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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2018

OR

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

Commission File Number: 001-37901

COUPA SOFTWARE INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1855 S. Grant Street
San Mateo, CA
(Address of principal executive offices)

20-4429448
(I.R.S. Employer
Identification No.)

94402
(Zip Code)

Registrant's telephone number, including area code: (650) 931-3200

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 December 6, 2018, the Registrant had 59,444,864 shares of common stock, \$0.0001 par value per share, outstanding.

TABLE OF CONTENTS

	<u>Page</u>
PART I.	
<u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	2
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	42
PART II.	
<u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	43
Item 1.A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	65
Item 3. <u>Defaults Upon Senior Securities</u>	65
Item 4. <u>Mine Safety Disclosures</u>	65
Item 5. <u>Other Information</u>	65
Item 6. <u>Exhibits</u>	66
<u>Exhibit Index</u>	66
<u>Signatures</u>	67

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical facts contained in this report, including statements regarding our future results of operations and financial position, customer lifetime value, strategy and plans, market size and opportunity, competitive position, industry environment, potential growth opportunities, product capabilities, our expectations for future operations and our convertible senior notes, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “design,” “intend,” “expect,” “could,” “plan,” “potential,” “predict,” “seek,” “should,” “would” or the negative version of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short- and long-term business operations and objectives, and financial needs. The forward-looking statements are contained principally in “Management’s Discussion and Analysis of Financial Condition and Result of Operations” and “Risk Factors.”

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. 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, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

COUPA SOFTWARE INCORPORATED
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except share and per share amounts)
 (unaudited)

	October 31, 2018	January 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 227,606	\$ 412,903
Marketable securities	178,686	-
Accounts receivable, net of allowances	50,526	61,366
Prepaid expenses and other current assets	13,480	10,952
Deferred commissions, current portion	6,029	3,756
Total current assets	476,327	488,977
Property and equipment, net	8,583	5,186
Deferred commissions, net of current portion	14,998	3,896
Goodwill	125,621	44,410
Intangible assets, net	41,189	20,020
Other assets	7,090	9,961
Total assets	<u>\$ 673,808</u>	<u>\$ 572,450</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,037	\$ 1,342
Accrued expenses and other current liabilities	34,068	26,643
Deferred revenue, current portion	128,683	125,714
Convertible senior notes, net	171,605	-
Total current liabilities	338,393	153,699
Convertible senior notes, net	-	163,010
Deferred revenue, net of current portion	1,430	2,316
Other liabilities	22,464	12,880
Total liabilities	362,287	331,905
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value per share; 25,000,000 shares authorized at October 31, 2018 and January 31, 2018; zero shares issued and outstanding at October 31, 2018 and January 31, 2018	-	-
Common stock, \$0.0001 par value per share; 625,000,000 shares authorized at October 31, 2018 and January 31, 2018; 59,324,301 and 55,712,342 shares issued and outstanding at October 31, 2018 and January 31, 2018, respectively	6	6
Additional paid-in capital	550,113	445,318
Accumulated other comprehensive loss	(311)	(298)
Accumulated deficit	(238,287)	(204,481)
Total stockholders' equity	311,521	240,545
Total liabilities and stockholders' equity	<u>\$ 673,808</u>	<u>\$ 572,450</u>

See Notes to Condensed Consolidated Financial Statements.

COUPA SOFTWARE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Revenues:				
Subscription services	\$ 60,559	\$ 42,795	\$ 165,899	\$ 118,223
Professional services and other	6,896	4,545	19,559	14,805
Total revenues	67,455	47,340	185,458	133,028
Cost of revenues:				
Subscription services	13,990	9,554	36,937	26,575
Professional services and other	7,674	5,441	21,492	16,865
Total cost of revenues	21,664	14,995	58,429	43,440
Gross profit	45,791	32,345	127,029	89,588
Operating expenses:				
Research and development	16,077	11,409	42,693	31,301
Sales and marketing	25,622	22,402	76,862	66,892
General and administrative	14,010	9,693	40,085	27,300
Total operating expenses	55,709	43,504	159,640	125,493
Loss from operations	(9,918)	(11,159)	(32,611)	(35,905)
Interest expense	(3,181)	(6)	(9,276)	(12)
Interest income and other, net	1,112	126	1,562	1,273
Loss before provision for (benefit from) income taxes	(11,987)	(11,039)	(40,325)	(34,644)
Provision for (benefit from) income taxes	(2,342)	263	(1,372)	438
Net loss	\$ (9,645)	\$ (11,302)	\$ (38,953)	\$ (35,082)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.17)	\$ (0.21)	\$ (0.68)	\$ (0.67)
Weighted-average number of shares used in computing net loss per share attributable to common stockholders, basic and diluted	58,212	53,779	57,030	52,388

See Notes to Condensed Consolidated Financial Statements.

COUPA SOFTWARE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2018	2017	2018	2017
Net loss	\$ (9,645)	\$ (11,302)	\$ (38,953)	\$ (35,082)
Other comprehensive gain (loss) in relation to defined benefit plans, net of tax	(22)	-	87	-
Unrealized loss on marketable securities, net of tax	(68)	-	(100)	-
Comprehensive loss	<u>\$ (9,735)</u>	<u>\$ (11,302)</u>	<u>\$ (38,966)</u>	<u>\$ (35,082)</u>

See Notes to Condensed Consolidated Financial Statements.

COUPA SOFTWARE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended October 31,	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (38,953)	\$ (35,082)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,720	5,557
Accretion of discounts on marketable securities, net	(956)	-
Amortization of deferred commissions	4,127	2,967
Amortization of debt discount and issuance costs	8,595	-
Stock-based compensation	38,690	20,783
Other	(374)	202
Changes in operating assets and liabilities net of effects from acquisitions:		
Accounts receivable	12,391	15,625
Prepaid expenses and other current assets	(3,304)	(571)
Other assets	(542)	286
Deferred commissions	(8,467)	(2,915)
Accounts payable	2,458	335
Accrued expenses and other liabilities	6,362	8,408
Deferred revenue	1,216	5,703
Net cash provided by operating activities	<u>27,963</u>	<u>21,298</u>
Cash flows from investing activities		
Purchases of marketable securities	(209,331)	-
Maturities of marketable securities	31,834	-
Acquisitions, net of cash acquired	(49,211)	(39,593)
Purchases of property and equipment	(4,870)	(3,587)
Net cash used in investing activities	<u>(231,578)</u>	<u>(43,180)</u>
Cash flows from financing activities		
Payment of issuance costs for the issuance of convertible senior notes	(639)	-
Proceeds from issuance of common stock, net of underwriting discounts, commissions and offering costs	-	22,264
Proceeds from the exercise of common stock options	10,174	10,120
Proceeds from issuance of common stock for employee stock purchase plan	8,778	6,824
Net cash provided by financing activities	<u>18,313</u>	<u>39,208</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash	(185,302)	17,326
Cash, cash equivalents, and restricted cash at beginning of year	412,976	201,972
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 227,674</u>	<u>\$ 219,298</u>
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets		
Cash and cash equivalents	\$ 227,606	\$ 219,298
Restricted cash included in other assets	68	-
Total cash, cash equivalents, and restricted cash	<u>\$ 227,674</u>	<u>\$ 219,298</u>

See Notes to Condensed Consolidated Financial Statements.

COUPA SOFTWARE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	October 31,	
	2018	2017
Supplemental disclosure of cash flow data		
Cash paid for income taxes	\$ 4,056	\$ 632
Supplemental disclosure of non-cash investing and financing activities		
Vesting of early exercised stock options	\$ 273	\$ 2,128
Property and equipment included in accounts payable and accrued expenses and other current liabilities	\$ 897	\$ 72

See Notes to Condensed Consolidated Financial Statements.

COUPA SOFTWARE INCORPORATED
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Description of Business

Coupa Software Incorporated (the “Company”) was incorporated in the state of Delaware in 2006. The Company provides a comprehensive, cloud-based business spend management (or BSM) platform that provides greater visibility into and control over how companies spend money. The BSM platform enables businesses to achieve savings that drive profitability. The Company is based in San Mateo, California.

Note 2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2018 filed with the SEC on March 28, 2018 (the “Form 10-K”). The condensed consolidated financial statements include the results of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated during consolidation.

The condensed consolidated balance sheet as of January 31, 2018, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by GAAP on an annual reporting basis. Certain amounts in the condensed consolidated financial statements and notes to the condensed consolidated financial statements for the prior period have been reclassified to conform to the presentation for the three and nine months ended October 31, 2018. Net operating results have not been affected by these reclassifications.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

There have been no changes to our significant accounting policies described in the Form 10-K for the year ended January 31, 2018 except for changes applied due to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* and in relation to the Company’s recent marketable securities activities. Refer to “Recently Adopted Accounting Pronouncements.”

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates its significant estimates including, but not limited to, the valuation of accounts receivable, the lives of tangible and intangible assets, stock-based compensation, the fair value of the contingent stock consideration, the valuation of acquired intangible assets and the recoverability or impairment of tangible and intangible assets, including goodwill, revenue recognition, the fair value of marketable securities, convertible senior notes fair value, the benefit period of deferred commissions, and provision for (benefit from) income taxes. Management bases its estimates on historical experience and on various other market-specific and relevant assumptions that management believes to be reasonable under the circumstances. Actual results could differ from those estimates and such differences could be material to the financial position and results of operations.

Concentration of Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, marketable securities, and accounts receivable. Cash deposits exceed amounts insured by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation. The Company has not experienced any losses on its deposits of cash and cash equivalents to date.

Comprehensive Loss

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive gain or loss consists of other comprehensive gain or loss in relation to defined benefits plans, and unrealized gain or loss on marketable securities, net of tax.

Revenue Recognition

The Company derives its revenues primarily from subscription services fees and professional services fees. Revenues are recognized when control of these services are transferred to the Company's customers in an amount that reflects the consideration expected to be entitled to in exchange for those services. Revenues are recognized net of applicable taxes imposed on the related transaction. The Company's revenue recognition policy follows guidance from Accounting Standards Codification 606, *Revenue from Contracts with Customers (Topic 606)*.

The Company determines revenue recognition through the following five-step framework:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Subscription Services Revenues

The Company offers subscriptions to its cloud-based business spend management platform, including procurement, invoicing and expense management. Subscription services revenues consist primarily of fees to provide the Company's customers access to its cloud-based platform, which includes routine customer support. Subscription service contracts do not provide customers with the right to take possession of the software, are non-cancelable, and do not contain general rights of return. Generally revenues are recognized ratably over the contractual term of the arrangement, beginning on the date that the service is made available to the customer. Subscription contracts typically have a term of three years with invoicing occurring in annual installments at the beginning of each year in the subscription period.

Professional Services Revenues and Other

The Company offers professional services which include deployment services, optimization services, and training. Professional services are generally sold on a fixed-fee or time-and-materials basis. For services billed on a fixed-fee basis, invoicing typically occurs in advance, and revenue is recognized over time based on the proportion performed. For services billed on a time-and-materials basis, revenue is recognized over time as services are performed.

Refer to Note 14, "Significant Customers and Geographic Information" for additional information on disaggregated revenue during the period.

Significant Judgments

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. Subscription services and professional services are both distinct performance obligations that are accounted for separately. In contracts with multiple performance obligations, the transaction price is allocated to separate performance obligations on a relative standalone selling price basis.

The determination of standalone selling price ("SSP") for each distinct performance obligations requires judgment. The Company determines SSP for performance obligations based on overall pricing objectives, which take into consideration market conditions and entity-specific factors. This includes a review of historical data related to the size of arrangements, the cloud applications being sold, customer demographics and the numbers and types of users within the arrangements. The Company uses a range of amounts to estimate SSP for performance obligations. There is typically more than one SSP for individual products and services due to the stratification of those products and services by considerations such as size and type of customer.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing for contracts with customers. The Company records a receivable when revenue is recognized prior to invoicing, or deferred revenue when revenue is recognized subsequent to invoicing. Subscription services and certain professional services arrangements are commonly billed in advance, recognized as deferred revenue, and then amortized as revenue over time. However, other professional services arrangements, primarily those recognized on a time-and-materials basis, are billed in arrears following services that have been rendered. This may result in revenue recognition greater than invoiced amounts which results in a receivable balance. Receivables represent an unconditional right to payment. As of October 31, 2018 and January 31, 2018, the balance of accounts receivable, net of the allowance for doubtful accounts, was \$50.5 million and \$61.4 million, respectively. Of these balances, \$1.7 million and \$1.2 million represent unbilled receivable amounts as of October 31, 2018 and January 31, 2018, respectively.

