other operating expense, net	4,483	103	4,380	4,252.4 %	4,354	214	4,140	1,934.6 %
Total operating expenses	69,017	78,527	(9,510)	(12.1)%	128,176	156,555	(28,379)	(18.1)%
Income (loss) from operations	(1,458)	(29,001)	27,543	95.0 %	686	(57,246)	57,932	101.2 %
Interest (income) expense, net	(385)	1,059	(1,444)	(136.4)%	150	1,628	(1,478)	90.8 %
Income (loss) before income taxes	(1,073)	(30,060)	28,987	96.4 %	536	(58,874)	59,410	100.9 %
Income tax benefit	(1,881)	(985)	(896)	91.0 %	(2,560)	(735)	(1,825)	248.3 %
Net income (loss)	808	(29,075)	29,883	102.8 %	3,096	(58,139)	61,235	105.3 %
Other comprehensive loss from foreign currency translations and revaluations, net of tax	3,359	276	3,083	1,117.0 %	4,336	3,274	1,062	32.4 %
Total comprehensive loss	$ (2,551)	$ (29,351)	$ 26,800	91.3 %	$ (1,240)	$ (61,413)	$ 60,173	98.0 %

1 Includes stock-based compensation expenses as shown on the following table.

(In thousands)	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Stock-based compensation expense:				
Cost of revenues, software subscriptions	$ 572	$ 4,168	$ 1,132	$ 7,660
Cost of revenues, services	622	6,251	1,216	11,489
Research and development	571	4,168	1,132	7,660
Selling and marketing	1,433	8,335	2,720	15,319
General and administrative	3,087	18,754	6,628	34,468
Total stock-based compensation expense	$ 6,285	$ 41,676	$ 12,828	$ 76,596

The following table sets forth our results of operations as a percentage of our total revenues for the periods presented.

	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Revenues:				
Software subscriptions	85.4 %	84.7 %	85.1 %	84.8 %
Services	14.6 %	15.3 %	14.9 %	15.2 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of Revenues:				
Software subscriptions	25.6 %	28.5 %	25.8 %	28.1 %
Services	10.1 %	17.2 %	10.8 %	16.9 %
Total cost of revenues	35.7 %	45.7 %	36.6 %	45.0 %
Gross profit	64.3 %	54.3 %	63.4 %	55.0 %
Operating expenses:				
Research and development	11.4 %	14.9 %	11.5 %	14.8 %
Selling and marketing	23.7 %	26.9 %	22.2 %	27.1 %
General and administrative	23.7 %	41.4 %	24.5 %	41.8 %
Depreciation and amortization	2.7 %	2.7 %	2.8 %	3.0 %
Other operating expense, net	4.3 %	0.1 %	2.1 %	0.1 %
Total operating expenses	65.8 %	86.0 %	63.1 %	86.8 %
Income (loss) from operations	(1.4)%	(31.8)%	0.3 %	(31.8)%
Interest (income) expense, net	(0.4)%	1.2 %	0.1 %	(0.9)%
Income (loss) before income taxes	(1.0)%	(33.0)%	0.2 %	(32.7)%
Income tax benefit	(1.8)%	(1.1)%	(1.3)%	(0.4)%
Net income (loss)	0.8 %	(31.9)%	1.5 %	(32.3)%
Other comprehensive loss from foreign currency translations, net of tax	3.2 %	0.3 %	2.1 %	(1.8)%
Total comprehensive loss	(2.4)%	(32.2)%	(0.6)%	(34.1)%

Three Months Ended June 30, 2021 Compared to Three Months Ended June 30, 2020

Revenues

(Dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Period-over-Period change	
Revenues:				
Software subscriptions	$ 89,604	$ 77,306	$ 12,298	15.9 %
Services	15,334	13,965	1,369	9.8 %
Total revenues	$ 104,938	$ 91,271	$ 13,667	15.0 %

Revenues increased $13.7 million, or 15.0%, to $104.9 million for the three months ended June 30, 2021 compared to $91.3 million for the three months ended June 30, 2020. The increase in software subscriptions revenues of $12.3 million, or 15.9%, was primarily driven by and increase of $10.1 million in revenues derived from our existing customers and a period over period increase of $2.2 million in revenues derived from new customers. Software subscriptions revenues derived from new customers averaged 8.9% of total software subscriptions revenues in both periods.

The $1.4 million increase in services revenues was primarily driven by an increase of $0.5 million in software subscription related services associated with the growth in subscription revenues, which includes new customers implementing our solutions and existing customers upgrading to newer versions of our solutions. In addition, our managed services offering experienced a $0.8 million increase in recurring services revenues over the prior year due to returns processing volume increases related to regulatory changes as customers expanded their tax filings into more jurisdictions.

Cost of Software Subscriptions Revenues

(Dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Period-over-Period change	
Cost of software subscriptions revenues	$ 26,829	$ 26,001	$ 828	3.2 %

Cost of software subscriptions revenues increased $0.8 million, or 3.2%, to $26.8 million for the three months ended June 30, 2021 compared to $26.0 million for the three months ended June 30, 2020. This included a $4.0 million increase in costs of personnel supporting period over period growth of sales and customers and ongoing infrastructure investments to support expansion of customer transaction volumes for our cloud-based subscription customers. In addition, this included an increase in depreciation and amortization of capitalized software and acquired intangibles of $0.4 million associated with our ongoing investments in internal-use software for cloud-based subscription solutions and software developed for sale for new products and enhancements to existing products, and costs associated with the amortization of acquired intangible assets. These increases were partially offset by a $3.6 million decrease in stock-based compensation for the three months ended June 30, 2021 compared to the same period in 2020. As a percentage of total revenues, the cost of software subscriptions revenues decreased to 25.6% for the three months ended June 30, 2021 compared to 28.5% for the same period in 2020. After excluding stock-based compensation expense, as a percentage of total revenues, cost of software subscriptions revenues increased to 25.0% in 2021 compared to 23.9% in 2020.

Cost of Services Revenues

(Dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Period-over-Period change	
Cost of services revenues	$ 10,550	$ 15,744	$ (5,194)	(33.0)%

Cost of services revenue decreased $5.2 million, or 33.0%, to $10.6 million for the three months ended June 30, 2021 compared to $15.7 million for the three months ended June 30, 2020. This decline was primarily driven by a stock-based compensation decrease of $5.6 million for the three months ended June 30, 2021 compared to the same period in 2020. After adjusting for the decline in stock-based compensation expense, cost of services revenues increased $0.4 million primarily driven by an increase in costs of service delivery personnel to support revenue growth in software subscription related services and our managed services offering. As a percentage of total revenues, cost of services revenues decreased to 10.1% in 2021 compared to 17.2% for the same period in 2020. After excluding stock-based compensation expense, as a percentage of total revenues, cost of services revenues decreased to 9.5% in 2021 compared to 10.4% in 2020.

Research and Development

(Dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Period-over-Period change	
Research and development	$ 11,926	$ 13,617	$ (1,691)	(12.4)%

Research and development expenses decreased $1.7 million, or 12.4%, to $11.9 million for the three months ended June 30, 2021 compared to $13.6 million for the three months ended June 30, 2020. However, this decline was driven by a stock-based compensation decrease of $3.6 million for the three months ended June 30, 2021 compared to the same period in 2020. After adjusting for the decline in stock-based compensation expense, research and development expenses increased $1.9 million primarily driven by an increase in costs associated with increased development activity associated with nascent technologies, new solutions to address end-to-end data analysis and compliance needs of our customers, and continued expansion of connectors and application program interfaces ("APIs") to customer ERP and other software platforms. As a percentage of total revenues, research and development expenses decreased to 11.4% for the three months ended June 30, 2021 compared to 14.9% for the three months ended June 30, 2020. After excluding stock-based compensation expense, as a percentage of total revenues, research and development expenses increased to 10.8% in 2021 compared to 10.4% in 2020.

