
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 29, 2020

BANDWIDTH INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-38285
(Commission
File Number)

56-2242657
(IRS Employer
Identification No.)

900 Main Campus Drive
Raleigh, NC 27606
(Address of principal executive offices) (Zip Code)

(800) 808-5150
Registrant's telephone number, including area code

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, par value \$0.001 per share	BAND	NASDAQ Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02 Results of Operations and Financial Condition.

On October 29, 2020, Bandwidth Inc. (“Bandwidth”) issued a press release reporting its financial results for the third quarter ended September 30, 2020. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K. The information furnished with this Item 2.02, including Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Bandwidth Inc. press release, dated October 29, 2020
104	Cover Page Interactive File (the cover page tags are embedded within the Inline XBRL document)

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 hereunto duly authorized.

BANDWIDTH INC.

Date: October 29, 2020

By: /s/ Jeffrey A. Hoffman

Name: Jeffrey A. Hoffman

Title: Chief Financial Officer



Bandwidth Announces Third Quarter 2020 Financial Results

Total third quarter revenue of \$84.8 million, up 40% year-over-year

CPaaS third quarter revenue of \$73.8 million, up 43% year-over-year

Active CPaaS customers of 2,015, up 25% year-over-year

Dollar-based net retention rate of 131%

Raleigh, NC - October 29, 2020 - Bandwidth Inc. (NASDAQ: BAND), a leading enterprise cloud communications company, today announced financial results for the third quarter ended September 30, 2020.

“We delivered our strongest quarter ever and are raising our annual revenue outlook. The strength in our business is fueled by our relentless focus on customer success and highlighted by our robust dollar-based net retention. Our value proposition is strong and our commitment to our mission and customers will now expand across the globe,” said David Morken, chief executive officer of Bandwidth. “Looking ahead, I couldn’t be more excited about our opportunities as we unite Bandwidth’s deep U.S. presence with Voxbone’s world-wide presence to create a global software platform, network and team unlike any other.”

Third Quarter 2020 Financial Highlights

- **Revenue:** Total revenue for the third quarter of 2020 was \$84.8 million, up 40% compared to \$60.5 million in the third quarter of 2019. Within total revenue, CPaaS revenue was \$73.8 million, up 43% compared to \$51.5 million for the third quarter of 2019. Other revenue contributed the remaining \$11.0 million for the third quarter of 2020. Other revenue was \$9.0 million in the same period last year.
- **Gross Profit:** Gross profit for the third quarter of 2020 was \$39.2 million, compared to \$27.4 million for the third quarter of 2019. Gross margin for the third quarter of 2020 was 46%, compared to 45% for the third quarter of 2019. Non-GAAP gross profit for the third quarter of 2020 was \$41.6 million, compared to \$29.1 million for the third quarter of 2019. Non-GAAP gross margin was 49% for the third quarter of 2020, compared to 48% for the third quarter of 2019.
- **Net (Loss):** Net loss for the third quarter of 2020 was \$(2.4) million, or \$(0.10) per share, based on 24.2 million weighted average shares outstanding. During the third quarter of 2019, net loss was \$(1.0) million, or \$(0.04) per share, based on 23.4 million weighted average shares outstanding.
- **Non-GAAP Net Income (Loss):** Non-GAAP net income for the third quarter of 2020 was \$6.5 million, or \$0.24 per share, based on 26.5 million weighted average diluted shares outstanding. This compares to a Non-GAAP net loss of \$(1.4) million, or \$(0.06) per share, based on 23.4 million weighted average shares outstanding for the third quarter of 2019.
- **Adjusted EBITDA:** Adjusted EBITDA was \$9.3 million for the third quarter of 2020, compared to \$(0.6) million for the third quarter of 2019.

Additional information regarding the non-GAAP financial measures discussed in this release, including an explanation of these measures and how each is calculated, is included below under the heading “Non-GAAP Financial Measures.” A reconciliation of GAAP to non-GAAP financial measures has also been provided in the financial tables included below.