When the timing of revenue recognition differs from the timing of invoicing, the Company uses judgment to determine whether the contract includes a significant financing component requiring adjustment to the transaction price. Various factors are considered in this determination including the duration of the contract, payment terms, and other circumstances. Generally, the Company determined that contracts do not include a significant financing component. The Company applies the practical expedient for instances where, at contract inception, the expected timing difference between when promised goods or services are transferred and associated payment will be one year or less. Payment terms vary by contract type, however arrangements typically stipulate a requirement for the customer to pay within 30 days.

At any point in the contract term, transaction price may be allocated to performance obligations that are unsatisfied or are partially unsatisfied. These amounts relate to remaining performance obligations on non-cancelable contracts which include both the deferred revenue balance and amounts that will be invoiced and recognized as revenue in future periods. As of October 31, 2018, approximately \$406.7 million of revenue is expected to be recognized from remaining performance obligations, a majority of which is related to multi-year subscription arrangements. The Company expects to recognize revenue on approximately three fourths of these remaining performance obligations within the next 24 months and the remainder thereafter. The Company applies the practical expedient to exclude remaining performance obligations that are part of contracts with an original expected duration of one year or less. During the three and nine months ended October 31, 2018, the revenue recognized from performance obligations satisfied in prior periods was approximately \$193,000 and \$825,000.

Accounts Receivable and Allowance for Doubtful Accounts

The Company extends credit to its customers in the normal course of business, and does not require cash collateral or other security to support the collection of customer receivables. The Company estimates the amount of uncollectible accounts receivable at the end of each reporting period based on the aging of the receivable balance, historical experience, and communications with customers, and provides a reserve when needed. Accounts receivable are written off when deemed uncollectible. The allowance for doubtful accounts was not material at October 31, 2018 and January 31, 2018.

Deferred Revenue

Deferred revenue consists of customer billings or payments received in advance of the recognition of revenue and is recognized as revenue as the revenue recognition criteria are met. The Company generally invoices its customers annually for the forthcoming year of service. Accordingly, the Company's deferred revenue balance does not include revenue for future years of multiple year non-cancellable contracts that have not yet been billed. During the three and nine months ended October 31, 2018, the Company recognized revenue of \$56.5 million that was included in the deferred revenue balance as of July 31, 2018 and \$113.8 million that was included in the deferred revenue balance as of January 31, 2018.

Deferred Commissions

Commissions are earned by sales personnel upon the execution of the sales contract by the customer, and commission payments are made shortly after they are earned. Commission costs can be associated specifically with subscription and professional services arrangements. Commissions earned by the Company's sales personnel are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized over a period of benefit of five years. The Company determined the period of benefit by taking into consideration its past experience with customers, present value of future cash flows, industry peers and other available information.

Deferred commissions totaled \$21.0 million at October 31, 2018. For the three and nine months ended October 31, 2018, \$1.5 million and \$4.1 million of deferred commissions were amortized to sales and marketing expense in the accompanying condensed consolidated statements of operations.

Marketable Securities

Marketable securities consist of financial instruments such as U.S. treasury securities, U.S. agency obligations, corporate notes and bonds, commercial paper, and asset backed securities. The Company classifies marketable securities as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All marketable securities are recorded at estimated fair value.

Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive loss, a component of stockholders' equity. The Company evaluates its marketable securities to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if they are related to a deterioration in credit risk or if it is likely that the Company will sell the securities before recovering its cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in interest income and other, net in the condensed consolidated statements of operations.

If quoted prices for identical instruments are available in an active market, marketable securities are classified within Level 1 of the fair value hierarchy. If quoted prices for identical instruments in active markets are not available, fair values are estimated using quoted prices of similar instruments and are classified within Level 2 of the fair value hierarchy.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* which provided a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Topic 606 superseded the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of Topic 606 is to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also includes Subtopic 340-40 which provides accounting guidance for incremental costs of obtaining a contract with a customer. The Company refers to Topic 606 and Subtopic 340-40 collectively as the "new revenue standard."

The Company adopted the new revenue standard effective on February 1, 2018 using the modified retrospective method applied to all contracts not completed as of the adoption date. Results for reporting periods beginning on February 1, 2018 are presented under the new revenue standard, while comparative results have not been restated. The primary impact of adopting the new revenue standard relates to Subtopic 340-40 and the deferral of incremental commission costs to obtain contracts with customers. Under Topic 605, the Company deferred only direct and incremental commission costs to obtain a contract and amortized those costs over the non-cancelable contract term. Under the new revenue standard, the Company defers all incremental commission costs to obtain the contract. The Company amortizes these costs over a period of benefit of five years. The adoption of the new revenue standard also removed the limitation on contingent revenue under Topic 605 which impacted revenue recognition and is reflected in the changes to the Company's revenue recognition accounting policy.

The following table summarizes the cumulative impact of adoption of the new revenue standard for revenue recognition on line items within the Condensed Consolidated Balance Sheets (in thousands):

	As of January 31, 2018		
	As Previously Reported	Adjustments for the New Revenue Standard	As Adjusted
Assets			
Deferred commissions, current portion	\$ 3,756	\$ 778	\$ 4,534
Deferred commissions, net of current portion	3,896	8,257	12,153
Liabilities and Stockholders' Equity			
Deferred revenue, current portion	125,714	(1,732)	123,982
Deferred revenue, net of current portion	2,316	(10)	2,306
Accumulated deficit	(204,481)	10,777	(215,258)

The impact of adoption on the condensed consolidated statements of cash flows for the nine months ended October 31, 2018 was immaterial. The impact to sales and marketing expense within the condensed consolidated statements of operations was a decrease of approximately \$1.3 million and \$3.4 million for the three and nine months ended October 31, 2018, respectively, due to deferred commission costs that would have been expensed prior to adoption of the new standard. The following table summarizes the effects of the new revenue standard for revenue recognition on line items within the Condensed Consolidated Balance Sheets (in thousands):

	As of October 31, 2018		
	Prior to Adoption of the New Revenue Standard	Adjustments for the New Revenue Standard	As Adjusted
Assets			
Deferred commissions, current portion	\$ 4,429	\$ 1,600	\$ 6,029
Deferred commissions, net of current portion	4,133	10,856	14,998
Liabilities and Stockholders' Equity			
Deferred revenue, current portion	130,915	(2,232)	128,683
Deferred revenue, net of current portion	1,421	9	1,430
Accumulated deficit	(223,599)	14,688	(238,287)

In October 2016, the FASB issued ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). ASU 2016-16 requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As of January 31, 2018, the Company had an aggregate prepaid tax asset of \$5.6 million recorded in prepayments and other current assets and other long-term assets, which represents tax expense that was deferred in accordance with GAAP prior to adoption of ASU 2016-16. The Company adopted this standard on February 1, 2018 and reversed the deferred tax charge of \$5.6 million through a cumulative-effect adjustment to the accumulated deficit.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"). ASU 2016-18 requires an entity to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows, and an entity will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. This guidance is effective for annual and interim reporting periods, beginning after December 15, 2017. Entities are required to apply the standard's provisions on a retrospective basis. The Company adopted this standard on February 1, 2018, which did not have material impact on the Company consolidated statement of cash flows.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*, ("ASU 2017-07"). ASU 2017-07 provides guidance on the presentation of the service cost component and the other components of net period pension cost in the consolidated statements of operations. The standard is effective for annual and interim reporting periods beginning after December 15, 2017 and requires retrospective adoption. The Company adopted this standard on February 1, 2018, which did not have a material impact on the Company's consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), which provides clarified guidance on applying modification accounting to changes in the terms or conditions of a share-based payment award. ASU 2017-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. This change is required to be applied prospectively to an award modified on or after the adoption date. The Company adopted this standard on February 1, 2018, which did not have impact on the Company's consolidated financial statements and related disclosures.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02") which provides guidance for lease accounting. Since the issuance of ASU 2016-02, the FASB has also issued ASU 2017-13, ASU 2018-01, ASU 2018-10 and ASU 2018-11, all of which clarify certain aspects of ASU 2016-02. The new lease standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new lease standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. A modified retrospective transition approach is required for lessees with capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

The Company will adopt the new lease standard in the first quarter of fiscal 2020 and plans to utilize certain practical expedients for this adoption. Upon adoption, the Company will recognize right-of-use assets and operating lease liabilities on the Company's condensed consolidated balance sheets, which will increase total assets and total liabilities. The Company anticipates that the adoption of the new lease standard will have a material impact on its condensed consolidated balance sheets given that the Company had operating lease commitments of approximately \$34.2 million as of October 31, 2018, on an undiscounted basis.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units related to an entity's testing of reporting units for goodwill impairment, and clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The guidance is effective for annual reporting periods beginning after January 1, 2020 and interim periods within those fiscal years. The Company is not expecting this standard to have an impact on its historical financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"), which provides the option to reclassify certain income tax effects related to the Tax Cuts and Jobs Act passed in December of 2017 between accumulated other comprehensive income and retained earnings and also requires additional disclosures. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of ASU 2018-02 is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. The Company is currently evaluating the impact of adopting ASU 2018-02 on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Non-Employee Share Based Payment Accounting* ("ASU 2018-07"), with an intent to reduce cost and complexity and to improve financial reporting for share-based payments issued to non-employees. The amendments in ASU 2018-07 provide for the simplification of the measurement of share-based payment transactions for acquiring goods and services from non-employees. Currently, the accounting requirements for nonemployee and employee share-based payment transactions are significantly different. This standard expands the scope of Topic 718 to include share-based payments issued to nonemployees for goods or services, aligning the accounting for share-based payments to nonemployees and employees. ASU 2018-17 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those periods, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2018-07 on its consolidated financial statements. In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which amends ASC 820, Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The effective date is the first quarter of fiscal year 2021, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2021 permitted for the new disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company is currently evaluating the impact of adopting ASU 2018-13 on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-use Software (subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"). The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The effective date is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption allowed. The Company is currently evaluating the method of adoption and related impact of ASU 2018-15 on its consolidated financial statements.

Note 3. Marketable Securities

The following is a summary of available-for-sale marketable securities, excluding those securities classified within cash and cash equivalents on the condensed consolidated balance sheets at October 31, 2018 (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Losses	Fair Value
U.S. agency obligations	\$ 37,148	\$ -	\$ (23)	\$ 37,125
U.S. treasury securities	85,186	-	(27)	85,159
Corporate notes and bonds	26,779	-	(40)	26,739
Commercial paper	17,844	-	-	17,844
Asset backed securities	11,829	1	(11)	11,819
Total marketable securities	<u>\$ 178,786</u>	<u>\$ 1</u>	<u>\$ (101)</u>	<u>\$ 178,686</u>

As of October 31, 2018, the fair values of available-for-sale marketable securities, by remaining contractual maturity, were as follows (in thousands):

Due within one year	\$ 161,436
Due in one year through five years	17,250
	<u>\$ 178,686</u>

The Company does not believe that any unrealized losses represent other-than-temporary impairments based on its evaluation of available evidence. To determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value and its intent and ability to retain the marketable securities for a period of time sufficient to allow for any anticipated recovery in fair value. The Company considers all marketable securities as available for use in current operations, including those with maturity dates beyond one year, and therefore classifies these securities as current assets in the accompanying condensed consolidated balance sheets. No marketable securities were sold during the three months ended October 31, 2018.

Note 4. Business Combinations

Vinimaya, Inc. (d/b/a Aquire)

On October 12, 2018, the Company completed its acquisition of Vinimaya, Inc. which conducted business as Aquire (“Aquire”) pursuant to an agreement dated October 7, 2018. Aquire is a real-time supplier catalog search company, and the acquisition extended the Company’s capability to deliver a comprehensive business-to-business shopping experience spanning real-time, cached, and localized catalog search.

The acquisition was accounted for as a business combination and, accordingly, the total fair value of purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values on the acquisition date. The purchase consideration comprises \$30.5 million in cash (of which \$3.8 million is being held back by the Company for 18 months after closing of the acquisition) and 300,560 shares of the Company’s common stock (of which 37,570 shares are being held back by the Company for 18 months after closing of the acquisition).

The major classes of assets and liabilities to which the Company has allocated the fair value of purchase consideration were as follows (in thousands):

	October 12, 2018
Accounts receivable	\$ 1,511
Intangible assets	12,400
Other assets	1,104
Goodwill	41,850
Accounts payable and other liabilities	(1,610)
Deferred revenue	(2,609)
Deferred tax liability, net	(3,126)
Total consideration	<u>\$ 49,520</u>

Other assets include indemnification assets totaling approximately \$1.1 million due to assumed liability for which the seller is responsible. The Company continues to collect information and reevaluate the estimates and assumptions and records any adjustments to the Company’s preliminary estimates to goodwill provided that the Company is within the measurement period. The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of Aquire and is not expected to be deductible for income tax purposes. The Company determined the fair values of intangible assets acquired and liabilities assumed with the assistance of third party valuation consultants. Based on this valuation, the intangible assets acquired are (in thousands):

	Fair Value	Useful life (in Years)
Developed technology	\$ 8,900	5
Customer relationships	3,500	5
Total intangible assets	<u>\$ 12,400</u>	

The Company incurred costs related to this acquisition of approximately \$424,000 during the three months ended October 31, 2018. All acquisition related costs were expensed as incurred and have been recorded in general and administrative expenses in the accompanying consolidated statements of operations.