Research and development expense excludes those costs that have been capitalized for solutions that have met our capitalization policy.

Selling and Marketing

(Dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Period-over-Period change	
Selling and marketing	$ 24,865	$ 24,544	$ 321	1.3 %

Selling and marketing expenses increased $0.3 million, or 1.3%, to $24.9 million for the three months ended June 30, 2021 compared to $24.5 million for the same period in 2020. This included a $5.0 million increase in payroll and related expenses associated with the growth in period over period subscription sales and services revenues and expansion of our partner and channel management programs. In addition, this included an increase of $2.3 million in advertising and promotional spending and expanded brand awareness efforts. These increases were partially offset by a $6.9 million decrease in stock-based compensation for the three months ended June 30, 2021 over the same period in 2020. As a percentage of total revenues, selling and marketing expenses decreased to 23.7% for the three months ended June 30, 2021 compared to 26.9% for the same period in 2020. After excluding stock-based compensation expense, as a percentage of total revenues, selling and marketing expenses increased to 22.3% in 2021 compared to 17.8% in 2020.

General and Administrative

(Dollars in thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Period-over-Period change	
General and administrative	$ 24,865	$ 37,758	$ (12,893)	(34.1)%

General and administrative expenses decreased $12.9 million, or 34.1%, to $24.9 million for the three months ended June 30, 2021 compared to $37.8 million for the same period in 2020. However, this decline was driven by a stock-based compensation decrease of $15.7 million for the three months ended June 30, 2021 over the same period in 2020. After adjusting for the decline in stock-based compensation expense, general and administrative expenses increased $2.8 million primarily driven by planned strategic investments in information technology infrastructure, business process reengineering and other initiatives to drive future operating leverage, as well as investments in employees and other systems and resources in support of our growth. As a percentage of total revenues, general and administrative expenses decreased to 23.7% for the three months ended June 30, 2021 compared to 41.4% for the same period in 2020. After excluding stock-based compensation expense, as a percentage of total revenues, general and administrative expenses were consistent at 20.8% in 2021 and 2020.

Depreciation and Amortization

(Dollars in thousands)	Three months ended June 30, 2021	2020	Period-over-Period change	
Depreciation and amortization	$ 2,878	$ 2,505	$ 373	14.9 %

Depreciation and amortization increased $0.4 million, or 14.9%, to $2.9 million for the three months ended June 30, 2021 compared to $2.5 million for the same period in 2020. The increase was primarily due to the impact of infrastructure and technology purchases placed in service in 2020 and 2021and other capitalized infrastructure costs to support our growth. As a percentage of total revenues, depreciation expense was consistent at 2.7% for 2021 and 2020

Other Operating Expense, Net

(Dollars in thousands)	Three months ended June 30, 2021	2020	Period-Over-Period Change	
Other operating expense, net	$ 4,483	$ 103	$ 4,380	4,252.4 %

Other operating expense, net increased $4.4 million, or 4,252.4%, to $4.5 million of expense for the three months ended June 30, 2021 compared to $0.1 million of expense for the same period in 2020. The increase was primarily due to $4.5 million in transaction costs associated with the Taxamo acquisition for the three months ended June 30, 2021. As a percentage of total revenues, other operating expense,net increased to 4.3% in 2021 compared to 0.1% in 2020.

Interest (Income) Expense, Net

(Dollars in thousands)	Three months ended June 30, 2021	2020	Period-over-Period change	
Interest (income) expense, net	$ (385)	$ 1,059	$ (1,444)	(136.4)%

Interest (income) expense, net changed $1.4 million, or 136.4%, to $0.4 million in interest income for the three months ended June 30, 2021 compared to $1.1 million of interest expense for the same period in 2020. This change was primarily attributable to a decrease of $1.3 million in interest expense for the three months ended June 30, 2021 compared to 2020 due to the repayment of the Term Loan in July 2020. In addition, interest expense also decreased $0.2 million for the three months ended June 30, 2021 due to an increase in the valuation of foreign currency forward contracts. This was partially offset by lower interest income for the three months ended June 30, 2021 of $0.1 million due to a decline in investment yields in the current period as compared to 2020.

Income Tax Benefit

(Dollars in thousands)	Three months ended June 30, 2021	2020	Period-over-Period change	
Income tax benefit	$ (1,881)	$ (985)	$ (896)	91.0 %

Income tax benefit increased $0.9 million, or 91.0%, to $1.9 million for the three months ended June 30, 2021 compared to $1.0 million for the same period in 2020. This increase was primarily due to a pre-tax loss resulting from an increase in stock-based compensation in 2020 compared to the benefit for U.S. federal and state income taxes in 2021 now that we are taxed as a C-Corporation. The income tax benefit in the three months ended June 30, 2021 was primarily driven by exercises and vestings of stock awards partially offset by the unfavorable impact of limitations on deductions of certain employees' compensation under Internal Revenue Code Section 162(m).

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

Revenues

(Dollars in thousands)	Six months ended June 30, 2021	Six months ended June 30, 2020	Period-over-Period change	
Revenues:				
Software subscriptions	$ 172,884	$ 153,066	$ 19,818	12.9 %
Services	30,290	27,450	2,840	10.3 %
Total revenues	$ 203,174	$ 180,516	$ 22,658	12.6 %

Revenues increased $22.7 million, or 12.6%, to $203.2 million for the six months ended June 30, 2021 compared to $180.5 million for the six months ended June 30, 2020. The increase in software subscriptions revenues of $19.8 million, or 12.9%, was primarily driven by $17.5 million in revenue growth derived from our existing customers and $2.3 million of revenues from new customers.

The $2.8 million increase in services revenues was driven by an increase of $1.4 million in software subscription-related services associated with the growth in subscription revenues, which includes new customers implementing our solutions and upgrading existing customers to newer versions of our solutions. In addition, our managed services offering experienced a $1.4 million increase in recurring services revenues over the prior year period due to returns processing volume increases related to regulatory changes as customers expanded their tax filings into more jurisdictions.

Cost of Software Subscriptions Revenues

(Dollars in thousands)	Six months ended June 30, 2021	Six months ended June 30, 2020	Period-over-Period change	
Cost of software subscriptions revenues	$ 52,419	$ 50,685	$ 1,734	3.4 %

Cost of software subscriptions revenues increased $1.7 million, or 3.4%, to $52.4 million for the six months ended June 30, 2021 compared to $50.7 million for the six months ended June 30, 2020. This included a $6.5 million increase in costs of personnel supporting period over period growth of sales and customers and ongoing infrastructure investments to support expansion of customer transaction volumes for our cloud-based subscription customers. In addition, this included an increase in depreciation and amortization of capitalized software and acquired intangibles of $1.7 million associated with our ongoing investments in internal-use software for cloud-based subscription solutions and software developed for sale for new products and enhancements to existing products, and costs associated with the amortization of acquired intangible assets. These increases were partially offset by a $6.5 million decrease in stock-based compensation for the six months ended June 30, 2021 compared to the same period in 2020. As a percentage of total revenues, the cost of software subscriptions revenues increased to 25.8% for the six months ended June 30, 2021 compared to 28.1% in the prior year period. After excluding stock-based compensation expense, as a percentage of total revenues, cost of software subscriptions revenues increased to 25.2% in 2021 compared to 23.8% in 2020.