Third Quarter 2020 Key Metrics

- The number of active CPaaS customers was 2,015 as of September 30, 2020, an increase of 25% from 1,610 as of September 30, 2019.
- The dollar-based net retention rate was 131% during the third quarter of 2020, compared to 116% during the third quarter of 2019.

Additional information regarding our active CPaaS customers and dollar-based net retention rate and how each are calculated are included below.

Financial Outlook

Bandwidth's outlook assumes current business conditions, current foreign currency exchange rates and the impact of the anticipated acquisition of Voxbone expected to close on October 31, 2020. Bandwidth is providing guidance for its fourth quarter and full year 2020 as follows (guidance includes outlook for Voxbone from November 1, 2020):

- **Fourth Quarter 2020 Guidance:** CPaaS revenue is expected to be in the range of \$84.3 million to \$84.8 million. Total revenue is expected to be in the range of \$96.5 million to \$97.0 million. Non-GAAP earnings per share is expected to be in the range of \$0.03 to \$0.05 per share, using 27.5 million weighted average diluted shares outstanding.
- **Full Year 2020 Guidance:** CPaaS revenue is expected to be in the range of \$284.3 million to \$284.8 million. Total revenue is expected to be in the range of \$326.6 million to \$327.1 million. Non-GAAP earnings per share is expected to be in the range of \$0.44 to \$0.46 per share, using 25.8 million weighted average diluted shares outstanding.

Bandwidth has not reconciled its fourth quarter and full-year guidance related to non-GAAP net earnings or loss to GAAP net earnings or loss and non-GAAP earnings or loss per share to GAAP earnings or loss, because stock-based compensation cannot be reasonably calculated or predicted at this time. Accordingly, a reconciliation is not available without unreasonable effort.

Quarterly Conference Call

Bandwidth will host a conference call today at 5:00 p.m. Eastern Time to review the Company's financial results for the third quarter ended September 30, 2020. To access this call, dial (855) 327-6837 for the U.S. or Canada, or (631) 891-4304 for callers outside the U.S. or Canada. A live webcast of the conference call will be accessible from the Investors section of Bandwidth's website at <https://investors.bandwidth.com>, and a recording will be archived and accessible at <https://investors.bandwidth.com>. An audio replay of this conference call will also be available through November 5, 2020, by dialing (844) 512-2921 for the U.S. or Canada, or (412) 317-6671 for callers outside the U.S. or Canada, and entering passcode 10011373.

About Bandwidth Inc.

Bandwidth (NASDAQ: BAND) is a leading enterprise cloud communications company. Companies like Google, Microsoft, Cisco, Zoom and RingCentral use Bandwidth's APIs to easily embed voice, messaging and 911 access into software and applications. Bandwidth is the first and only CPaaS provider offering a robust selection of communications APIs built around their own nationwide IP voice network - one of the largest in the nation. More information available at www.bandwidth.com.

Forward-Looking Statements

This press release includes forward-looking statements. All statements contained in this press release other than statements of historical facts, including, without limitation, statements regarding our ability to consummate the acquisition with Voxbone, future financial and business performance for the fourth quarter 2020 and full-year 2020, attractiveness of our product offerings and platform and the value proposition of our products, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “guide,” “may,” “will” and similar expressions and their negatives are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks and uncertainties, including, without limitation, our ability to consummate the acquisition with Voxbone, risks related to our rapid growth and ability to sustain our revenue growth rate, competition in the markets in which we operate, market growth, our ability to innovate and manage our growth, our ability to expand effectively into new markets, our ability to operate in compliance with applicable laws as well as other risks and uncertainties set forth in the “Risk Factors” section of our Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission and any subsequent reports that we file with the Securities and Exchange Commission after December 31, 2019. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our 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 we may make. In light of these risks, uncertainties and assumptions, we cannot guarantee future results, levels of activity, performance, achievements or events and circumstances reflected in the forward-looking statements will occur. We are under no obligation to update any of these forward-looking statements after the date of this press release to conform these statements to actual results or revised expectations, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this press release.

Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with Generally Accepted Accounting Principles in the United States, or GAAP, we provide investors with certain non-GAAP financial measures and other business metrics, which we believe are helpful to our investors. We use these Non-GAAP financial measures and other business metrics for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these Non-GAAP financial measures and other business metrics provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making.

The presentation of Non-GAAP financial information and other business metrics is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. While our Non-GAAP financial measures and other business metrics are an important tool for financial and operational decision-making and for evaluating our own operating results over different periods of time, we urge investors to review the reconciliation of these financial measures to the comparable GAAP financial measures included above, and not to rely on any single financial measure to evaluate our business.

We define Non-GAAP gross profit as gross profit after adding back depreciation and amortization and stock-based compensation. We add back depreciation and amortization and stock-based compensation because they are non-cash items. We eliminate the impact of these non-cash items, because we do not consider them indicative of our core operating performance. Their exclusion facilitates comparisons of our operating performance on a period-to-period basis. Therefore, we believe that showing gross margin, as adjusted to remove the impact of these non-cash expenses, such as depreciation, amortization and stock-based compensation, is helpful to investors in assessing our gross profit and gross margin performance in a way that is similar to how management assesses our performance.

We calculate Non-GAAP gross margin by dividing adjusted gross profit by revenue, expressed as a percentage of revenue.

We define Non-GAAP net (loss) income as net (loss) income adjusted for certain items affecting period to period comparability. Non-GAAP net (loss) income excludes stock-based compensation, amortization of acquired intangible assets related to the Dash acquisition, amortization of debt discount and issuance costs for convertible debt, acquisition related expenses, impairment charges of intangibles assets, loss (gain) on disposal of property and equipment, estimated tax impact of above adjustments, income tax (benefit) provision resulting from excess tax benefits associated with the exercise of stock options, vesting of restricted stock units and equity compensation, and expense resulting from recording the valuation allowance on our deferred tax assets (“DTA”).

We define adjusted EBITDA as net (loss) income adjusted to reflect the addition or elimination of certain statement of operations items including, but not limited to: income tax (benefit) provision, interest (income) expense, net, depreciation and amortization expense, acquisition related expenses, stock-based compensation expense, impairment of intangible assets, and loss (gain) from disposal of property and equipment. We have presented Adjusted EBITDA because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, generate future operating plans, and make strategic decisions regarding the allocation of capital. In particular, we believe that the exclusion of certain items in calculating Adjusted EBITDA can produce a useful measure for period-to-period comparisons of our business.

We define free cash flow as net cash provided by or used in operating activities less net cash used in the acquisition of property, plant and equipment activities and capitalized development costs for software for internal use. We believe free cash flow is a useful indicator of liquidity and provides information to management and investors about the amount of cash generated from our core operations that can be used for investing in our business. Free cash flow has certain limitations in that it does not represent the total increase or decrease in the cash balance for the period, it does not take into consideration investment in long-term securities, nor does it represent the residual cash flows available for discretionary expenditures. Therefore, it is important to evaluate free cash flow along with our consolidated statements of cash flows.

We believe that these Non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making.

While a reconciliation of Non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis as a result of the uncertainty regarding, and the potential variability of, many of these costs and expenses that we may incur in the future, we have provided a reconciliation of Non-GAAP financial measures and other business metrics to the nearest comparable GAAP measures in the accompanying financial statement tables included in this press release.

We define an active CPaaS customer account at the end of any period as an individual account, as identified by a unique account identifier, for which we have recognized at least \$100 of revenue in the last month of the period. We believe that the use of our platform by active CPaaS customer accounts at or above the \$100 per month threshold is a stronger indicator of potential future engagement than trial usage of our platform at levels below \$100 per month. A single organization may constitute multiple unique active CPaaS customer accounts if it has multiple unique account identifiers, each of which is treated as a separate active CPaaS customer account.