The revenue and earnings of the acquired business have been included in the Company's results since the acquisition date and are not material to the Company's consolidated financial results. Pro forma results of operations for this acquisition have not been presented as the financial impact to the Company's condensed consolidated financial statements would be immaterial.

DCR Workforce, Inc.

On August 1, 2018, the Company completed the acquisition of the technology assets of DCR Workforce Inc. ("DCR") for aggregate cash consideration of \$25 million paid at closing (of which \$3.75 million is being held back by the Company until the second anniversary after closing of the acquisition) and certain contingent stock consideration that may be earned and issued in the future. The maximum contingent stock consideration that may be earned and issued is up to 668,740 shares of the Company's common stock. The payout of the contingent stock consideration will be determined based on the achievement of distinct revenue performance targets for each of three separate measurement periods that continue through December 31, 2022. As of October 31, 2018, the revenue performance target for the first measurement period ending October 31, 2019 has been met, and the Company expects to issue 291,602 shares of the Company's common stock to the shareholders of DCR in the fourth quarter ending January 31, 2019.

The acquisition was accounted for as a business combination. The contingent stock consideration for each of three separate measurement periods may individually result in the delivery of a fixed number of shares and as a result it was classified as equity on the Company's consolidated balance sheet. The fair value of the contingent stock consideration as of August 1, 2018, was determined to be \$27.2 million using the Monte Carlo simulation method. This estimate was based on level 3 inputs under the fair value measurement and disclosure guidance which are not observable in the market including estimated financial forecasts.

The aggregate fair value of purchase consideration of \$52.2 million, comprising of \$25 million cash consideration and \$27.2 million stock consideration, was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values on the acquisition date.

The major classes of assets to which the Company has allocated the fair value of purchase consideration were as follows (in thousands):

	<u>August 1, 2018</u>
Other current assets	\$ 46
Intangible assets	12,800
Goodwill	<u>39,361</u>
Total consideration	<u>\$ 52,207</u>

There were no liabilities assumed by the Company for the DCR acquisition. The Company continues to collect information and reevaluate the estimates and assumptions and records any adjustments to the Company's preliminary estimates to goodwill provided that the Company is within the measurement period. The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of DCR and is expected to be deductible for income tax purposes. The Company determined the fair values of intangible assets acquired with the assistance of third party valuation consultants. Based on this valuation, the intangible assets acquired are as follows (in thousands):

	<u>Fair Value</u>	<u>Useful life (in Years)</u>
Developed technology	\$ 9,500	5
Customer relationships	<u>3,300</u>	5
Total intangible assets	<u>\$ 12,800</u>	

The Company incurred costs related to this acquisition of approximately \$316,000 during the three months ended October 31, 2018. All acquisition related costs were expensed as incurred and have been recorded in general and administrative expenses in the accompanying consolidated statements of operations.

The revenue and earnings of the acquired business have been included in the Company's results since the acquisition date. Pro forma results of operations for this acquisition have not been presented as the financial impact to the Company's condensed consolidated financial statements would be immaterial.

In conjunction with the acquisition of technology assets of DCR, the Company signed a license agreement with DCR pursuant to which the Company granted DCR a limited, non-sublicensable, non-transferable, and nonexclusive license right to use certain of the intellectual property that the Company acquired from DCR. The Company also signed a transition service agreement, pursuant to which DCR will provide administrative services to the Company during a transitional service period to support the continuing operation of the acquired business. In addition, the Company signed a three-year office lease agreement beginning from August 1, 2018 with an entity that is wholly owned by the shareholders of DCR. Refer to Note 15 Related Parties for additional disclosure on the agreements.

Simeno Holdings AG

On December 1, 2017, the Company acquired all of the issued and outstanding capital stock held by of Simeno Holdings AG ("Simeno"), a Switzerland based cross-catalog search and catalog management company.

The acquisition was accounted for as a business combination and, accordingly, the total fair value of purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values on the acquisition date. The total purchase consideration was \$8.7 million in cash, of which \$1.5 million is being held until the second anniversary after closing of the acquisition. In addition, approximately \$8.0 million in the form of 221,257 shares of the Company's common stock was issued to the selling shareholder of Simeno and this stock is subject to service vesting conditions including continued employment with the Company. The value assigned to the common stock issued will be recorded as post-acquisition compensation expense over the requisite service period and has been excluded from the purchase consideration.

The major classes of assets and liabilities to which the Company has allocated the fair value of purchase consideration were as follows (in thousands):

	<u>December 1, 2017</u>
Cash and cash equivalents	\$ 747
Accounts receivable	1,912
Intangible assets	3,820
Other assets	331
Deferred tax assets, net	285
Goodwill	7,264
Accounts payable and other liabilities	(1,405)
Pension plan obligation	(4,226)
Total consideration	<u>\$ 8,728</u>

The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of Simeno and is not expected to be deductible for income tax purposes. The Company determined the fair values of intangible assets acquired and liabilities assumed with the assistance of third party valuation consultants. Based on this valuation, the intangible assets acquired are as follows (in thousands):

	<u>Fair Value</u>	<u>Useful life (in Years)</u>
Developed technology	\$ 2,300	4
Customer relationships	1,520	4
Total intangible assets	<u>\$ 3,820</u>	

Simeno maintained a pension plan covering employees in Switzerland pursuant to the requirements of Swiss pension law, which has been assumed by the Company upon the completion of the acquisition. The pension plan is accounted for as a defined benefit pension plan, which requires the Company to recognize the underfunded status of the plan as a liability in the consolidated balance sheets and changes in the funded status of defined benefit pension plan through other comprehensive loss. As of the acquisition date in December 2017, the Company recorded net liabilities of \$4.2 million on its consolidated balance sheet in connection with this pension plan.

The Company incurred costs related to this acquisition of approximately \$445,000 during the year ended January 31, 2018 and no significant costs were incurred during the nine months ended October 31, 2018. All acquisition related costs were expensed as incurred and have been recorded in general and administrative expenses in the accompanying consolidated statements of operations.

Trade Extensions TradeExt AB

On May 3, 2017, the Company acquired substantially all of the issued and outstanding capital stock held by shareholders of Trade Extensions TradeExt AB ("Trade Extensions"), a Swedish corporation. The acquisition enabled the Company to broaden its cloud platform for business spend, particularly in the area of strategic sourcing.

Upon the closing of the acquisition, the Company paid aggregate consideration of approximately \$40.9 million in cash, of which \$7.2 million is being held in escrow for 18 months after the transaction closing date. In November 2018, substantially all of the amount that was being held in escrow was released after deducting certain amounts to cover indemnification obligations and associated contractual provisions.

In addition, approximately \$4.1 million in the form of 148,476 shares of the Company's common stock was issued to certain key employees of Trade Extensions, which stock is subject to service vesting conditions including continued employment with the Company. The value assigned to the common stock issued will be recorded as post-acquisition compensation expense and has been excluded from the purchase consideration.

The major classes of assets and liabilities to which the Company has allocated the fair value of purchase consideration were as follows (in thousands):

	<u>May 3, 2017</u>
Cash and cash equivalents	\$ 2,016
Accounts receivable	1,172
Intangible assets	12,960
Other assets	2,086
Goodwill	30,840
Accounts payable and other liabilities	(8,125)
Total consideration	<u>\$ 40,949</u>

Other assets include indemnification assets totaling \$1.4 million due to assumed liability for which the seller is responsible. The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of Trade Extensions and is not expected to be deductible for income tax purposes. The Company determined the fair values of intangible assets acquired with the assistance of third party valuation consultants. Based on this valuation, the intangible assets acquired are (in thousands):

	<u>Fair Value</u>	<u>Useful life (in Years)</u>
Developed technology	\$ 9,700	7
Customer relationships	3,100	5
Trademarks	160	1
Total intangible assets	<u>\$ 12,960</u>	

The Company incurred costs related to this acquisition of approximately \$526,000 during the year ended January 31, 2018. All acquisition related costs were expensed as incurred and have been recorded in general and administrative expenses in the accompanying consolidated statements of operations.

Note 5. Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive loss when they occur. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurement or assumptions that market participants would use in pricing the assets or liabilities, such as inherent risk, transfer restrictions and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted price in active markets for identical assets or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially full term of assets or liabilities.
- Level 3 - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the assets or liabilities.

The following table summarizes the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Total
October 31, 2018				
Cash equivalents:(1)				
Money market funds	\$ 191,027	\$ -	\$ -	\$ 191,027
U.S. agency obligations	-	9,170	-	9,170
Commercial paper	-	1,597	-	1,597
Marketable securities:				
U.S. agency obligations	-	37,125	-	37,125
U.S. treasury securities	-	85,159	-	85,159
Corporate notes and bonds	-	26,739	-	26,739
Commercial paper	-	17,844	-	17,844
Asset backed securities	-	11,819	-	11,819
January 31, 2018				
Money market funds (1)	389,357	-	-	389,357

(1) Included in cash and cash equivalents.

The Company carries Convertible Senior Notes (the "Convertible Notes") at face value less unamortized discount and issuance costs on its consolidated balance sheet, and presents the fair value for required disclosure purposes only. As of October 31, 2018, the fair value of the Convertible Notes was \$356.9 million. The estimated fair values of the Convertible Notes, which the Company has classified as Level 2 financial instruments, were determined based on the quoted bid prices of the Convertible Notes on the last trading day of each reporting period. As of January 31, 2018, the fair value of the Convertible Notes approximated its carrying amount at that time. For Note 9 for further information on the Convertible Notes.

Note 6. Property and Equipment, net

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

	October 31, 2018	January 31, 2018
Furniture and equipment	\$ 2,829	\$ 1,897
Software development costs	21,845	16,574
Leasehold improvements	848	557
Construction in progress	-	149
Total property and equipment	25,522	19,177
Less: accumulated depreciation and amortization	(16,939)	(13,991)
Property and equipment, net	<u>\$ 8,583</u>	<u>\$ 5,186</u>

Depreciation and amortization expense related to property and equipment, excluding software development costs, was approximately \$205,000 and \$140,000 for the three months ended October 31, 2018 and 2017, respectively and \$581,000 and \$379,000 for the nine months ended October 31, 2018 and 2017, respectively.

Amortization expense related to software development costs was approximately \$753,000 and \$932,000 for the three months ended October 31, 2018 and 2017, respectively, and \$2.4 million and \$3.0 million for the nine months ended October 31, 2018 and 2017, respectively.

Note 7. Goodwill and Other Intangible Assets**Goodwill**

The following table represents the changes in goodwill (in thousands):

Balance at January 31, 2018	\$ 44,410
Additions from acquisitions	81,211
Balance at October 31, 2018	<u>\$ 125,621</u>

Other Intangible Assets

The following table summarizes the other intangible asset balances (in thousands):

	As of					
	October 31, 2018			January 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	\$ 38,435	\$ (7,190)	31,245	\$ 19,385	\$ (4,153)	15,232
Customer relationships	11,494	(1,550)	9,944	4,694	(597)	4,097
Trademarks	160	(160)	-	160	(119)	41
In-process research and development	-	-	-	650	-	650
Total other intangible assets	<u>\$ 50,089</u>	<u>\$ (8,900)</u>	<u>\$ 41,189</u>	<u>\$ 24,889</u>	<u>\$ (4,869)</u>	<u>\$ 20,020</u>

The increase in the intangible assets balance is fully attributed to intangible assets acquired from business combinations. Refer to Note 4 for further information.

Amortization expense related to other intangible assets was approximately \$1.9 million and \$942,000 for the three months ended October 31, 2018 and 2017, respectively, and \$4.0 million and \$2.4 million for the nine months ended October 31, 2018 and 2017, respectively.

As of October 31, 2018, the future amortization expense of other intangible assets is as follows (in thousands):

Year Ending January 31,	
2019 (remaining three months)	\$ 2,348
2020	9,323
2021	9,304
2022	8,879
2023	6,586
Thereafter	4,749
Total	<u>\$ 41,189</u>

Note 8. Common Stock and Stockholders' Equity

Common Stock

Each share of common stock has the right to one vote. The holders of the common stock are also entitled to receive dividends whenever funds are legally available and when declared by the board of directors of the Company (the "Board of Directors"), subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid since inception.

Preferred Stock

As of October 31, 2018, the Company had authorized 25,000,000 shares of preferred stock, par value \$0.0001, of which no shares were issued and outstanding.