Cost of Services Revenues

(Dollars in thousands)	Six months ended June 30, 2021	Six months ended June 30, 2020	Period-over-Period change	
Cost of services revenues	$ 21,893	$ 30,522	$ (8,629)	(28.3)%

Cost of services revenues decreased $8.6 million, or 28.3%, to $21.9 million for the six months ended June 30, 2021 compared to $30.5 million for the six months ended June 30, 2020. However, this decline was driven by a stock-based compensation decrease of $10.3 million for the six months ended June 30, 2021 compared to the same period in 2020. After adjusting for the decline in stock-based compensation expense, cost of services revenues increased $1.7 million primarily driven by an increase in costs of service delivery personnel to support revenue growth in software subscription related services and our managed services offering. As a percentage of total revenues, cost of services revenues decreased to 10.8% in the six months ended June 30, 2021 compared to 16.9% in the prior year. After excluding stock-based compensation expense, as a percentage of total revenues, cost of services revenues decreased to 10.2% in 2021 compared to 10.5% in 2020.

Research and Development

	Six months ended June 30,						
(Dollars in thousands)	**2021**		**2020**		**Period-over-Period change**		
Research and development	$	23,385	$	26,696	$	(3,311)	(12.4)%

Research and development expenses decreased $3.3 million, or 12.4%, to $23.4 million for the six months ended June 30, 2021 compared to $26.7 million for the six months ended June 30, 2020. However, this decline was primarily driven by a stock-based compensation decrease of $6.5 million for the six months ended June 30, 2021 compared to the same period in 2020. After adjusting for the decline in stock-based compensation expense, research and development expenses increased $3.2 million primarily driven by an increase in costs associated with increased development activity associated with nascent technologies, new solutions to address end-to-end data analysis and compliance needs of our customers, and continued expansion of connectors and application program interfaces (“APIs”) to customer ERP and other software platforms. As a percentage of total revenues, research and development expenses decreased to 11.5% for the six months ended June 30, 2021 compared to 14.8% for the six months ended June 30, 2020, driven in part by our expanded investment in multiple new market offerings. After excluding stock-based compensation expense, as a percentage of total revenues, research and development expenses increased to 11.0% in 2021 compared to 10.5% in 2020.

Research and development expense excludes those costs that have been capitalized for solutions that have met our capitalization policy.

Selling and Marketing

	Six months ended June 30,						
(Dollars in thousands)	**2021**		**2020**		**Period-over-Period change**		
Selling and marketing	$	45,015	$	48,877	$	(3,862)	(7.9)%

Selling and marketing expenses decreased $3.9 million, or 7.9%, to $45.0 million for the six months ended June 30, 2021 compared to $48.9 million for the same period in 2020. However, this decline was primarily driven by a stock-based compensation decrease of $12.6 million for the six months ended June 30, 2021 over the same period in 2020. After adjusting for the decline in stock-based compensation expense, selling and marketing expenses increased $8.7 million. Of this $8.7 million increase, $5.1 million was primarily driven by an increase in payroll and related expenses associated with the growth in period over period subscription sales and services revenues and expansion of our partner and channel management programs. In addition, this increase included $3.8 million in advertising and promotional spending and expanded brand awareness efforts period over period. These increases were offset by decreases in travel period over period due to continued 2021 COVID-19 travel restrictions. As a percentage of total revenues, selling and marketing expenses decreased to 22.2% for the six months ended June 30, 2021 compared to 27.1% for the same period in 2020. After excluding stock-based compensation expense, as a percentage of total revenues, selling and marketing expenses increased to 20.8% in 2021 compared to 18.6% in 2020.

General and Administrative

	Six months ended June 30,						
(Dollars in thousands)	**2021**		**2020**		**Period-over-Period change**		
General and administrative	$	49,717	$	75,394	$	(25,677)	(34.1)%

General and administrative expenses decreased $25.7 million, or 34.1%, to $49.7 million for the six months ended June 30, 2021 compared to $75.4 million for the same period in 2020. However, this decline was primarily driven by a stock-based compensation decrease of $27.8 million for the six months ended June 30, 2021 compared to the same period in 2020. After adjusting for the decline in stock-based compensation expense, general and administrative expenses increased $2.1 primarily driven by planned strategic investments in information technology infrastructure, business process reengineering and other initiatives to drive future operating leverage, as well as investments in employees and other systems and resources in support of our growth. Due to these factors, as a percentage of total revenues, general and administrative expenses decreased to 24.5% for the six months ended June 30, 2021 compared to 41.8% for the same period in 2020. After excluding stock-based compensation expense, as a percentage of total revenues, general and administrative expenses decreased to 21.2% in 2021 compared to 22.7% in 2020.

Depreciation and Amortization

(Dollars in thousands)	Six months ended June 30, 2021	Six months ended June 30, 2020	Period-over-Period change	
Depreciation and amortization	$ 5,705	$ 5,374	$ 331	6.2 %

Depreciation and amortization increased $0.3 million, or 6.2%, to $5.7 million for the six months ended June 30, 2021 compared to $5.4 million for the same period in 2020. The increase was primarily due to the impact of infrastructure and technology purchases placed in service in 2020 and 2021 and other capitalized infrastructure costs to support our growth. As a percentage of revenues, depreciation expense was relatively consistent at 2.8% for the six months ended June 30, 2021 compared to 3.0% for the same period in 2020.

Other Operating Expense, Net

(Dollars in thousands)	Six months ended June 30, 2021	Six months ended June 30, 2020	Period-Over-Period Change	
Other operating expense, net	$ 4,354	$ 214	$ 4,140	1,934.6 %

Other operating expense, net increased $4.1 million, or 1,934.6%, to $4.4 million of expense for the six months ended June 30, 2021 compared to $0.2 million of expense for the same period in 2020. This increase was primarily due to $4.7 million in transaction costs, which included $4.5 million associated with the Taxamo acquisition for the six months ended June 30, 2021. These costs were partially offset by other income of $0.4 million for the six months ended June 30, 2021 as compared to other expense of $0.2 million for the comparable period in 2020. As a percentage of total revenues, other operating expense,net increased to 2.1% in 2021 compared to 0.1% in 2020.

Interest Expense, Net

(Dollars in thousands)	Six months ended June 30, 2021	Six months ended June 30, 2020	Period-over-Period change	
Interest expense, net	$ 150	$ 1,628	$ (1,478)	(90.8)%

Interest expense, net decreased $1.5 million, or 90.8%, to $0.2 million of expense for the six months ended June 30, 2021 compared to $1.6 million of expense for the same period in 2020. This decrease was primarily attributable to a decrease of $2.0 million in interest expense during the six months ended June 30, 2021 compared to the same period in 2020 due to the repayment of the Term Loan in July 2020. This was partially offset during the six months ended June 30, 2021 by an increase in interest expense of $0.2 million due to a decrease in the valuation of foreign currency forward contracts and lower interest income in the current period of $0.3 million due to a decline in investment yields in 2021 as compared to 2020.

Income Tax Benefit

(Dollars in thousands)	Six months ended June 30, 2021	2020	Period-over-Period change	
Income tax benefit	$ (2,560)	$ (735)	$ (1,825)	248.3 %

Income tax benefit increased $1.8 million, or 248.3%, to $2.6 million for the six months ended June 30, 2021 compared to $0.7 million for the same period in 2020. This increase was primarily due to a pre-tax loss resulting from an increase in stock-based compensation in 2020 compared to the benefit for U.S. federal and state income taxes in 2021 now that we are taxed as a C-Corporation. The income tax benefit in the six months ended June 30, 2021 was primarily driven by exercises and vestings of stock-based awards, partially offset by the unfavorable impact of limitations on deductions of certain employees' compensation under Internal Revenue Code Section 162(m).