Our dollar-based net retention rate compares the CPaaS revenue from customers in a quarter to the same quarter in the prior year. To calculate the dollar-based net retention rate, we first identify the cohort of customers that generate CPaaS revenue and that were customers in the same quarter of the prior year. The dollar-based net retention rate is obtained by dividing the CPaaS revenue generated from that cohort in a quarter, by the CPaaS revenue generated from that same cohort in the corresponding quarter in the prior year. When we calculate dollar-based net retention rate for periods longer than one quarter, we use the average of the quarterly dollar-based net retention rates for the quarters in such period.

BANDWIDTH INC.
Condensed Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
Revenue	\$ 60,491	\$ 84,758	\$ 170,591	\$ 230,066
Cost of revenue	33,104	45,527	91,980	123,895
Gross profit	27,387	39,231	78,611	106,171
Operating expenses:				
Research and development	7,939	10,232	23,312	29,316
Sales and marketing	8,784	9,001	25,647	27,073
General and administrative	15,269	18,134	43,884	51,070
Total operating expenses	31,992	37,367	92,843	107,459
Operating (loss) income	(4,605)	1,864	(14,232)	(1,288)
Other income (expense), net	781	(4,206)	1,711	(8,980)
Loss before income taxes	(3,824)	(2,342)	(12,521)	(10,268)
Income tax benefit (provision)	2,810	(10)	16,971	(13,783)
Net (loss) income	<u>\$ (1,014)</u>	<u>\$ (2,352)</u>	<u>\$ 4,450</u>	<u>\$ (24,051)</u>

Earnings per share:

Net (loss) income per share:

Basic	\$ (0.04)	\$ (0.10)	\$ 0.20	\$ (1.01)
Diluted	\$ (0.04)	\$ (0.10)	\$ 0.19	\$ (1.01)

Weighted average number of common shares outstanding:

Basic	23,426,455	24,175,762	22,353,097	23,905,322
Diluted	23,426,455	24,175,762	23,692,571	23,905,322

The Company recognized total stock-based compensation expense as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
Cost of revenue	\$ 52	\$ 46	\$ 158	\$ 161
Research and development	371	508	1,101	1,581
Sales and marketing	280	369	892	1,140
General and administrative	951	1,459	2,809	4,424
Total	<u>\$ 1,654</u>	<u>\$ 2,382</u>	<u>\$ 4,960</u>	<u>\$ 7,306</u>

BANDWIDTH INC.
Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

	As of December 31, 2019	As of September 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 184,414	\$ 300,179
Restricted cash	590	1,144
Other investments	—	230,780
Accounts receivable, net of allowance for doubtful accounts	30,187	46,452
Prepaid expenses and other current assets	9,260	10,022
Deferred costs	2,498	2,238
Total current assets	226,949	590,815
Property and equipment, net	41,654	43,926
Operating right-of-use asset	21,031	17,509
Intangible assets, net	6,569	6,179
Deferred costs, non-current	1,952	3,412
Other long-term assets	1,533	1,724
Goodwill	6,867	6,867
Deferred tax asset	34,861	—
Total assets	\$ 341,416	\$ 670,432
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,190	\$ 7,776
Accrued expenses and other current liabilities	27,328	34,360
Current portion of deferred revenue	5,177	5,527
Advanced billings	4,167	5,016
Operating lease liability, current	4,876	5,162
Total current liabilities	45,738	57,841
Operating lease liability, net of current portion	19,868	15,638
Deferred revenue, net of current portion	5,720	6,331
Convertible senior notes	—	277,483
Total liabilities	71,326	357,293
Stockholders' equity:		
Class A and Class B common stock	24	24
Additional paid-in capital	275,553	342,633
Accumulated deficit	(5,528)	(29,579)
Accumulated other comprehensive income	41	61
Total stockholders' equity	270,090	313,139
Total liabilities and stockholders' equity	\$ 341,416	\$ 670,432