2016 Equity Incentive Plan

The 2016 Equity Incentive Plan (the "2016 Plan") was approved by the Company's stockholders in September 2016. The 2016 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights and performance cash awards. Awards could be granted under the 2016 Plan beginning on the effective date of the registration statement, October 5, 2016. The 2016 Plan replaced the Company's 2006 Stock Plan; however, awards outstanding under the 2006 Stock Plan will continue to be governed by their existing terms.

As of October 31, 2018, the Company had 6,071,661 shares of its common stock available for future issuance under the 2016 Plan. The number of shares reserved for issuance under the 2016 Plan will automatically increase on the first day of each fiscal year during the term of the 2016 Plan by a number of shares equal to 5% of its outstanding shares of common stock on the last day of the prior fiscal year. The number and class of shares reserved under the Company's 2016 Plan will be adjusted in the event of a stock split, stock dividend or other changes in its capitalization.

The following table summarizes stock option activity under the Company's 2006 Stock Plan and the 2016 Plan during the nine months ended October 31, 2018 (aggregate intrinsic value in thousands):

	Options Outstanding			
	Outstanding Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Balance at January 31, 2018	9,301,253	\$ 7.19	7.30	\$ 288,713
Option grants	553,697	\$ 48.47	-	-
Options exercised	(2,236,550)	\$ 4.67	-	-
Options forfeited	(160,017)	\$ 9.69	-	-
Balance at October 31, 2018	<u>7,458,383</u>	\$ 10.96	7.02	\$ 401,815
Vested and expected to vest at October 31, 2018	<u>7,458,383</u>	\$ 10.96	7.02	\$ 401,815
Exercisable at October 31, 2018	<u>4,899,061</u>	\$ 6.82	6.57	\$ 284,212

The options exercisable as of October 31, 2018 include options that are exercisable prior to vesting. The aggregate intrinsic value of options vested and exercisable as of October 31, 2018 is calculated based on the difference between the exercise price and the fair value of the Company's common stock as of October 31, 2018. The aggregate intrinsic value of exercised options was \$46.7 million and \$24.9 million for the three months ended October 31, 2018 and 2017, respectively, and \$121.2 million and \$69.4 million for the nine months ended October 31, 2018 and 2017, respectively, and is calculated based on the difference between the exercise price and the fair value of the Company's common stock as of the exercise date.

The weighted-average grant date fair value of options granted was \$21.56 and \$11.26 per share for the nine months ended October 31, 2018 and 2017, respectively. No options were granted for the three months ended October 31, 2018 or 2017.

Early Exercises of Stock Options

Certain option grants under the 2006 Stock Plan are allowed to be exercised prior to vesting. The unvested shares of common stock exercised are subject to the Company's right to repurchase at the lower of the original exercise price or the fair market value of the share at the time the repurchase right is exercised. Early exercises of options are not deemed to be substantive exercises for accounting purposes and accordingly, amounts received for early exercises are initially recorded in accrued expenses and other current liabilities and reclassified to additional paid-in capital as the underlying shares vest. At October 31, 2018, the Company had \$61,000 recorded in accrued expenses and other current liabilities related to early exercises of stock options, and the related number of unvested shares subject to repurchase was 9,548.

Restricted Stock Units ("RSUs")

The following table summarizes the activity related to the Company's RSUs:

	Number of RSUs Outstanding	Weighted-Average Grant Date Fair Value
Awarded and unvested at January 31, 2018	1,971,778	\$ 27.14
Awards granted	1,808,733	\$ 51.24
Awards vested	(615,282)	\$ 32.36
Awards forfeited	(264,720)	\$ 34.61
Awarded and unvested at October 31, 2018	<u>2,900,509</u>	<u>\$ 40.38</u>

2016 Employee Stock Purchase Plan

The Board of Directors adopted the 2016 Employee Stock Purchase Plan (the "ESPP") in September 2016 and it has been approved by the Company's stockholders. The ESPP allows eligible employees to purchase shares of common stock through payroll deductions and is intended to qualify under Section 423 of the Internal Revenue Code.

As of October 31, 2018, the Company had 931,493 shares of its common stock available for future issuance under the ESPP. The number of shares reserved for issuance under the ESPP will automatically increase on the first day of each fiscal year during the term of the ESPP by a number of shares equal to the least of (i) 1% of its outstanding shares of common stock on the last day of the prior fiscal year, (ii) 1,250,000 shares or (iii) a lesser number of shares determined by the Board of Directors. The number and class of shares reserved under the ESPP will be adjusted in the event of a stock split, stock dividend or other changes in its capitalization.

Each offering period will last a number of months determined by the administrator, up to a maximum of 27 months. The initial offering period began on the effective date of the Company's initial public offering, October 5, 2016, and ended on September 15, 2018, and new 24 month offering periods will begin on each March 16 and September 16 thereafter. Currently each offering period consists of four consecutive purchase periods, of approximately six months duration, at the end of which payroll contributions are used to purchase shares of the Company's common stock. Participants may purchase the Company's common stock through payroll deductions, up to a maximum of 15% of their eligible compensation. Participants may withdraw from the ESPP and receive a refund of their accumulated payroll contributions at any time prior to a purchase date. Unless changed by the administrator, the purchase price for each share of common stock purchased under the ESPP will be 85% of the lower of the fair market value per share on the first day of the applicable offering period (or, in the case of the initial offering period, the price at which one share of common stock is offered to the public in its initial public offering) or the fair market value per share on the applicable purchase date.

As of October 31, 2018, 946,841 shares of common stock were purchased under the 2016 ESPP. The Company selected the Black-Scholes option-pricing model as the method for determining the estimated fair value for the Company's 2016 ESPP. As of October 31, 2018, total unrecognized compensation cost related to the 2016 ESPP was \$6.8 million which will be amortized over a weighted-average period of approximately two years.

Market-based Options

In September 2016, the Board of Directors of the Company granted 544,127 stock options to the Chief Executive Officer (the “2016 CEO Grant”) under the 2006 Stock Plan with an exercise price of \$13.04 per share. The 2016 CEO Grant is eligible to vest based on the achievement of market capital appreciation targets after the consummation of the initial public offering, as well as continuous service over a four-year period following the grant date. In March 2018, the Board of Directors granted 334,742 stock options to the Chief Executive Officer (the “2018 CEO Grant”) under the 2016 Equity Plan with an exercise price of \$48.47 per share. The 2018 CEO Grant is eligible to vest based on the achievement of a stock price appreciation target as well as continuous service over a four-year period following the grant date. The fair value of the 2016 and 2018 CEO Grants were determined using a Monte Carlo simulation approach. The Company amortizes the fair value of the option awards using the graded-vesting method.

As of October 31, 2018, all performance-based milestones of the 2016 CEO Grant were achieved, resulting in 283,397 shares being vested and exercisable. As of October 31, 2018, the performance-based milestone was not achieved on the 2018 CEO Grant, resulting in no shares being vested and exercisable. Stock-based compensation expense recognized for market-based awards was approximately \$531,000 and \$356,000 for the three months ended October 31, 2018 and 2017, respectively, and \$1.7 million and \$1.3 million for the nine months ended October 31, 2018 and 2017, respectively.

Stock-based Compensation

The Company’s total stock-based compensation expense as of the dates indicated was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2018	2017	2018	2017
Cost of revenue:				
Subscription services	\$ 1,152	\$ 585	\$ 3,076	\$ 1,469
Professional services and other	1,071	685	3,086	1,965
Research and development	3,046	1,999	8,551	4,798
Sales and marketing	3,899	2,212	10,732	6,152
General and administrative	4,652	2,386	13,245	6,399
Total	<u>\$ 13,820</u>	<u>\$ 7,867</u>	<u>\$ 38,690</u>	<u>\$ 20,783</u>

Stock-based compensation capitalized in capitalized software development costs was approximately \$806,000 at October 31, 2018. The amortization of stock-based compensation was immaterial for all periods presented.

Of the total stock-based compensation expense, costs recognized for options granted to non-employees were immaterial for all periods presented.

As of October 31, 2018, there was approximately \$18.8 million of total unrecognized compensation cost related to unvested stock options granted to employees and non-employee service providers under the Company’s 2006 Stock Plan and 2016 Equity Incentive Plan. This unrecognized compensation cost is expected to be recognized over an estimated weighted-average amortization period of approximately two years.

As of October 31, 2018, there was approximately \$109.9 million of total unrecognized compensation cost related to unvested restricted stock units granted to employees under the 2016 Equity Incentive Plan. This unrecognized compensation cost is expected to be recognized over an estimated weighted-average amortization period of approximately three years.

The fair values of the Company's stock options granted during the nine months ended October 31, 2018 and 2017 were estimated using the following assumptions:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Employee Stock Options:				
Expected term (in years)	-	6.0	6.0	6.0
Volatility	-	46.0%	42.2%	46.0%
Risk-free interest rate	-	1.9%	2.8%	1.9% - 2.2%
Dividend yield	-	-	-	-
Employee Stock Purchase Plan:				
Expected term (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Volatility	31.1% - 34.1%	37.3% - 40.9%	31.1% - 34.1%	37.3% - 42.6%
Risk-free interest rate	2.4% - 2.8%	1.2% - 1.4%	2.0% - 2.8%	0.9% - 1.4%
Dividend yield	-	-	-	-
Market-based Award				
Expected term (in years)	-	-	7.1	-
Volatility	-	-	43.7%	-
Risk-free interest rate	-	-	2.8%	-
Dividend yield	-	-	-	-

These assumptions and estimates are as follows:

- *Fair Value of Common Stock.* The Company used the publicly quoted price as reported on the Nasdaq Global Select Market as the fair value of its common stock.
- *Expected Term.* The expected term represents the weighted-average period that the stock options are expected to remain outstanding. To determine the expected term, the Company generally applies the simplified approach in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award as the Company does not have sufficient historical exercise data to provide a reasonable basis for an estimate of expected term. The expected term for the employee stock purchase plan ranges from six months, the length of one purchase period, to two years, the length of one offering period.
- *Risk-Free Interest Rate.* The Company bases the risk-free interest rate on the yields of U.S. Treasury securities with maturities approximately equal to the term of employee stock option awards.
- *Expected Volatility.* As the Company does not have an extensive trading history for its common stock, the expected volatility for its common stock has been estimated by taking the historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option awards. Industry peers consist of several public companies in its industry.

Note 9. Convertible Senior Notes

In January 2018, the Company entered into a Purchase Agreement (the "Purchase Agreement") with certain counterparties relating to the Company's sale of \$230.0 million aggregate principal amount of its 0.375% Convertible Senior Notes due 2023 to the counterparties in a private placement in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and for initial resale by the Initial Purchasers to qualified institutional buyers pursuant to the exemption from registration provided by Rule 144A under the Securities Act. The Convertible Notes consisted of a \$200.0 million initial placement and an overallotment option that provided the initial purchasers of the Convertible Notes with the option to purchase an additional \$30.0 million of the Convertible Notes, which was exercised in full by the counterparties prior to the Convertible Notes issuance. On January 17, 2018, for a total of \$230.0 million, the Convertible Notes were issued in accordance with an Indenture (the "Indenture") between the Company and Wilmington Trust, National Association, as trustee.

The net proceeds from the issuance of the Convertible Notes are \$200.4 million, net of debt issuance costs, including the underwriting discount and the cash used to purchase the capped call, discussed below.

The Convertible Notes are senior, unsecured obligations of the Company, and interest is payable semi-annually in cash at a rate of 0.375% per annum on January 15 and July 15 of each year, beginning on July 15, 2018. The Convertible Notes will mature on January 15, 2023 unless redeemed, repurchased or converted prior to such date. Prior to the close of business on the business day immediately preceding October 15, 2022, the Convertible Notes are convertible at the option of holders during certain periods, upon satisfaction of certain conditions. On or after October 15, 2022, the Convertible Notes are convertible at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. The Convertible Notes will have an initial conversion rate of 22.4685 shares of common stock per \$1,000 principal (equivalent to an initial conversion price of approximately \$44.5068 per share of its common stock). The conversion rate is subject to customary adjustments for certain events as described in the Indenture. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. It is the Company's current intent to settle conversions of the Convertible Notes through combination settlement, which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount in shares of its common stock.

Holders may convert their Convertible Notes, at their option, prior to the close of business on the business day immediately preceding October 15, 2022, in multiples of \$1,000 principal amount, only under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ending on April 30, 2018 (and only during such fiscal quarter), if the last reported sale price of its common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of the Convertible Notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sales price of the Company's common stock and the conversion rate on each such trading day;
- after the Company's issuance of a notice of redemption and prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of specified corporate events, as defined in the Indenture.

If the Company undergoes a fundamental change, as described in the Indenture, subject to certain conditions, holders may require the Company to repurchase for cash all or any portion of their Convertible Notes. The fundamental change repurchase price is equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. If holders elect to convert their Convertible Notes in connection with a make-whole fundamental change, as described in the Indenture, the Company will, to the extent provided in the Indenture, increase the conversion rate applicable to the Convertible Notes.