Liquidity and Capital Resources

The Company's Registration Statement on Form S-1 with the SEC was declared effective on July 28, 2020, resulting in the Class A shares being registered and available for trading on the NASDAQ exchange (the "Offering"). As of June 30, 2021, we had cash and cash equivalents of $101.6 million and retained earnings of $25.5 million. Our primary sources of capital to date have been from sales of our solutions, proceeds from bank lending facilities and our Offering. On July 31, 2020, we received $423.0 million in proceeds from the Offering, net of underwriting fees and commissions, from the sale of 23,812,216 shares of Class A common stock and used a portion of the proceeds to pay off the $175.0 million term loan under the bank credit agreement. As a result, we have no outstanding bank debt after such redemption and at June 30, 2021. The net proceeds remaining after payment of Offering costs and repayment of the term loan will be used for working capital and other corporate purposes as described in the Prospectus.

On May 12, 2021, we used approximately $190.2 million of our cash and cash equivalents to acquire Taxamo, a cloud-based provider of tax and payment automation for global eCommerce and marketplaces. The preliminary purchase price for the Taxamo acquisition was $200.7 million as of the acquisition date, consisting of (i) $190.2 million of cash paid at closing, (ii) an acquisition holdback of $0.5 million, and (iii) an option to purchase from and an option for the remaining shareholder to sell the remaining 5% of the outstanding equity at a fixed amount between August and December 2021 for $10.0 million.

We believe that our existing cash resources and our bank line of credit will be sufficient to meet our capital requirements and fund our operations for at least the next 12 months. However, if these sources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. If we raise additional funds by issuing equity securities, our stockholders would experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. Additional financing may not be available at all, or in amounts or on terms unacceptable to us.

The following table presents a summary of our cash flows for the periods indicated:

(Dollars in thousands)	Six months ended June 30, 2021	2020	Period-Over-Period Change	
Net cash provided by operating activities	$ 26,465	$ 20,756	$ 5,709	27.5 %
Net cash used in investing activities	(214,604)	(30,147)	(184,457)	611.9 %
Net cash provided by (used in) financing activities	8,740	(16,617)	25,357	(152.6)%
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(221)	(204)	(17)	8.3 %
Net decrease in cash, cash equivalents and restricted cash	$ (179,620)	$ (26,212)	$ (153,408)	585.3 %

Operating Activities. Net cash provided by operating activities was $26.5 million for the six months ended June 30, 2021 compared to $20.8 million for the same period in 2020, an increase of $5.7 million. The increase in cash provided by operating activities was driven primarily by a net increase in changes in operating assets and liabilities of $5.3 million period over period.

Investing Activities. Net cash used in investing activities was $(214.6) million for the six months ended June 30, 2021 compared to $(30.1) million for the same period in 2020, an increase in use of funds for investing activities of $184.5 million. This increase was primarily due to a net increase in cash paid for acquisitions of $181.3 million period over period. During the six months ended June 30, 2021, we acquired Taxamo for approximately $187.5 million in cash, net of $2.6 million of Taxamo's cash received in the acquisition, and Tellutax, LLC ("Tellutax") for cash paid of $6.1 million. During the six months ended June 30, 2020, we acquired a controlling interest in Systax Sistemas Fiscais LTDA ("Systax") for approximately $12.3 million in cash. For additional information on acquisitions, see Note 3, "Business Combinations" to our condensed consolidated financial statements.

Financing Activities. Net cash provided by financing activities was $8.7 million for the six months ended June 30, 2021 compared to net cash used in financing activities of $(16.6) million for the same period in 2020, an increase in cash provided by financing activities of $25.4 million. Net cash provided by financing activities of $8.7 million for the six months ended June 30, 2021 was primarily driven by the increase in customer funds obligations of $22.2 million due primarily to timing differences between receipt of funds from customers and taxing jurisdiction withdrawls of these funds, partially offset by $10.7 million in payments for taxes in connection with the exercise of stock options whereby the award holders returned shares to us to satisfy their tax obligations. The net cash used in financing activities for the six months ended June 30, 2020 of $16.6 million was primarily driven by distributions to stockholders of $140.4 million, partially offset by the net borrowings under the Term Loan of $121.1 million during this period.

Debt. As of June 30, 2021, we had a $100 million line of credit with no outstanding borrowings. Interest on outstanding borrowings accrue at a Base Rate plus an applicable margin (3.25% as of June 30, 2021) or the London Interbank Offered Rate ("LIBOR") plus an applicable margin (2.00% as of June 30, 2021). We have no outstanding bank debt at June 30, 2021.

Funds Held for Customers and Customer Funds Obligations

We maintain trust accounts with financial institutions, which allows our customers to outsource their tax remittance functions to us. We have legal ownership over the accounts utilized for this purpose. Funds held for customers represents cash and cash equivalents that, based upon our intent, are restricted solely for satisfying the obligations to remit funds relating to our tax remittance services. Funds held for customers are not commingled with our operating funds.

Customer funds obligations represent our contractual obligations to remit collected funds to satisfy customer tax payments. Customer funds obligations are reported as a current liability on our consolidated balance sheets as the obligations are expected to be settled within one year. Cash flows related to changes in customer funds obligations liability are presented as cash flows from financing activities.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable regulations of the SEC, that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations and Commitments

Other than the redemption of our outstanding debt through use of a portion of the Offering proceeds, there have been no material updates or changes to our contractual obligations and commitments compared to contractual obligations and commitments described in our Annual Report on Form 10-K for the year ended December 31, 2020.

Key Business Metrics

We regularly review the metrics identified below to evaluate growth trends, measure our performance, formulate financial projections and make strategic decisions.

Annual Recurring Revenue ("ARR") and Average Annual Revenue Per Customer ("AARPC").

We derive the vast majority of our revenue from recurring software subscriptions. We believe ARR provides us with visibility to our projected software subscription revenue in order to evaluate the health of our business. Because we recognize subscription revenue ratably, we believe investors can use ARR to measure our expansion of existing customer revenues, new customer activity, and as an indicator of future software subscription revenues. ARR is based on monthly recurring revenue ("MRR") from software subscriptions for the most recent month at period end, multiplied by twelve. MRR is calculated by dividing the software subscription price, inclusive of discounts, by the number of subscription covered months. MRR only includes customers with MRR at the end of the last month of the measurement period.

We also calculate AARPC, which is determine by dividing ARR by the number of software subscription customers as of the end of the respective period.

	June 30,			
(Dollars in millions)	**2021**	**2020**	**Period-over-Period Change**	
Annual Recurring Revenue	$ 336.2	$ 294.6	$ 41.6	14.1 %

ARR increased by $41.6 million or 14.1% at June 30, 2021, as compared to June 30, 2020. The increase included $3.9 million related to the Taxamo acquisition during the three months ended June 30, 2021. The remainder of the increase was primarily driven by $16.6 million of growth in revenues from existing customers through their expanded use of our solutions as well as price increases, and $21.1 million of on-premise and cloud-based subscriptions of our tax solutions to new customers.

The number of customers and AARPC increased to 4,175 customers and approximately $80,500, respectively, at June 30, 2021 from 4,020 and approximately $73,300, respectively at June 30, 2020. The increase in customers included 135 customers and AARPC of approximately $28,900 from the Taxamo acquisition during the three months ended June 30, 2021. Excluding Taxamo, our AARPC was approximately $82,300 at June 30, 2021 resulting from existing customers expanding their use of our software, as well as from adding new customers.