BANDWIDTH INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine months ended September 30,	
	2019	2020
Cash flows from operating activities		
Net income (loss)	\$ 4,450	\$ (24,051)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities		
Depreciation and amortization	6,628	9,927
Right-of-use asset amortization	3,126	3,522
Accretion of bond discount	(700)	—
Gain on sale of marketable securities	(4)	—
Amortization of debt discount and issuance costs	159	10,916
Stock-based compensation	4,960	7,306
Deferred taxes	(17,091)	14,254
Loss on disposal of property and equipment	354	263
Changes in operating assets and liabilities:		
Accounts receivable, net of allowances	(5,304)	(16,218)
Prepaid expenses and other assets	(3,046)	(1,024)
Deferred costs	(42)	(1,200)
Accounts payable	(169)	2,905
Accrued expenses and other liabilities	4,696	6,865
Deferred revenue and advanced billings	985	1,810
Operating right-of-use liability	(2,482)	(3,944)
Net cash (used in) provided by operating activities	(3,480)	11,331
Cash flows from investing activities		
Purchase of property and equipment	(13,088)	(9,536)
Capitalized software development costs	(2,749)	(1,846)
Purchase of marketable securities	(68,361)	—
Proceeds from sales and maturities of marketable securities	86,468	—
Purchase of other investments	—	(230,780)
Net cash provided by (used in) investing activities	2,270	(242,162)
Cash flows from financing activities		
Proceeds from the follow-on public offering, net of underwriting discounts	147,391	—
Payment of costs related to the follow-on public offering	(757)	—
Proceeds from issuance of convertible senior notes	—	400,000
Payment of debt issuance costs	(142)	(11,965)
Purchase of capped call	—	(43,320)
Proceeds from exercises of stock options	7,249	3,859
Value of equity awards withheld for tax liabilities	(1,212)	(1,472)
Net cash provided by financing activities	152,529	347,102
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(19)	48
Net increase in cash, cash equivalents, and restricted cash	151,300	116,319
Cash, cash equivalents, and restricted cash, beginning of period	41,501	185,004
Cash, cash equivalents, and restricted cash, end of period	\$ 192,801	\$ 301,323

BANDWIDTH INC.
Reconciliation of Non-GAAP Financial Measures
(In thousands, except share and per share amounts)
(Unaudited)

Non-GAAP Gross Profit and Non-GAAP Gross Margin

Consolidated

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
Consolidated Gross Profit	\$ 27,387	\$ 39,231	\$ 78,611	\$ 106,171
Consolidated Gross Profit Margin %	45 %	46 %	46 %	46 %
Depreciation	1,700	2,284	4,523	6,958
Stock-based compensation	52	46	158	161
Non-GAAP Gross Profit	\$ 29,139	\$ 41,561	\$ 83,292	\$ 113,290
Non-GAAP Gross Margin %	48 %	49 %	49 %	49 %

By Segment

CPaaS

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
CPaaS Gross Profit	\$ 22,202	\$ 34,416	\$ 63,431	\$ 91,492
CPaaS Gross Profit Margin %	43 %	47 %	44 %	46 %
Depreciation	1,700	2,284	4,523	6,958
Stock-based compensation	52	46	158	161
Non-GAAP CPaaS Gross Profit	\$ 23,954	\$ 36,746	\$ 68,112	\$ 98,611
Non-GAAP CPaaS Gross Margin %	47 %	50 %	47 %	49 %

Other

There are no non-GAAP adjustments to gross profit for the Other segment.