The Convertible Notes are the Company's senior unsecured obligations and rank senior in right of payment to any of its indebtedness that is expressly subordinated in right of payment to the Convertible Notes, and equal in right of payment to any of its indebtedness that is not so subordinated. The Convertible Notes are effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) and any preferred equity of its current or future subsidiaries.

The Indenture contains customary events of default with respect to the Convertible Notes and provides that upon certain events of default occurring and continuing, the Trustee may, and the Trustee at the request of holders of at least 25% in principal amount of the Convertible Notes shall, declare all principal and accrued and unpaid interest, if any, of the Convertible Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving us or a significant subsidiary, all of the principal of and accrued and unpaid interest on the Convertible Notes will automatically become due and payable.

In accounting for the issuance of the Convertible Notes, the Company separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Convertible Notes as a whole. The difference between the principal amount of the Convertible Notes and the liability component, equal to \$62.3 million (the "debt discount"), is amortized to interest expense using the effective interest method over the term of the Convertible Notes. The equity component of the Convertible Notes will not be remeasured as long as it continues to meet the conditions for equity classification.

The Company incurred \$7.0 million of transaction costs related to the issuance of the Convertible Notes. The Company allocated the total amount incurred to the liability and equity components using the same proportions as the proceeds from the Convertible Notes. Issuance costs attributable to the liability component are being amortized to interest expense over the term of the Convertible Notes using the effective interest method, and issuance costs attributable to the equity component are included along with the equity component in stockholders' equity.

The Convertible Notes consisted of the following (in thousands):

	<u>October 31, 2018</u>	<u>January 31, 2018</u>
Liability:		
Principal	\$ 230,000	\$ 230,000
Less: debt discount, net of amortization	(58,395)	(66,990)
Net carrying amount	<u>\$ 171,605</u>	<u>\$ 163,010</u>
Equity	\$ 60,470	\$ 60,470

As of October 31 and January 31, 2018, the debt discount on the Convertible Notes will be amortized over the remaining period of approximately 4.2 years and 5.0 years, respectively.

For more than twenty trading days during the thirty consecutive trading days ended October 31, 2018, the last reported sale price of the Company's common stock exceeded 130% of the conversion price of the Convertible Notes. As a result, the Convertible Notes were convertible at the option of the holders and remained classified as current liabilities on the condensed consolidated balance sheet as of October 31, 2018. As of the date of this filing, none of the holders of the Convertible Notes have submitted requests for conversion.

The following table sets forth interest expense recognized related to the Convertible Notes for the three and nine months ended October 31, 2018 (dollars in thousands):

	<u>Three Months Ended October 31, 2018</u>	<u>Nine Months Ended October 31, 2018</u>
Contractual interest expense	\$ 253	\$ 540
Amortization of debt issuance costs	223	649
Amortization of debt discount	2,730	7,950
Total	<u>\$ 3,206</u>	<u>\$ 9,139</u>
Effective interest rate of the liability component	7.66%	7.66%

As of October 31, 2018, the if-converted value of the Company's Convertible Notes exceeded the principal amount by \$105.0 million. As of January 31, 2018, the if-converted value of the Company's Convertible Notes did not exceed the principal amount.

Capped Call

In conjunction with the issuance of the Convertible Notes, the Company entered into a Capped Call transaction on the Company's stock with certain counterparties at a net price of \$23.3 million.

The Capped Call exercise price is equal to the Convertible Note's initial conversion price and the cap price is \$63.821 per share, subject to certain adjustments under the terms of the capped call transactions. The Capped Call options are exercisable on the same date when the conversion option is exercised.

By entering into the Capped Call, the Company expects to reduce the potential dilution to its common stock (or, in the event the conversion is settled in cash, to reduce its cash payment obligation) in the event that at the time of conversion its stock price exceeds the conversion price under the Convertible Notes.

The cost of the capped call is not expected to be tax deductible as the Company did not elect to integrate the capped call into the Convertible Notes for tax purposes. The cost of the capped call was recorded as a reduction of the Company's additional paid-in capital in the accompanying Consolidated Financial Statements.

Note 10. Commitments and Contingencies

Commitments

The Company leases office space under non-cancelable operating leases with various expiration dates through April 2024. Rent expense, which is being recognized on a straight-line basis over the lease term, was approximately \$1.8 million and \$1.5 million for the three months ended October 31, 2018 and 2017, respectively, and \$5.4 million and \$4.0 million for the nine months ended October 31, 2018 and 2017, respectively. The difference between the lease payments made and the lease expense recognized to date using the straight-line method is recorded as prepaid expenses and other current assets or accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet. Additionally, the Company has current contractual purchase obligations for hosting services that support business operations.

Future minimum payments by year for the Company's non-cancelable leases and purchase obligations as of October 31, 2018 are as follows (in thousands):

Year Ending January 31,	
2019 (remaining three months)	\$ 5,469
2020	19,260
2021	18,831
2022	6,553
2023	5,935
Thereafter	6,370
Total	<u>\$ 62,418</u>

Contingencies

The Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on the Company's business, operating results, financial condition or cash flows. The Company accrues estimates for resolution of legal and other contingencies when losses are probable and estimable. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

Warranties and Indemnifications

The Company's cloud-based software platform and applications are typically warranted against material decreases in functionality and to perform in a manner consistent with general industry standards and in accordance with the Company's on-line documentation under normal use and circumstances.

The Company includes service level commitments to its customers, typically regarding certain levels of uptime reliability and performance. If the Company fails to meet those levels, customers can receive credits and in some cases, terminate their relationship with the Company. To date, the Company has not incurred any material costs as a result of such commitments.

The Company generally agrees to defend and indemnify its customers against legal claims that the Company's platform infringes certain patents, copyrights or other intellectual property rights of third parties. To date, the Company has not been required to make any material payment resulting from such infringement claims and has not recorded any related liabilities.

Note 11. Income Taxes

The Company is subject to federal and various state income taxes in the United States as well as income taxes in foreign jurisdictions in which it conducts business. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are reinvested indefinitely.

The Company recorded a tax benefit of approximately \$2.3 million and \$1.4 million for the three and nine months ended October 31, 2018, respectively. The Company recorded a tax provision of approximately \$263,000 and \$438,000 for the three and nine months ended October 31, 2017, respectively. Effective tax rates for the nine months ended October 31, 2018 and 2017 was 3.42% and (1.26%), respectively. The tax benefit during the three and nine months ended October 31, 2018 was primarily due to the release of valuation allowance of approximately \$3.1 million as a result of recognition of a deferred tax liability from the Aquire acquisition, partially offset by the provision for foreign taxes. Refer to Note 4 for further information on the Aquire acquisition.

The difference between the U.S. federal statutory tax rate of 21% and the Company's effective tax rate in all periods presented is primarily due to a full valuation allowance related to the Company's U.S. and Canada deferred tax assets offset by foreign tax expense on the Company's profitable foreign operations.

The Company's material income tax jurisdictions are the United States (federal) and California. As a result of net operating loss carryforwards, the Company is subject to audits for tax years 2006 and forward for federal purposes and 2009 and forward for California purposes. There are tax years which remain subject to examination in various other state and foreign jurisdictions that are not material to the Company's financial statements.

On December 22, 2017, the Tax Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to a corporate tax rate decrease from 35% to 21%, effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of January 31, 2018. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the Tax Act, the Company revalued its ending net deferred tax assets at January 31, 2018, which were fully offset by a valuation allowance.

The Tax Act provided for a one-time deemed mandatory repatriation of post-1986 undistributed foreign subsidiary earnings and profits, or E&P, through the year ended December 31, 2017.

The Company has calculated its best estimate of the impact of the Tax Act in its fiscal 2018 year end income tax provision in accordance with its understanding of the Tax Act and guidance available as of the date of this filing. Based on the preliminary calculation, the effects of the transition tax have been offset by the Company's available tax credits in the United States. As the Company completes the analysis of the Tax Act, collects and prepares necessary data, and interprets any additional guidance, the Company may make adjustments to its initial assessment. Pursuant to Staff Accounting Bulletin No. 118, adjustments to the provisional amounts recorded by the Company as of January 31, 2018 that are identified within a subsequent measurement period of up to one year from the enactment date will be included as an adjustment to tax expense from continuing operations in the period the amounts are determined.

Note 12. Net Loss per Share

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, without consideration for potentially dilutive securities as they do not share in losses. During periods when the Company is in a net loss position, basic net loss per share attributable to common stockholders is the same as diluted net loss per share attributable to common stockholders as the effects of potentially dilutive securities are antidilutive given the net loss of the Company.

The following table sets forth the computation of the basic and diluted net loss per share attributable to common stockholders (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2018	2017	2018	2017
Numerator:				
Net loss attributable to common stockholders	\$ (9,645)	\$ (11,302)	\$ (38,953)	\$ (35,082)
Denominator:				
Weighted-average common shares outstanding	58,212	53,779	57,030	52,388
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.17)	\$ (0.21)	\$ (0.68)	\$ (0.67)

Since the Company was in a loss position for all periods presented, basic net loss per share attributable to common stockholders is the same as diluted net loss per share for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive. Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows:

	As of October 31,	
	2018	2017
Options to purchase common stock	7,458,383	10,033,498
RSUs	2,900,509	1,963,015
Unvested common shares subject to repurchase	317,711	257,215
Shares committed under the ESPP	66,940	69,633
Contingent stock consideration for DCR acquisition	668,740	-
Holdback shares for Aquire acquisition	37,570	-
Total	<u>11,449,853</u>	<u>12,323,361</u>

Additionally, approximately 5.2 million shares underlying the conversion option in the Convertible Notes are not considered in the calculation of diluted net loss per share as the effect would be anti-dilutive. The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion option on diluted net income per share, if applicable. During the three and nine months ended October 31, 2018, the average market price of the Company's common stock exceeded the conversion price of the Convertible Notes of \$44.51 per share.

Note 13. Business Segment Information

The Company's chief operating decision maker is the Chief Executive Officer ("CEO"). The CEO reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating the Company's financial performance. Accordingly, the Company has determined that it operates in a single reporting segment: cloud platform.

Note 14. Significant Customers and Geographic Information

No customer balance comprised 10% or more of total accounts receivable at October 31, 2018 or January 31, 2018.

During the three and nine months ended October 31, 2018 and October 31, 2017, revenues by geographic area, based on billing addresses of the customers, were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2018	2017	2018	2017
United States	\$ 42,510	\$ 31,272	\$ 114,804	\$ 87,335
Foreign countries	24,945	16,068	70,654	45,693
Total revenues	<u>\$ 67,455</u>	<u>\$ 47,340</u>	<u>\$ 185,458</u>	<u>\$ 133,028</u>

No single foreign country represented more than 10% of the Company's revenues in any period. Additionally, no single customer represented more than 10% of the Company's revenues in any period.

Note 15. Related Parties

One of the Company's customers, T. Rowe Associates, Inc., is an investment adviser of certain of the Company's stockholders. The Company recognized subscription revenue from this customer of approximately \$141,000 and \$171,000 for the three months ended October 31, 2018 and 2017, respectively, and \$439,000 and \$436,000 for the nine months ended October 31, 2018 and 2017, respectively. The Company had no outstanding receivables from this customer as of October 31, 2018 or January 31, 2018.

As disclosed in Note 4 Business Combination, in conjunction with the acquisition of the technology assets of DCR, the Company signed a license agreement and a transition service agreement with DCR. For the three months ended October 31, 2018, the Company recognized revenue of approximately \$550,000 for the license agreement and recorded expenses of approximately \$2.5 million related to the transition service agreement, which primarily included compensation for employees and contractors that DCR had paid on behalf of the Company during the transitional period. In addition, the Company recorded approximately \$61,000 rent expenses related to a lease agreement with one entity owned by shareholders of DCR. As of October 31, 2018, outstanding payables due to DCR were approximately \$1.2 million. There were no outstanding receivables due from DCR related to the license agreement.

Note 16. Subsequent Event

On December 7, 2018, the Company completed the acquisition of all the equity interest in Hiperos, LLC and GTCR/Opus Blocker Corp. (the "Targets") for consideration of approximately \$95.0 million in cash, of which approximately \$8.6 million will be held in escrow for 18 months after the transaction closing date. The purchase consideration is subject to customary upward or downward adjustments based on the amount of working capital of the Targets and other matters for up to 90 days following the transaction closing date.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. As discussed in the section titled "Note About Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below, those discussed in "Note About Forward-Looking Statements" and those discussed in the section titled "Risk Factors" under Part II, Item 1A in this Quarterly Report on Form 10-Q.

Overview

We are a leading provider of business spend management, or BSM, solutions, with a comprehensive, cloud-based platform that connects our customers with more than four million suppliers globally.