Net Revenue Retention Rate.

We believe that our Net Revenue Retention Rate ("NRR") provides insight into our ability to retain and grow revenue from our customers, as well as their potential long-term value to us. We also believe it demonstrates to investors our ability to expand existing customer revenues, which is one of our key growth strategies. Our NRR refers to the ARR expansion during the 12 months of a reporting period for all customers who were part of our customer base at the beginning of the reporting period. Our NRR calculation takes into account any revenue lost from departing customers or customers who have downgraded or reduced usage, as well as any revenue expansion from migrations, new licenses for additional products or contractual and usage-based price changes.

	June 30,	
	2021	**2020**
Net Revenue Retention Rate	106 %	108 %

The 200 basis point decline in NRR to 106% at June 30, 2021 from 108% for the same period in 2020 was primarily attributable to a reduction in sales growth to existing customers as compared to the prior year related to delays in signing deals due to their focus shifting to working remotely, and economic uncertainty in connection with the impact of the COVID-19 pandemic on their businesses.

Adjusted EBITDA and Adjusted EBITDA Margin.

We believe that Adjusted EBITDA is a measure widely used by securities analysts and investors to evaluate the financial performance of our company and other companies. We believe that Adjusted EBITDA and Adjusted EBITDA margin are useful as supplemental measures to evaluate our overall operating performance as they measure business performance focusing on cash related charges and because they are important metrics to lenders under our credit agreement. We define Adjusted EBITDA as net income or loss before interest, taxes, depreciation, and amortization, as adjusted to exclude charges for asset impairments, stock-based compensation expense, severance expense and transaction costs. Adjusted EBITDA margin represents Adjusted EBITDA divided by total revenues for the same period. For purposes of comparison, our net income (loss) was $0.8 million and $(29.1) million for the three months ended June 30, 2021 and 2020, respectively, while our net income (loss) margin was 0.8% and (31.9)% over the same periods, respectively. Additionally, our net income (loss) was $3.1 million and $(58.1) million for the six months ended June 30, 2021 and 2020, respectively, while our net income margin (loss) was 1.5% and (32.2)% over the same periods, respectively.

	Three months ended June 30		Six months ended June 30	
(Dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Adjusted EBITDA:				
Net income (loss)	$ 808	$ (29,075)	$ 3,096	$ (58,139)
Interest (income) expense, net	(385)	1,059	150	1,628
Income tax benefit	(1,881)	(985)	(2,560)	(735)
Depreciation and amortization - property and equipment	2,878	2,505	5,705	5,374
Depreciation and amortization of capitalized software and acquired intangible assets - cost of subscription revenues	5,917	5,475	11,822	10,042
Amortization of acquired intangible assets - selling and marketing expense	86	—	170	—
Stock-based compensation expense	6,285	41,676	12,828	76,596
Severance expense	957	859	1,488	2,042
Transaction costs	4,522	—	4,672	—
Adjusted EBITDA	$ 19,187	$ 21,514	$ 37,371	$ 36,808
Adjusted EBITDA Margin:				
Total revenues	$ 104,938	$ 91,271	$ 203,174	$ 180,516
Adjusted EBITDA margin	18.3 %	23.6 %	18.4 %	20.4 %

The decrease in Adjusted EBITDA for the three months ended June 30, 2021 of $2.3 million over the comparable period in 2020 is primarily driven by an increase in gross profit, offset by an increase in operating expenses including additional sales and marketing and research and development investments. Adjusted EBITDA margin decreased to 18.3% for the three months ended June 30, 2021 compared to 23.6% for the comparable period in 2020.

The increase in Adjusted EBITDA for the six months ended June 30, 2021 of $0.6 million over the comparable period in 2020 is primarily driven by an increase in gross profit, offset by an increase in operating expenses including additional sales and marketing and research and development investments. Adjusted EBITDA margin declined 2.0% for the six months ended June 30, 2021 over the comparable period in 2020 primarily due to increased investments in sales and marketing and research and development activities in 2021.

Free Cash Flow and Free Cash Flow Margin.

We use free cash flow as a critical measure in the evaluation of liquidity in conjunction with related GAAP amounts. We also use this measure when considering available cash, including for decision making purposes related to dividends and discretionary investments. We consider free cash flow to be an important measure for investors because it measures the amount of cash we generate from our operations after our capital expenditures and capitalization of software development costs. In addition, we base certain of our forward-looking estimates and budgets on free cash flow and free cash flow margin. We define free cash flow as the total of net cash provided by operating activities, adjusted for the redemption of stock appreciation rights ("SARs") in 2020 in connection with the Offering reflected as a reduction of cash provided by operating activities, less purchases of property and equipment and capitalized software. We define free cash flow margin as free cash flow divided by total revenues for the same period. Our net cash provided in operating activities was $26.5 million and $20.8 million for the six months ended June 30, 2021 and 2020, respectively, while our operating cash flow margin was 13.0% and 11.5% over the same periods, respectively.

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2021	2020	2021	2020
Free Cash Flow:				
Net cash provided by operating activities	$ 29,430	$ 27,173	$ 26,465	$ 20,756
Property and equipment additions	(9,693)	(4,933)	(15,888)	(10,565)
Capitalized software additions	(2,904)	(3,558)	(5,125)	(7,264)
Free cash flow	$ 16,833	$ 18,682	$ 5,452	$ 2,927
Free Cash Flow Margin:				
Total revenues	$ 104,938	$ 91,271	$ 203,174	$ 180,516
Free cash flow margin	16.0 %	20.5 %	2.7 %	1.6 %

Free cash flow decreased by $1.8 million for the three months ended June 30, 2021 as compared to the same period in 2020. This decrease was primarily driven by an increase of $4.8 million in investments in property and equipment additions to support our internal infrastructure investments. Free cash flow margin decreased to 16.0% for the three months ended June 30, 2021, compared to 20.5% for the same period in 2020.

Free cash flow increased by $2.5 million for the six months ended June 30, 2021 as compared to the same period in 2020. This increase was primarily driven by an increase in net cash provided by operating activities of $5.7 million, primarily due to an $5.3 million increase in cash provided by changes in operating assets and liabilities. This amount was offset by an increase of $5.3 million in investments in property and equipment additions to support our internal infrastructure investments. Free cash flow margin increased to 2.7% for the six months ended June 30, 2021, compared to 1.6% for the same period in 2020.

Use and Reconciliation of Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we have calculated Adjusted EBITDA, Adjusted EBITDA margin, free cash flow, free cash flow margin, non-GAAP cost of revenues, non-GAAP gross profit, non-GAAP gross margin, non-GAAP research and development expense, non-GAAP selling and marketing expense, non-GAAP general and administrative expense, non-GAAP operating income, and non-GAAP net income, which are each non-GAAP financial measures. We have provided tabular reconciliations of each of these non-GAAP financial measures to its most directly comparable GAAP financial measure.