BANDWIDTH INC.
Reconciliation of Non-GAAP Financial Measures
(In thousands, except share and per share amounts)
(Unaudited)

Non-GAAP Net (Loss) Income

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
Net (loss) income	\$ (1,014)	\$ (2,352)	\$ 4,450	\$ (24,051)
Stock-based compensation	1,654	2,382	4,960	7,306
Amortization of acquired intangibles	130	130	390	390
Amortization of debt discount and issuance costs for convertible debt	—	4,575	—	10,852
Acquisition-related expenses	—	1,745	—	1,745
Loss on disposal of property and equipment	3	3	354	263
Estimated tax effects of adjustments (1)	(451)	—	(1,440)	—
Valuation allowance (2)	—	—	—	14,173
Income tax benefit of equity compensation	(1,749)	—	(13,488)	—
Non-GAAP net (loss) income	\$ (1,427)	\$ 6,483	\$ (4,774)	\$ 10,678

Net (loss) income per share

Basic	\$ (0.04)	\$ (0.10)	\$ 0.20	\$ (1.01)
Diluted	\$ (0.04)	\$ (0.10)	\$ 0.19	\$ (1.01)

Non-GAAP net (loss) income per Non-GAAP share

Basic	\$ (0.06)	\$ 0.27	\$ (0.21)	\$ 0.45
Diluted	\$ (0.06)	\$ 0.24	\$ (0.21)	\$ 0.42

Non-GAAP weighted average number of shares outstanding

Non-GAAP basic shares	23,426,455	24,175,762	22,353,097	23,905,322
Convertible debt conversion	—	1,692,546	—	708,073
Stock options issued and outstanding	—	273,681	—	507,530
Nonvested RSUs outstanding	—	367,790	—	333,329
Non-GAAP diluted shares	23,426,455	26,509,779	22,353,097	25,454,254

(1) The Non-GAAP tax-effect is determined using a blended rate of statutory tax rates in the jurisdictions where the Company has tax filings. When the Company has a valuation allowance recorded and no tax benefits will be recognized, the rate is considered to be zero. The rate was 25.2% for the three and nine months ended September 30, 2019.

(2) The company recognized a tax expense of \$0 and \$14,173 to record a valuation allowance on U.S. deferred tax assets in the three and nine months ended September 30, 2020.

BANDWIDTH INC.
Reconciliation of Non-GAAP Financial Measures
(In thousands, except share and per share amounts)
(Unaudited)

Adjusted EBITDA

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
Net (loss) income	\$ (1,014)	\$ (2,352)	\$ 4,450	\$ (24,051)
Income tax (benefit) provision ^{(1) (2)}	(2,810)	10	(16,971)	13,783
Interest (income) expense, net	(778)	4,200	(1,698)	8,923
Depreciation	2,177	3,157	6,238	9,537
Amortization	130	130	390	390
Acquisition-related expenses	—	1,745	—	1,745
Stock-based compensation	1,654	2,382	4,960	7,306
Loss on disposal of property and equipment	3	3	354	263
Adjusted EBITDA	\$ (638)	\$ 9,275	\$ (2,277)	\$ 17,896

(1) Includes excess tax benefits (reversals) associated with the exercise of stock options and vesting of restricted stock units of \$1,749 and \$13,488 in the three and nine months ended September 30, 2019, respectively, and \$0 in the three and nine months ended September 30, 2020, respectively.

(2) Includes \$0 and \$14,173 of tax expense to record a valuation allowance on U.S. deferred tax assets in the three and nine months ended September 30, 2020.

Free Cash Flow

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
Net cash provided by (used in) operating activities	\$ 1,932	\$ 11,647	\$ (3,480)	\$ 11,331
Net cash used in investing in capital assets ⁽¹⁾	(6,318)	(2,334)	(15,837)	(11,382)
Free cash flow	\$ (4,386)	\$ 9,313	\$ (19,317)	\$ (51)

(1) Represents the acquisition cost of property, equipment and capitalized development costs for software for internal use.

Investor Contacts

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