Our platform provides greater visibility into and control over how companies spend money. Using our platform, businesses are able to achieve real, measurable value and savings that drive their profitability; we call this "Value as a Service." We refer to the process companies use to purchase goods and services as business spend management and to the money that they manage with this process as spend under management. We offer a comprehensive, cloud-based BSM platform that is tightly integrated and delivers a broad range of capabilities that would otherwise require the purchase and use of multiple disparate point applications. The core of our platform consists of procurement, invoicing and expense management modules that form our transactional engine and capture a company's spend. In addition, our platform offers supporting modules to help companies further manage their spend, including strategic sourcing, spend analysis, contract management, supplier management and inventory management. We also offer a purchasing program, Coupa Advantage, that leverages the collective buying power of Coupa customers, and provide benchmarking and insights to customers on our BSM platform through a solution we refer to as Community Intelligence. Moreover, through our Coupa Open Business Network, suppliers of all sizes can easily interact with buyers electronically, thus significantly reducing paper, improving operating efficiencies and reducing costs.

We offer access to our platform under a Software-as-a-Service business model. At the time of initial deployment, our customers often make a set of common functions available to the majority of their licensed employees, as well as incremental modules for select employees and procurement specialists, which we refer to as power users. Therefore, we are typically able to capture most of the expected annual recurring revenue opportunity at the inception of our customer relationships, rather than targeting specific power users at the outset of the customer relationship with the intention of expanding and getting more annual recurring revenue at later stages of the customer relationship. Customers can rapidly implement our platform, with implementation periods typically ranging from a few weeks to several months. Customers also benefit from software updates that typically require little downtime.

We market and sell our solutions to a broad range of enterprises worldwide. We have a diverse, multi-national customer base spanning various sizes and industries and no significant customer concentration. No customer accounted for more than 10% of our total revenues for the three and nine months ended October 31, 2018 and 2017, respectively.

We market our platform primarily through a direct sales force and also benefit from leads driven by our partner ecosystem. Our initial contract terms are typically three years. Substantially all of our customers pay annually, one year in advance. We provide a scaled pricing model based on the number of users per module—as the number of users increases, the subscription price per user decreases. Our subscription fee includes access to our service, technical support and management of the hosting infrastructure. We generally recognize revenues from our subscription fees ratably over the contractual term of the arrangement. We do not charge suppliers who are on our platform to transact with our customers. We believe this approach helps attract more suppliers to our platform and increases the value of our platform to customers.

We have continued to make significant expenditures and investments for long-term growth, including investment in our platform and infrastructure to deliver new functionality and modules to meet the evolving needs of our customers and to take advantage of our market opportunity. We intend to continue to increase our investment in sales and marketing, as we further expand our sales teams, increase our marketing activities, and grow our international operations. Internationally, we currently offer our platform in Europe, the Middle East and Africa, Latin America and Asia-Pacific, including Japan. The combined revenues from non-U.S. regions, as determined based on the billing address of our customers, constituted 37% and 34% for the three months ended October 31, 2018 and 2017, respectively, and 38% and 34% for the nine months ended October 31, 2018 and 2017, respectively. We believe there is further opportunity to increase our international revenues in absolute dollars and as a percentage of our total revenues. As a result, we are increasingly investing in our international operations and we intend to expand our footprint in international markets.

Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks that are different from those in the United States. Because of our limited experience with international operations, our international expansion efforts may not be successful in creating additional demand for our platform outside of the United States or in effectively selling subscriptions to our platform in any or all of the international markets we enter.

Our Business Model

Our business model focuses on maximizing the lifetime value of a customer relationship, and we continue to make significant investments in order to grow our customer base. Due to our subscription model, we recognize subscription revenues ratably over the term of the subscription period. As a result, the profitability of a customer to our business in any particular period depends in part upon how long a customer has been a subscriber on our platform. In general, the associated upfront costs with respect to new customers are higher in the first year than the aggregate revenues we recognize from those new customers in the first year. We believe that, over time, as our customer base grows and a relatively higher percentage of our subscription revenues are attributable to renewals versus new customers or upsells to existing customers, associated sales and marketing expenses and other allocated upfront costs as a percentage of revenues will decrease, subject to investments we plan to make in our business. Over the lifetime of the customer relationship, we also incur sales and marketing costs to manage the account, renew or upsell the customer to more modules and more users. However, these costs are significantly less than the costs initially incurred to acquire the customer. We calculate the lifetime value of our customers and associated customer acquisition costs for a particular year by comparing (i) gross profit from net new subscription revenues for the year multiplied by the inverse of the estimated subscription renewal rate to (ii) total sales and marketing expense incurred in the preceding year. On this basis, we estimate that for each of fiscal 2018, 2017 and 2016, the calculated lifetime value of our customers has exceeded six times the associated cost of acquiring them.

Key Metrics

We review the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions:

	As of October 31,	
	2018	2017
Cumulative spend under management (in billions)	\$ 940.1	\$ 570.9
Deferred revenue (in millions)	\$ 130.1	\$ 97.6

Cumulative Spend Under Management

Cumulative spend under management represents the aggregate amount of money that has been transacted through our core Coupa platform for all of our customers collectively since we launched our core platform. We calculate this metric by aggregating the actual transaction data, such as invoices, purchase orders and expenses, from customers on our core Coupa platform. Cumulative spend under management does not include spending data associated with modules from acquired companies, including Aquire, DCR, Spend360, Trade Extensions, and Simeno. The cumulative spend under management metrics presented above do not directly correlate to our revenue or results of operations because we do not generally charge our customers based on actual usage of our core platform. However, we believe the cumulative spend under management metrics do illustrate the adoption, scale and value of our platform, which we believe enhances our ability to maintain existing customers and attract new customers.

Deferred Revenue

Our deferred revenue consists of amounts that have been invoiced but that have not yet been recognized as revenues as of the end of a reporting period. We generally sign multiple year subscription contracts for our platform and invoice an initial amount at contract signing followed by subsequent annual invoices. The majority of our deferred revenue balance consists of subscription revenues that are recognized ratably over the contractual period. Our deferred revenue does not include future non-cancellable amounts to be invoiced under our arrangements. These amounts are disclosed as remaining performance obligations as of October 31, 2018, which includes both deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of October 31, 2018, approximately \$406.7 million of revenue is expected to be recognized from remaining performance obligations, a majority of which is related to multi-year subscription arrangements.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. generally accepted accounting principles, or GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We regularly review the measures set forth below as we evaluate our business (in thousands).

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Non-GAAP operating profit (loss)	\$ 5,763	\$ (2,350)	\$ 10,109	\$ (12,717)
Non-GAAP net profit (loss)	\$ 5,461	\$ (2,834)	\$ 8,221	\$ (12,717)
Free cash flows	\$ 2,565	\$ 3,691	\$ 23,093	\$ 17,711

We define non-GAAP operating profit (loss) as operating profit or loss before stock-based compensation, and amortization of acquired intangible assets. We define non-GAAP net profit (loss) as net profit (loss) before stock-based compensation and amortization of acquired intangible assets, amortization of debt discount and issuance costs, and related tax effects including non-recurring income tax adjustments. We define free cash flows as operating cash flows less purchases of property and equipment.

We believe non-GAAP operating profit (loss) and non-GAAP net profit (loss) provide investors and other users of our financial information consistency and comparability with our past financial performance and facilitate period to period comparisons of operations. We believe non-GAAP operating profit (loss) and non-GAAP net profit (loss) are useful in evaluating our operating performance compared to that of other companies in our industry, as these metrics generally eliminate the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. We believe information regarding free cash flows provides useful information to investors because it is an indicator of the strength and performance of our business operations.

We use non-GAAP operating profit (loss), non-GAAP net profit (loss) and free cash flows in conjunction with traditional GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance. Our definitions may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Thus, our non-GAAP operating profit (loss), non-GAAP net profit (loss) and free cash flows should be considered in addition to, not as substitutes for, or in isolation from, measures prepared in accordance with GAAP.

We compensate for these limitations by providing investors and other users of our financial information a reconciliation of non-GAAP operating profit (loss) to loss from operations, non-GAAP net profit (loss) to net loss, and free cash flows to operating cash flows, to the related GAAP financial measure. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view non-GAAP operating profit (loss), non-GAAP net profit (loss), and free cash flows in conjunction with loss from operations, net loss, and the consolidated statements of cash flows. The following tables provide a reconciliation of loss from operations to non-GAAP operating profit (loss), from net loss to non-GAAP net profit (loss), and from net cash provided by operating activities to free cash flows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Loss from operations	\$ (9,918)	\$ (11,159)	\$ (32,611)	\$ (35,905)
Stock-based compensation	13,820	7,867	38,690	20,783
Amortization of acquired intangible assets	1,861	942	4,030	2,405
Non-GAAP operating profit (loss)	\$ 5,763	\$ (2,350)	\$ 10,109	\$ (12,717)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Net loss	(9,645)	(11,302)	\$ (38,953)	\$ (35,082)
Stock-based compensation	13,820	7,867	38,690	20,783
Amortization of acquired intangible assets	1,861	942	4,030	2,405
Amortization of debt discount and issuance costs	2,953	-	8,595	-
Income tax effects and adjustments	(3,528)	(341)	(4,141)	(823)
Non-GAAP net profit (loss)	\$ 5,461	\$ (2,834)	\$ 8,221	\$ (12,717)

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2018	2017	2018	2017
Net cash provided by operating activities	\$ 4,019	\$ 5,177	\$ 27,963	\$ 21,298
Less: purchases of property and equipment	(1,454)	(1,486)	(4,870)	(3,587)
Free cash flows	\$ 2,565	\$ 3,691	\$ 23,093	\$ 17,711

Components of Results of Operations

Revenues

We offer subscriptions to our cloud-based BSM platform, including procurement, invoicing and expense management. We derive our revenues primarily from subscription fees and professional services fees. Subscription revenues consist primarily of fees to provide our customers access to our cloud-based platform, which includes routine customer support at no additional cost. Professional services fees include deployment services, optimization services, and training. Subscription revenues are a function of the number of customers, the number of users at each customer, the number of modules subscribed to by each customer, the price of our modules, and renewal rates.

Generally subscription fees are recognized ratably as revenues over the contract term beginning on the date the application is made available to the customer. Our new business subscriptions typically have a term of three years. We generally invoice our customers in annual installments at the beginning of each year in the subscription period. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized ratably over the subscription period. Amounts that will be invoiced and recognized as revenue in future periods are reflected as remaining performance obligations within our notes to our condensed consolidated financial statements.

Professional services revenues consist primarily of fees associated with the implementation and configuration of our subscription service. Professional services are generally sold on a fixed-fee or time-and-materials basis. Revenue for time-and-material arrangements is recognized as the services are performed. Revenue for fixed-fee and other types of arrangements is also recognized over-time as services are performed. We have the ability to accurately estimate professional services costs on a project basis. For fixed-fee and other types of arrangements, we recognize revenue on the basis of incurred project costs relative to total estimated project costs to satisfy the performance obligation.

Our professional services engagements typically span from a few weeks to several months. For this reason, our professional services revenues may fluctuate significantly from period to period. The terms of our typical professional services arrangements provide that our customers pay us within 30 days from the invoice date. Fixed-fee services arrangements are generally invoiced in advance. We have made significant investments in our professional services business that are designed to ensure customer success and adoption of our platform. We are continuing to invest in expanding our professional services partner ecosystem to further support our customers. As the professional services practices of our partner firms continue to develop, we expect them to increasingly contract directly with our subscription customers and we incentivize our sales force to further this objective.

Cost of Revenues

Subscription Services

Cost of subscription services consists primarily of expenses related to hosting our service and providing customer support. Significant expenses are comprised of data center capacity costs; personnel and related costs directly associated with our cloud infrastructure and customer support, including salaries, benefits, bonuses and stock-based compensation; allocated overhead; and amortization of developed technology.

Professional Services and Other Cost of Revenues

Cost of professional services and other cost of revenues consist primarily of personnel and related costs directly associated with our professional services and training departments, including salaries, benefits, bonuses and stock-based compensation; the costs of contracted third-party vendors; and allocated overhead. These costs are generally expensed in the period incurred.

Professional services associated with the implementation and configuration of our subscription platform are performed directly by our services team, as well as by contracted third-party vendors. In cases in which third party vendors invoice us for services performed for our customers, those fees are accrued over the requisite service period.

Operating Expenses

Research and Development

Research and development expenses consist primarily of personnel costs of our development team, including salaries, benefits, bonuses, stock-based compensation expense and allocated overhead costs. Our cycle of frequent updates has facilitated rapid innovation and the introduction of new modules throughout our history. We have aggressively invested, and intend to continue to invest, in developing technology to support our growth. We capitalize certain software development costs that are attributable to developing new modules and features and adding incremental functionality to our platform, and we amortize such costs as costs of subscription revenues over the estimated life of the new application or incremental functionality, which is two to three years.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel and related costs directly associated with our sales and marketing staff, including salaries, benefits, bonuses, commissions and stock-based compensation. Commissions earned by our sales force that are considered incremental costs for obtaining a noncancellable subscription contract are deferred and amortized over a period of benefit that we have determined to be five years. Other sales and marketing costs include promotional events to promote our brand, including our INSPIRE conferences, advertising, allocated overhead and amortization of customer relationships and trademark.