We use these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, and to evaluate financial performance. We use non-GAAP financial measures of free cash flow and free cash flow margin to evaluate liquiditiy. Our non-GAAP financial measures are presented as supplemental disclosure as we believe they provide useful information to investors and others in understanding and evaluating our results, prospects, and liquidity period-over-period without the impact of certain items that do not directly correlate to our operating performance and that may vary significantly from period to period for reasons unrelated to our operating performance, as well as comparing our financial results to those of other companies. Our definitions of these non-GAAP financial measures may differ from similarly titled measures presented by other companies, and therefore, comparability may be limited. In addition, other companies may not publish these or similar metrics. Thus, our non-GAAP financial measures should be considered in addition to, not as a substitute for, or in isolation from, the financial information prepared in accordance with GAAP financial measures, and should be read in conjunction with the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Additional Non-GAAP Financial Measures

In addition to Adjusted EBITDA, Adjusted EBITDA margin, free cash flow, and free cash flow margin calculated and discussed in "Key Business Metrics," the following additional non-GAAP financial measures are calculated and presented further below:

- Non-GAAP cost of revenues, software subscriptions is determined by adding back to GAAP cost of revenues, software subscriptions, the stock-based compensation expense, and depreciation and amortization of capitalized software and acquired intangible assets included in cost of revenues for the respective periods.

- Non-GAAP cost of revenues, services is determined by adding back to GAAP cost of revenues, services, the stock-based compensation expense included in cost of revenues for the respective periods.

- Non-GAAP gross profit is determined by adding back to GAAP gross profit the stock-based compensation expense, and depreciation and amortization of capitalized software and acquired intangible assets included in cost of revenues for the respective periods.

- Non-GAAP gross margin is determined by adding back to GAAP gross margin the impact of stock-based compensation expense, and depreciation and amortization of capitalized software and acquired intangible assets included in cost of revenues as a percentage of revenues for the respective periods.

- Non-GAAP research and development expense and non-GAAP general and administrative expenses are determined by adding back to GAAP research and development expense and GAAP general and administrative expense the stock-based compensation expense and severance expense included in the applicable expense categories for the respective periods.

- Non-GAAP selling and marketing expense is determined by adding back to GAAP selling and marketing expense the stock-based compensation expense and the amortization of acquired intangible assets included in selling and marketing expense for the respective periods.

- Non-GAAP operating income is determined by adding back to GAAP income or loss from operations the stock-based compensation expense, depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues, amortization of acquired intangible assets – selling and marketing expense, severance expense and transaction costs included in GAAP income or loss from operations for the respective periods.

- Non-GAAP net income is determined by adding back to GAAP net income or loss the income tax benefit or expense, stock-based compensation expense, depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues, amortization of acquired intangible assets – selling and marketing expense, severance expense and transaction costs included in GAAP net income or loss for the respective periods to determine non-GAAP income or loss before income taxes. Non-GAAP income before income taxes is then adjusted for income taxes calculated using the respective statutory tax rates for applicable jurisdictions, which for purposes of this determination were assumed to be 25.5%.

We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view these non-GAAP financial measures in conjunction with the related GAAP financial measures.

The following schedules reflect our additional non-GAAP financial measures and reconcile our additional non-GAAP financial measures to the related GAAP financial measures.

(Dollars in thousands)	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Non-GAAP cost of revenues, software subscriptions	$ 20,340	$ 16,358	$ 39,465	$ 32,983
Non-GAAP cost of revenues, services	$ 9,928	$ 9,493	$ 20,677	$ 19,033
Non-GAAP gross profit	$ 74,670	$ 65,420	$ 143,032	$ 128,500
Non-GAAP gross margin	71.2 %	71.7 %	70.4 %	71.2 %
Non-GAAP research and development expense	$ 11,355	$ 9,449	$ 22,253	$ 19,036
Non-GAAP selling and marketing expense	$ 23,346	$ 16,209	$ 42,125	$ 33,558
Non-GAAP general and administrative expense[1]	$ 20,821	$ 18,145	$ 41,601	$ 38,884
Non-GAAP operating income	$ 16,309	$ 19,009	$ 31,666	$ 31,434
Non-GAAP net income[2]	$ 12,437	$ 13,373	$ 23,479	$ 22,205

[1]The six month period ended June 30, 2021 includes $150 of transaction costs previously presented as a component of general and administrative expenses that was reclassified to other operating expense, net, in the condensed consolidated statement of comprehensive loss.

[2]2020 Non-GAAP net income presentation adjusted to conform to 2021 presentation. The presentation was modified in the fourth quarter 2020 to tax effect, at the statutory income tax rate, the related non-GAAP adjustments to GAAP net income or loss. Thus, the income tax benefit for 2020 was removed and a statutory tax rate applied to Non-GAAP income after the non-GAAP adjustments. This reduced Non-GAAP net income before income taxes by $5,562 and $8,336 for the three and six months ended June 30, 2020, respectively. This will also reduce Non-GAAP net income by $8,229 and $16,565 for the three and nine months ended September 30, 2020, respectively.

(Dollars in thousands)	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Non-GAAP Cost of Revenues, Software Subscriptions:				
Cost of revenues, software subscriptions	$ 26,829	$ 26,001	$ 52,419	$ 50,685
Stock-based compensation expense	(572)	(4,168)	(1,132)	(7,660)
Depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues	(5,917)	(5,475)	(11,822)	(10,042)
Non-GAAP cost of revenues, software subscriptions	$ 20,340	$ 16,358	$ 39,465	$ 32,983
Non-GAAP Cost of Revenues, Services:				
Cost of revenues, services	$ 10,550	$ 15,744	$ 21,893	$ 30,522
Stock-based compensation expense	(622)	(6,251)	(1,216)	(11,489)
Non-GAAP cost of revenues, services	$ 9,928	$ 9,493	$ 20,677	$ 19,033
Non-GAAP Gross Profit:				
Gross profit	$ 67,559	$ 49,526	$ 128,862	$ 99,309
Stock-based compensation expense	1,194	10,419	2,348	19,149
Depreciation and amortization of capitalized software and acquired intangible assets - cost of subscription revenues	5,917	5,475	11,822	10,042
Non-GAAP gross profit	$ 74,670	$ 65,420	$ 143,032	$ 128,500
Non-GAAP Gross Margin:				
Total revenues	$ 104,938	$ 91,271	$ 203,174	$ 180,516
Non-GAAP gross margin	71.2 %	71.7 %	70.4 %	71.2 %
Non-GAAP Research and Development Expense:				
Research and development expense	$ 11,926	$ 13,617	$ 23,385	$ 26,696
Stock-based compensation expense	(571)	(4,168)	(1,132)	(7,660)
Non-GAAP research and development expense	$ 11,355	$ 9,449	$ 22,253	$ 19,036

(Dollars in thousands)	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Non-GAAP Selling and Marketing Expense:				
Selling and marketing expense	$ 24,865	$ 24,544	$ 45,015	$ 48,877
Stock-based compensation expense	(1,433)	(8,335)	(2,720)	(15,319)
Amortization of acquired intangible assets – selling and marketing expense	(86)	—	(170)	—
Non-GAAP selling and marketing expense	$ 23,346	$ 16,209	$ 42,125	$ 33,558
Non-GAAP General and Administrative Expense[1]:				
General and administrative expense	$ 24,865	$ 37,758	$ 49,717	$ 75,394
Stock-based compensation expense	(3,087)	(18,754)	(6,628)	(34,468)
Severance expense	(957)	(859)	(1,488)	(2,042)
Non-GAAP general and administrative expense	$ 20,821	$ 18,145	$ 41,601 [1]	$ 38,884
Non-GAAP Operating Income:				
Income (loss) from operations	$ (1,458)	$ (29,001)	$ 686	$ (57,246)
Stock-based compensation expense	6,285	41,676	12,828	76,596
Depreciation and amortization of capitalized software and acquired intangible assets - cost of subscription revenues	5,917	5,475	11,822	10,042
Amortization of acquired intangible assets – selling and marketing expense	86	—	170	—
Severance expense	957	859	1,488	2,042
Transaction costs	4,522	—	4,672	—
Non-GAAP operating income	$ 16,309	$ 19,009	$ 31,666	$ 31,434
Non-GAAP Net Income:				
Net income (loss)	$ 808	$ (29,075)	$ 3,096	$ (58,139)
Income tax benefit	(1,881)	(985)[2]	(2,560)	(735)[2]
Stock-based compensation expense	6,285	41,676	12,828	76,596
Depreciation and amortization of capitalized software and acquired intangible assets - cost of subscription revenues	5,917	5,475	11,822	10,042
Amortization of acquired intangible assets – selling and marketing expense	86	—	170	—
Severance expense	957	859	1,488	2,042
Transaction costs	4,522	—	4,672	—
Non-GAAP income before income taxes	16,694	17,950	31,516	29,806
Income tax adjustment at statutory rate	(4,257)	(4,577)[2]	(8,037)	(7,601)[2]
Non-GAAP net income	$ 12,437	$ 13,373 [2]	$ 23,479	$ 22,205 [2]

[1]The six month period ended June 30, 2021 includes $150 of transaction costs previously presented as a component of general and administrative expenses that was reclassified to other operating expense, net, in the condensed consolidated statement of comprehensive loss.

[2]2020 Non-GAAP net income presentation adjusted to conform to 2021 presentation. The presentation was modified in the fourth quarter 2020 to tax effect, at the statutory income tax rate, the related non-GAAP adjustments to GAAP net income or loss. Thus, the income tax benefit for 2020 was removed and a statutory tax rate applied to Non-GAAP income after the non-GAAP adjustments. This reduced Non-GAAP net income before income taxes by $5,562 and $8,336 for the three and six months ended June 30 2020, respectively. This will also reduce Non-GAAP net income by $8,229 and $16,565 for the three and nine months ended September 30, 2020, respectively.

Critical Accounting Policies and Estimates

The critical accounting policies that reflect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements include software development costs, goodwill, accounting for stock-based compensation, revenue recognition, and income taxes, which are described in Note 1, "Summary of Significant Accounting Policies" to the Condensed Consolidated Financial Statements.

There have been no material updates or changes to our critical accounting policies and estimates compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the period ended December 31, 2020.

Recent Accounting Pronouncements

For further information on recent accounting pronouncements, refer to Note 1, "Summary of Significant Accounting Policies" to the Condensed Consolidated Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents of $103.7 million as of June 30, 2021. In addition, the Company received proceeds, net of underwriter fees, from its Offering of $423.0 million on July 31, 2020, which it used to pay off outstanding debt of $175.0 million resulting in the Company having no outstanding bank debt after such redemption.

We maintain our cash and cash equivalents in deposit accounts and money market funds with various financial institutions. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates would reduce future interest income by an insignificant amount.

We are exposed to risk related to changes in interest rates. Borrowings under the bank credit agreement bear interest at rates that are variable. We have no outstanding borrowings. Increases in the bank prime or LIBOR rates would increase the interest rate on any future outstanding borrowings. Any debt we incur in the future may also bear interest at variable rates. Based on no outstanding borrowings as of June 30, 2021, increases in the bank prime or LIBOR rates would not result in a significant increase in interest expense.

Foreign Currency Exchange Risk

Our revenues and expenses are primarily denominated in U.S. dollars. For our foreign operations, the majority of our revenues and expenses are denominated in other currencies, such as the Canadian Dollar, Euro, British Pound, Swedish Krona and Brazilian Real. Decreases in the relative value of the U.S. dollar as compared to these currencies may negatively affect our revenues and other operating results as expressed in U.S. dollars. For the six months ended June 30, 2021 and 2020, approximately 2% and 1%, respectively, of our revenues were denominated in currencies other than U.S. dollars.

We have experienced and will continue to experience fluctuations in our net income or loss as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. We have historically recognized immaterial amounts of foreign currency gains and losses in each of the periods presented. We may in the future hedge selected significant transactions denominated in currencies other than the U.S. dollar as we expand our international operations and our risk grows. The acquisition of the controlling interest in Systax in January 2020 and the future purchase commitments associated with this acquisition are expected to increase our exposure to fluctuations of the Brazilian Real over time. In May 2020, we entered into a series of foreign currency forward contracts to hedge approximately 40% of our exposure to adverse fluctuations in the Brazilian Real associated with these future purchase commitments.

Inflation

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures. Solely as a result of the material weakness described below, our principal executive officer and principal financial officer concluded that, as of June 30, 2021, our disclosure controls and procedures were not effective.

We have performed additional analyses, reconciliations, and other post-closing procedures and have concluded that, notwithstanding the material weakness in our internal control over financial reporting, the unaudited interim condensed consolidated financial statements as of and for the periods covered by and included in this Quarterly Report on Form 10-Q fairly state, in all material respects, our financial position, results of operations and cash flows as of and for the periods presented in conformity with GAAP.

Previously Identified Material Weaknesses

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020, we identified a material weakness in our internal control over financial reporting due to an insufficient process for the provision and governance of user access to financially significant systems that resulted in a lack of segregation of duties related to journal entries.

A material weakness is a control deficiency, or combination of control deficiencies, that results in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Our management, with oversight from our Audit Committee, is in the process of remediating this material weakness. During 2020, we implemented changes to our user access governance practices to prevent individuals from having the ability to create and post journal entries and have implemented a periodic review cycle for user access. However, this material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing in 2021, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

Other than the changes described above regarding enhancements associated with ongoing remediation efforts, there were no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are 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 become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition, or operating results.

ITEM 1A. RISK FACTORS

There are no material changes to the risk factors discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 under the heading “Risk Factors.” You should carefully consider these risks, together with management’s discussion and analysis of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form

10-Q. If any of the events contemplated should occur, our business, results of operations, financial condition and cash flows could suffer significantly.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith	Furnished Herewith
10.1	Amendment to S Corporation Termination and Tax Sharing Agreement					X	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X	
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X	
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002						X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002						X
101.INS	Inline XBRL Instance Document					X	
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X	
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)						

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.

	Vertex, Inc.
Date: August 12, 2021	By: /s/ David DeStefano David DeStefano *President, Chief Executive Officer and Chairperson (principal executive officer)*
Date: August 12, 2021	By: /s/ John Schwab John Schwab *Chief Financial Officer (principal financial officer)*

Exhibit 10.1

AMENDMENT TO
S CORPORATION TERMINATION AND TAX SHARING AGREEMENT

The S Corporation Termination and Tax Sharing Agreement, dated as of July 27, 2020 (the "***Agreement***"), made by and between Vertex, Inc., a Delaware corporation (the "***Company***"), and the trusts and individuals identified on the signature page thereto (each a "***Shareholder***" and collectively the "***Shareholders***") is hereby amended as follows:

1. Section 2.07 is hereby deleted and replaced with the following:

   2.07 Termination Payments to Shareholders. Immediately prior to the Termination Date, the Company shall distribute to the Shareholders their pro rata share (the ownership of the shares of the Company's common stock owned by each Shareholder) of an amount equal to the estimated federal and state tax liabilities of the Shareholders attributable to the operations of the Company during the S Short Year, and in respect of which no prior tax distribution shall have been made (the "***Estimated Distribution***"). No later than August 15, 2021, the Company shall make any necessary adjustments to finalize the Company's taxable income for the S Short Year allocable to the Shareholders, and (x) if the amount of the Estimated Distribution to the Shareholders is less than the adjusted income tax liability of the Shareholders taking into account such finalized taxable income of the Company for the S Short Year, each Shareholder's state income tax liabilities attributable to the operations of the Company for the S Short Year, and the Assumed Tax Rate (the "***Final Distribution***"), then the Company shall, within 15 days thereafter, distribute to the Shareholders their pro rata share of an amount equal to the excess of the Final Distribution over the Estimated Distribution; and (y) if the amount of the Final Distribution is less than the Estimated Distribution, then each Shareholder shall, within 30 days thereafter, deliver to the Company such Shareholder's pro rata share of an amount equal to the excess of the Estimated Distribution over the Final Distribution. Promptly upon request, each Shareholder shall provide the Company with information related to such Shareholder reasonably necessary to allow the Company to determine the Final Distribution.