General and Administrative

General and administrative expenses consist of personnel costs and related expenses for executive, finance, legal, human resources, recruiting, and administrative personnel, including salaries, benefits, bonuses and stock-based compensation expense; professional fees for external legal, accounting, recruiting and other consulting services; allocated overhead costs; and legal settlements.

Interest Expense

Interest expense consists primarily of interest expense associated with our convertible senior notes issued in January 2018.

Interest Income and Other, Net

Interest income and other, net consists primarily of interest income earned on our investments in marketable securities and cash and cash equivalents, in addition to the effects of exchange rates on our foreign currency-denominated asset and liability balances. All translation adjustments are recorded as foreign currency gains (losses) in the consolidated statements of operations.

Provision for (Benefit from) Income Taxes

Provision for income taxes consists primarily of income taxes related to foreign and state jurisdictions in which we conduct business. Benefit from income taxes is primarily related to the release of a valuation allowance for deferred tax assets for the quarter ended October 31, 2018, partially offset by income taxes related to foreign and state jurisdictions. We maintain a full valuation allowance on net deferred tax assets of our U.S. and the majority of our international entities as we have concluded that it is not more likely than not that the deferred assets will be utilized.

On December 22, 2017, the Tax Act was enacted into law, which significantly changes existing U.S. tax law and includes numerous provisions that affect our business, such as imposing a one-time transition tax on deemed repatriation of deferred foreign income, reducing the U.S. federal statutory tax rate, and adopting a modified territorial tax system.

Results of Operations

The following tables set forth selected consolidated statements of operations data and such data as a percentage of total revenues for each of the periods indicated:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
(in thousands)				
Revenues:				
Subscription services	\$ 60,559	\$ 42,795	\$ 165,899	\$ 118,223
Professional services and other	6,896	4,545	19,559	14,805
Total revenues	<u>67,455</u>	<u>47,340</u>	<u>185,458</u>	<u>133,028</u>
Cost of revenues:				
Subscription services	13,990	9,554	36,937	26,575
Professional services and other	7,674	5,441	21,492	16,865
Total cost of revenues	<u>21,664</u>	<u>14,995</u>	<u>58,429</u>	<u>43,440</u>
Gross profit	<u>45,791</u>	<u>32,345</u>	<u>127,029</u>	<u>89,588</u>
Operating expenses:				
Research and development	16,077	11,409	42,693	31,301
Sales and marketing	25,622	22,402	76,862	66,892
General and administrative	14,010	9,693	40,085	27,300
Total operating expenses	<u>55,709</u>	<u>43,504</u>	<u>159,640</u>	<u>125,493</u>
Loss from operations	(9,918)	(11,159)	(32,611)	(35,905)
Interest expense	(3,181)	(6)	(9,276)	(12)
Interest income and other, net	1,112	126	1,562	1,273
Loss before provision for (benefit from) income taxes	(11,987)	(11,039)	(40,325)	(34,644)
Provision for (benefit from) income taxes	(2,342)	263	(1,372)	438
Net loss	<u>\$ (9,645)</u>	<u>\$ (11,302)</u>	<u>\$ (38,953)</u>	<u>\$ (35,082)</u>

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Revenues:				
Subscription services	90 %	90 %	89 %	89 %
Professional services and other	10	10	11	11
Total revenues	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Cost of revenues:				
Subscription services	21	20	20	20
Professional services and other	11	11	12	13
Total cost of revenues	<u>32</u>	<u>31</u>	<u>32</u>	<u>33</u>
Gross profit	<u>68</u>	<u>69</u>	<u>68</u>	<u>67</u>
Operating expenses:				
Research and development	24	24	23	24
Sales and marketing	38	47	41	50
General and administrative	21	20	22	21
Total operating expenses	<u>83</u>	<u>91</u>	<u>86</u>	<u>95</u>
Loss from operations	(15)	(22)	(18)	(28)
Interest expense	(5)	—	(5)	—
Interest income and other, net	2	—	1	1
Loss before provision for (benefit from) income taxes	(18)	(22)	(22)	(27)
Provision for (benefit from) income taxes	(3)	1	(1)	—
Net loss	<u>(15) %</u>	<u>(23) %</u>	<u>(21) %</u>	<u>(27) %</u>

Three Months Ended October 31, 2018 and October 31, 2017

Revenues

	Three Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Subscription services	\$ 60,559	\$ 42,795	42%
Professional services and other	6,896	4,545	52%
Total revenues	<u>\$ 67,455</u>	<u>\$ 47,340</u>	42%

Total revenues were \$67.5 million for the three months ended October 31, 2018 compared to \$47.3 million for the three months ended October 31, 2017, an increase of \$20.2 million, or 42%. Subscription services revenues were \$60.6 million, or 90% of total revenues, for the three months ended October 31, 2018, compared to \$42.8 million, or 90% of total revenues, for the three months ended October 31, 2017. This increase in absolute dollars was primarily due to the acquisition of new customers and the sale of additional modules and users to existing customers, and to a lesser extent, new revenues generated by the acquisitions completed during the current quarter and fourth quarter of the fiscal year ended January 31, 2018. Professional services revenues were \$6.9 million for the three months ended October 31, 2018 compared to \$4.5 million for the three months ended October 31, 2017. The increase of \$2.4 million, or 52%, was primarily due to an increase in customers and training revenues, and new revenues generated from an acquisition completed during the current quarter and the fourth quarter of the fiscal year ended January 31, 2018.

Cost of Revenues

	Three Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Subscription services	\$ 13,990	\$ 9,554	46%
Professional services and other	7,674	5,441	41%
Total cost of revenues	<u>\$ 21,664</u>	<u>\$ 14,995</u>	44%

Cost of subscription services was \$14.0 million for the three months ended October 31, 2018 compared to \$9.6 million for the three months ended October 31, 2017, an increase of \$4.4 million, or 46%. The increase in cost of subscription services was primarily due to increases of \$1.7 million in employee compensation costs related to higher headcount, \$1.7 million in hosting fees to accommodate increased customer spend, \$0.8 million increase in intangible amortization and \$0.2 million in other costs driven by our overall growth.

Cost of professional services was \$7.7 million for the three months ended October 31, 2018 compared to \$5.4 million for the three months ended October 31, 2017, an increase of \$2.2 million, or 41%. The increase in cost of professional services was primarily due to an increase of \$1.7 million in employee compensation costs and \$0.5 million in other costs driven by our overall growth.

Gross Profit

	Three Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Gross profit	\$ 45,791	\$ 32,345	42%

Gross profit was \$45.8 million for the three months ended October 31, 2018 compared to \$32.3 million for the three months ended October 31, 2017, an increase of \$13.4 million, or 42%. The increase in gross profit was primarily the result of an increase in our subscription services revenues. Gross profit as a percentage of revenue was 68% and 69% for the three months ended October 31, 2018 and 2017, respectively.

Operating Expenses

Research and Development

	Three Months Ended		% Change
	October 31,		
	2018	2017	
	(in thousands)		
Research and development	\$ 16,077	\$ 11,409	41%

Research and development expenses were \$16.1 million for the three months ended October 31, 2018 compared to \$11.4 million for the three months ended October 31, 2017, an increase of \$4.7 million, or 41%. The increase was primarily due to increases of \$3.5 million in employee compensation costs related to higher headcount, \$1.0 million increase in contracted consultant costs related to the workforce of acquired entities and \$0.5 million related to allocated facilities and other costs driven by our overall growth, offset by an increase of \$0.3 million in development costs capitalized in the period. We expect research and development expenses will continue to increase in fiscal 2019 in absolute dollars as we continue to invest in research and development activities.

Sales and Marketing

	Three Months Ended		% Change
	October 31,		
	2018	2017	
	(in thousands)		
Sales and marketing	\$ 25,622	\$ 22,402	14%

Sales and marketing expenses were \$25.6 million for the three months ended October 31, 2018 compared to \$22.4 million for the three months ended October 31, 2017, an increase of \$3.2 million, or 14%. The increase was primarily due to an increase of \$2.8 million in employee compensation costs related to higher headcount, and an increase of \$0.9 million related to allocated facilities, travel and other costs, offset by a decrease of \$0.5 million in commission expenses due to adoption of the new revenue standard as of February 1, 2018. We expect sales and marketing expenses will increase in fiscal 2019 due to the continuing expansion of our global sales and marketing activities.

General and Administrative

	Three Months Ended		% Change
	October 31,		
	2018	2017	
	(in thousands)		
General and administrative	\$ 14,010	\$ 9,693	45%

General and administrative expenses were \$14.0 million for the three months ended October 31, 2018 compared to \$9.7 million for the three months ended October 31, 2017, an increase of \$4.3 million, or 45%. The increase was primarily due to \$3.9 million in employee compensation costs related to higher headcount, an increase of \$0.2 million for professional and outside service costs, and an increase of \$0.2 million related to allocated facilities and other costs driven by our overall growth. We expect general and administrative expenses will continue to increase in fiscal 2019 in absolute dollars due to the growth of our company.

Interest Expense

	Three Months Ended		% Change
	October 31,		
	2018	2017	
	(in thousands)		
Interest expense	\$ 3,181	\$ 6	NM

Interest expense was \$3.2 million for the three months ended October 31, 2018 compared to \$6,000 for the three months ended October 31, 2017. The \$3.2 million increase in interest expense was primarily due to the interest accrued on the convertible notes and amortization of the debt discount and issuance costs on our convertible senior notes issued in the fourth quarter of fiscal 2018.

Interest Income and Other, Net

	Three Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Interest income and other, net	\$ 1,112	\$ 126	NM

Interest income and other, net was \$1.1 million for the three months ended October 31, 2018 compared to \$0.1 million for the three months ended October 31, 2017. The \$1.0 million increase in other income, net was due to a \$1.5 million increase in interest income earned from our greater investment in marketable securities and money market funds, partially offset by a \$0.5 million increase in net currency losses, primarily driven by the weakened British Pound and Euro during the period.

Provision for (Benefit from) Income Taxes

	Three Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Provision for (benefit from) income taxes	\$ (2,342)	\$ 263	NM

The benefit from income taxes was \$2.3 million for the three months ended October 31, 2018 compared to an income tax provision of \$0.3 million for income taxes for the three months ended October 31, 2017. The \$2.6 million decrease primarily relates to an income tax benefit of \$3.1 million due to the release of valuation allowance for deferred tax assets, which resulted from the recognition of deferred income tax liabilities associated with the Aquirre acquisition during the quarter. This decrease was partially offset by a higher provision for income taxes related to foreign taxes.

Nine months ended October 31, 2018 and October 31, 2017

Revenues

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Subscription services	\$ 165,899	\$ 118,223	40%
Professional services and other	19,559	14,805	32%
Total revenues	<u>\$ 185,458</u>	<u>\$ 133,028</u>	39%

Total revenues were \$185.5 million for the nine months ended October 31, 2018 compared to \$133.0 million for the nine months ended October 31, 2017, an increase of \$52.4 million, or 39%. Subscription services revenues were \$165.9 million, or 89% of total revenues, for the nine months ended October 31, 2018, compared to \$118.2 million, or 89% of total revenues, for the nine months ended October 31, 2017. This increase in absolute dollars was primarily due to the acquisition of new customers and the sale of additional modules and users to existing customers, and to a lesser extent, new revenues generated by the acquisitions. Professional services revenues were \$19.6 million for the nine months ended October 31, 2018 compared to \$14.8 million for the nine months ended October 31, 2017. The increase of \$4.8 million, or 32%, was primarily due to new revenues generated from expanding headcount resources and acquisitions along with an increase in customers and training revenues.

Cost of Revenues

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Subscription services	\$ 36,937	\$ 26,575	39%
Professional services and other	21,492	16,865	27%
Total cost of revenues	<u>\$ 58,429</u>	<u>\$ 43,440</u>	35%

Cost of subscription services was \$36.9 million for the nine months ended October 31, 2018 compared to \$26.6 million for the nine months ended October 31, 2017, an increase of \$10.4 million, or 39%. The increase in cost of subscription services was primarily due to increases of \$4.4 million in employee compensation costs related to higher headcount, \$4.0 million in hosting fees to accommodate increased customer spend, \$1.3 million increase in intangible amortization and \$0.7 million in other costs driven by our overall growth.

Cost of professional services was \$21.5 million for the nine months ended October 31, 2018 compared to \$16.9 million for the nine months ended October 31, 2017, an increase of \$4.6 million, or 27%. The increase in cost of professional services was primarily due to increases of \$3.9 million in employee compensation costs related to higher headcount, and \$0.7 million related to allocated facilities and other costs driven by our overall growth.