2. Except as set forth in this Amendment, the Agreement is unaffected and shall continue in full force and effect in accordance with its terms. If there is conflict between this Amendment and the Agreement, the terms of this amendment will prevail.

[***signature pages to follow***]

VERTEX, INC.

By: /s/ David DeStefano

Name: David DeStefano

Title: President, Chief Executive Officer and Chairperson

SHAREHOLDER

By: ______________________________

Name:

Title:

/s/ Amanda W. Radcliffe

Amanda W. Radcliffe

[*Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT*

The 2009 Amanda W. Radcliffe Generation Skipping Trust

By: /s/ Amanda W. Radcliffe

Name: Amanda W. Radcliffe
Title: Trustee

[*Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT*

Irrevocable Trust of Rainer J. Westphal, Settlor, dated July 19, 2007 – Separate Trust for Benefit of Amanda W. Radcliffe

By: /s/ Amanda W. Radcliffe

Name: Amanda W. Radcliffe
Title: Trustee

[*Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT*

ITEM SECOND IRR. TRUST FBO ANDREA P. LUCAS u/a of STEFANIE W. LUCAS dated October 5, 2001

By:	/s/ Andrea P. Schmerin
Name:	Andrea P. Schmerin (f/k/a Andrea P. Lucas)
Title:	Trustee

[*Signature Page to* Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

ITEM SECOND IRR. TRUST FBO ANNE MARIE WESTPHAL u/a of JEFFREY R. WESTPHAL dated October 5, 2001

By: /s/ Anne Marie Westphal
Name: Anne Marie Westphal
Title: Trustee

By: /s/ Joshua R. Levine
Name: Joshua R. Levine
Title: Trustee

By: /s/ Steve Treat
Name: Steve Treat
Title: Trustee

[*Signature Page to* Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

ITEM SECOND IRREVOCABLE TRUST FBO ANTOINETTE R. RADCLIFFE u/a of AMANDA W. RADCLIFFE dated 10/05/2001

By: /s/ Conrad J. J. Radcliffe
Name: Conrad J. J. Radcliffe
Title: Trustee

By: /s/ Antoinette R. Radcliffe
Name: Antoinette R. Radcliffe
Title: Trustee

[*Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT*

THIRD PARTY FUNDED SPECIAL NEEDS TRUST FOR CALLUM W. RADCLIFFE u/a of AMANDA W RADCLIFFE dated May 15, 2015

By: /s/ Conrad J. J. Radcliffe
Name: Conrad J. J. Radcliffe
Title: Trustee

By: /s/ Antoinette R. Radcliffe
Name: Antoinette R. Radcliffe
Title: Trustee

By: /s/ Kailey A. Radcliffe
Name: Kailey A. Radcliffe
Title: Trustee

[*Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT*

ITEM SECOND IRR. TRUST FBO JACOB J. WESTPHAL u/a of JEFFREY R. WESTPHAL dated October 5, 2001

By: /s/ Jacob J. Westphal
Name: Jacob J. Westphal
Title: Trustee

By: /s/ Joshua R. Levine
Name: Joshua R. Levine
Title: Trustee

By: /s/ Steve Treat
Name: Steve Treat
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

/s/ Jeffrey R. Westphal
Jeffrey R. Westphal

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

Irrevocable Trust of Rainer J. Westphal, Settlor, dated July 19, 2007 – Separate Trust for Benefit of Jeffrey Westphal

By: /s/ Jeffrey R. Westphal
Name: Jeffrey R. Westphal
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

The 2009 Jeffrey R. Westphal Generation Skipping Trust

By: /s/ Jeffrey R. Westphal
Name: Jeffrey R. Westphal
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

/s/ John G. Hurley

John G. Hurley

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

/s/ John M. Ferraioli

John M. Ferraioli

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

ITEM SECOND IRR. TRUST FBO KYLE R. WESTPHAL u/a of JEFFREY R. WESTPHAL dated October 5, 2001

By: /s/ Kyle R. Westphal
Name: Kyle R. Westphal
Title: Trustee

By: /s/ Joshua R. Levine
Name: Joshua R. Levine
Title: Trustee

By: /s/ Steve Treat
Name: Steve Treat
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

ITEM SECOND IRREVOCABLE TRUST FBO KAILEY RADCLIFFE u/a of AMANDA W RADCLIFFE dated 10/05/2001

By:	/s/ Conrad J. J. Radcliffe
Name:	Conrad J. J. Radcliffe
Title:	Trustee

By:	/s/ Kailey A. Radcliffe
Name:	Kailey A. Radcliffe
Title:	Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

ITEM SECOND IRR. TRUST FBO MACKENZIE S. LUCAS u/a of STEFANIE W. LUCAS dated October 5, 2001

By: /s/ Mackenzie S. Lucas
Name: Mackenzie S. Lucas
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

ITEM SECOND IRR. TRUST FBO MELANIE H. LUCAS u/a of STEFANIE W. LUCAS dated October 5, 2001

By: /s/ Melanie H. Lucas
Name: Melanie H. Lucas
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

ITEM SECOND IRR. TRUST FBO SAMANTHA W. LUCAS u/a of STEFANIE W. LUCAS dated October 5, 2001

By: /s/ Samantha W. Lucas
Name: Samantha W. Lucas
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

/s/ Stefanie W. Thompson
Stefanie W. Thompson

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

The 2009 Stefanie Lucas Generation Skipping Trust

By:	/s/ Stefanie W. Thompson
Name:	Stefanie W. Thompson (f/k/a Stefanie W. Lucas)
Title:	Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

The Irrevocable Deed of Trust of Antoinette M. Westphal, dated March 31, 1987, Stefanie W. Thompson and Sterling Trustees LLC, Trustees

By: /s/ Stefanie W. Thompson

Name: Stefanie W. Thompson
Title: Trustee

By: Sterling Trustees LLC
Title: Trustee
By: /s/ Antony Joffe
Name: Antony Joffe
Title: President

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

Irrevocable Trust of Rainer J. Westphal, Settlor, dated July 19, 2007 – Separate Trust for Benefit of Stefanie W. Lucas

By: /s/ Stefanie W. Thompson
Name: Stefanie W. Thompson (f/k/a Stefanie W. Lucas)
Title: Trustee

[Signature Page to Amendment to S CORPORATION TERMINATION AND TAX SHARING AGREEMENT]

Exhibit 31.1

CERTIFICATION

I, David DeStefano, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 12, 2021

By: /s/ David DeStefano
David DeStefano
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION

I, John Schwab, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 12, 2021

By: /s/ John Schwab
John Schwab
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2021

By: /s/ David DeStefano
David DeStefano
Chief Executive Officer
(principal executive officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Vertex, Inc. (the “Company”) for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2021

By: /s/ John Schwab
John Schwab
Chief Financial Officer
(principal financial officer)