Gross Profit

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Gross profit	\$ 127,029	\$ 89,588	42%

Gross profit was \$127.0 million for the nine months ended October 31, 2018 compared to \$89.6 million for the nine months ended October 31, 2017, an increase of \$37.4 million, or 42%. The increase in gross profit is mainly the result of the increase in our subscription services revenues due primarily to the addition of new customers during the period. Gross profit as a percentage of revenue was 68% and 67% for the nine months ended October 31, 2018 and 2017, respectively.

Operating Expenses

Research and Development

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Research and development	\$ 42,693	\$ 31,301	36%

Research and development expenses were \$42.7 million for the nine months ended October 31, 2018 compared to \$31.3 million for the nine months ended October 31, 2017, an increase of \$11.4 million, or 36%. The increase was primarily due to increases of \$9.0 million in employee compensation costs related to higher headcount, \$1.4 million related to allocated facilities and other costs driven by our overall growth, and \$1.0 million in contracted consultant costs related to the workforce of acquired entities.

Sales and Marketing

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Sales and marketing	\$ 76,862	\$ 66,892	15%

Sales and marketing expenses were \$76.9 million for the nine months ended October 31, 2018 compared to \$66.9 million for the nine months ended October 31, 2017, an increase of \$10 million, or 15%. The increase was primarily due to increases of \$8.2 million in employee compensation costs related to higher headcount, \$1.8 million related to allocated facilities and other costs, \$0.7 million in marketing and events costs, including travel, \$0.5 million related to outside services and consulting costs, and an increase of \$0.5 million related to amortization of intangible assets, offset by a decrease of \$1.7 million in commission expenses due to adoption of the new revenue standard as of February 1, 2018.

General and Administrative

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
General and administrative	\$ 40,085	\$ 27,300	47%

General and administrative expenses were \$40.1 million for the nine months ended October 31, 2018 compared to \$27.3 million for the nine months ended October 31, 2017, an increase of \$12.8 million, or 48%. The increase was primarily due to increases of \$11.2 million in employee compensation costs related to higher headcount, \$1 million related to allocated facilities and other costs driven by our overall growth, and \$0.6 million for professional and outside service costs.

Interest Expense

	Nine Months ended October 31,		% Change
	2018	2017	
	(in thousands)		
Interest expense	\$ 9,276	\$ 12	NM

Interest expense was \$9.3 million for the nine months ended October 31, 2018 compared to \$12,000 for the nine months ended October 31, 2017. The \$9.3 million increase in interest expense was primarily due to the interest accrued on the convertible notes and amortization of the debt discount and issuance costs on our convertible senior notes issued in the fourth quarter of fiscal 2018.

Interest Income and Other, Net

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Interest income and other, net	\$ 1,562	\$ 1,273	23%

Interest income and other, net was \$1.6 million for the nine months ended October 31, 2018 compared to \$1.3 million for the nine months ended October 31, 2017, an increase in other income of \$0.3 million, or 23%. The increase in other income, net was due to \$3.4 million increase in interest income earned from our greater investment in marketable securities and money market funds offset by a \$3.1 million increase in net currency losses, primarily driven by the weakened British Pound and Euro during the period.

Provision for (Benefit from) Income Taxes

	Nine Months Ended October 31,		% Change
	2018	2017	
	(in thousands)		
Provision for (benefit from) income taxes	\$ (1,372)	\$ 438	NM

The benefit from income taxes was \$1.4 million for the nine months ended October 31, 2018 compared to an income tax provision of \$0.4 million for the nine months ended October 31, 2017. The \$1.8 million decrease primarily relates to an income tax benefit of \$3.1 million which was recognized during Q3 fiscal 2019, offset by increased income tax expenses for our overseas entities. The income tax benefit of \$3.1 million was due to release of valuation allowance for deferred tax assets, which resulted from the recognition of deferred income tax liabilities associated with the Acquire acquisition during the quarter.

Liquidity and Capital Resources

As of October 31, 2018, our principal sources of liquidity were cash, cash equivalents and marketable securities of approximately \$406 million. We had an outstanding debt in the form of convertible senior notes with a \$230 million principal amount as of October 31, 2018. For more than twenty trading days during the thirty consecutive trading days ended October 31, 2018, the last reported sale price of our common stock exceeded 130% of the conversion price of the convertible senior notes. As a result, the convertible senior notes were convertible at the option of the holders.

In conjunction with the issuance of the convertible senior notes, we entered into a capped call transaction that also limits our exposure to additional cash payments above the \$230 million principal balance in the event of a cash conversion of the senior convertible notes. We may owe additional cash to the note holders upon early conversion if our stock price exceeds \$63.821 per share. Although our incremental exposure to the additional cash payment above the principal amount of the senior convertible notes is limited by the capped call, we may experience dilution to the ownership interests of existing stockholders.

Our cash equivalents are comprised primarily of bank deposits and money market funds. We believe our existing cash and cash equivalents will be sufficient to meet our projected operating requirements for at least the next 12 months.

Our future capital requirements will depend on many factors, including our pace of growth, subscription renewal activity, the timing and extent of spend to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced services offerings, the continuing market acceptance of our services and the repayment of debt. We may enter into arrangements in the future to acquire or invest in complementary businesses, services and technologies and intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition would be adversely affected.

Operating Activities

Cash provided by operating activities of \$28.0 million for the nine months ended October 31, 2018, was due to a net loss of \$39.0 million, net accretion of discounts and amortization of premiums on marketable securities for \$1.0 million, and other non-cash items for \$0.4 million, offset by stock-based compensation of \$38.7 million, depreciation and amortization, including deferred commissions, of \$10.8 million, and amortization of debt discount and issuance costs of \$8.6 million. The net change in operating assets and liabilities was favorable primarily due to a \$12.4 million decrease in accounts receivable from the collection of customer payments which is typically higher in the first half of our fiscal year, in addition to other operating activities generating a cash inflow of \$10.1 million, partially offset by an unfavorable variance due to increases of \$8.5 million in deferred commissions, \$3.3 million in prepaid expenses and other current assets mainly due to a prepayment to a hosting service provider, and \$0.5 million in other assets.

Cash provided by operating activities of \$21.3 million for the nine months ended October 31, 2017 was due to a net loss of \$35.1 million, offset by stock-based compensation of \$20.8 million, and depreciation and amortization, including deferred commissions, of \$8.6 million. The net change in operating assets and liabilities was favorable primarily due to our collection of customer payments which is typically higher in the first half of our fiscal year, in addition to other operating activities generating a cash inflow of \$30.5 million, partially offset by an unfavorable variance due to the increase of \$3.5 million in capitalized deferred commissions, and prepaid expenses and other current assets.

Investing Activities

Cash used in investing activities for the nine months ended October 31, 2018 of \$231.6 million was primarily related to the purchase of marketable securities of \$209.3 million, \$49.2 million spent on business acquisitions, and \$4.9 million for purchases of property and equipment, offset by \$31.8 million for maturities of marketable securities.

Cash used in investing activities for the nine months ended October 31, 2017 of \$43.2 million was primarily related to \$39.6 million spent in business acquisitions, and \$3.6 million for purchases of property and equipment.

Financing Activities

Cash provided by financing activities for the nine months ended October 31, 2018 of \$18.3 million was primarily due to \$10.1 million in proceeds from the exercise of stock options and \$8.8 million from the proceeds received for common stock issued under the ESPP plan, offset by the payment of \$0.6 million in issuance costs related to the issuance of our convertible notes in January 2018.

Cash provided by financing activities for the nine months ended October 31, 2017 of \$39.2 million was primarily due to the \$22.3 million in net proceeds raised in our follow-on offering, \$10.1 million in proceeds from the exercise of stock options and \$6.8 million from the proceeds received for common stock issued under the ESPP plan.

Off-Balance Sheet Arrangements

Through October 31, 2018, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Commitments and Contractual Obligations

Our principal commitments and contractual obligations consist of our senior notes due in 2023, obligations under operating leases for office facilities and contractual purchase obligations for hosting services that support our business operations. The following table summarizes our non-cancelable contractual obligations as of October 31, 2018:

	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
		(in thousands)			
Convertible senior notes (1)	\$ 230,000	\$ -	\$ -	\$ 230,000	\$ -
Aggregate interest obligations (1)(2)	3,892	855	1,713	1,324	-
Operating lease obligations	34,168	6,750	13,514	11,431	2,473
Purchase obligations	28,250	3,750	24,500	-	-
Total contractual obligations	<u>\$ 296,310</u>	<u>\$ 11,355</u>	<u>\$ 39,727</u>	<u>\$ 242,755</u>	<u>\$ 2,473</u>

(1) The conversion period for the Convertible Notes was open as of August 1, 2018, and as such the net carrying value of the Convertible Notes is included within current liabilities on our Consolidated Balance Sheet. The principal balances of the Convertible Notes are reflected in the payment period in the table above based on the contractual maturity assuming no conversion.

(2) Represents estimated aggregate interest obligations for our outstanding Convertible Notes that are payable in cash.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

With the exception of changes described within Note 2, "Significant Accounting Policies" due to the adoption of ASU No. 2014-09 and in relation to our recent marketable securities activities, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended January 31, 2018.

Recent Accounting Pronouncements

Refer to Note 2, "Significant Accounting Policies" in the notes to our condensed consolidated financial statements for analysis of recent accounting pronouncements that are applicable to our business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound Sterling and Swedish Krona. Due to the relative size of our international operations to date, our foreign currency exposure has been fairly limited and thus we have not instituted a hedging program. We performed a sensitivity analysis as of October 31, 2018 and determined that, without hedging the exposure, a 10% change in the value of the U.S. dollar would result in an approximate \$2.8 million impact on our current quarter net loss. We expect our international operations to continue to grow in the near term and we are continually monitoring the foreign currency exposure to determine when we should begin a hedging program. The majority of our agreements have been and we expect will continue to be denominated in U.S. dollars.

Market Risk and Market Interest Risk

In January 2018, we issued \$230 million aggregate principal amount of 0.375% convertible senior notes due 2023. Our Convertible Notes have fixed annual interest rates at 0.375% and, therefore, we do not have economic interest rate exposure on our Convertible Notes. However, the values of the Convertible Notes are exposed to interest rate risk. Generally, the fair market value of our fixed interest rate Convertible Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair values of the Convertible Notes are affected by our stock price. The fair value of the convertible senior notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. Additionally, we carry the convertible senior notes at face value less unamortized discount and issuance costs on our balance sheet, and we present the fair value for required disclosure purposes only.

Our exposure to interest rate risk also is related to our interest-bearing assets, primarily our cash and cash equivalents. Fluctuations in interest rates impact the yield of the investment. A hypothetical 100 basis points increase in interest rates would have impacted interest income by \$600,000 and \$500,000 for the three months ended October 31, 2018 and 2017, respectively.

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, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of business. As our growth continues, we may become party to an increasing number of litigation matters and claims. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider the risks described below, as well as the other information in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," particularly before deciding whether to invest in our securities. The occurrence of any of the events or developments described below could materially and adversely affect our business, financial condition, results of operations and growth prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment. The risks described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks Related to Our Business and Industry

We have a limited operating history, which makes it difficult to predict our future operating results.

We were incorporated in 2006 and introduced our first software module shortly thereafter and over time have invested in building our integrated platform. As a result of our limited operating history, our ability to forecast our future operating results is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. We have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties (which we use to plan our business) are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

Any success that we may experience in the future will depend, in large part, on our ability to manage the risks discussed herein and to, among other things:

- retain and expand our customer base on a cost-effective basis;
- successfully compete in our markets;
- continue to add features and functionality to our platform to meet customer demand;
- increase revenues from existing customers as they add users or purchase additional modules;
- continue to invest in research and development;
- scale our internal business operations in an efficient and cost-effective manner;
- scale our global customer success organization to make our customers successful in their business spend management deployments;
- help our partners to be successful in deployments of our platform;
- successfully expand our business domestically and internationally;
- successfully protect our intellectual property and defend against intellectual property infringement claims;
- hire, integrate and retain professional and technical talent; and
- successfully integrate companies and technologies that we acquire.

If we are unable to attract new customers, the growth of our revenues will be adversely affected.

To increase our revenues, we must add new customers, increase the number of users at existing customers and sell additional modules to current customers. As our industry matures or if competitors introduce lower cost and/or differentiated products or services that are perceived to compete with ours, our ability to sell based on factors such as pricing, technology and functionality could be impaired. As a result, we may be unable to attract new customers at rates or on terms that would be favorable or comparable to prior periods, which could have an adverse effect on the growth of our revenues.

Because our platform is sold to large enterprises with complex operating environments, we encounter long and unpredictable sales cycles, which could adversely affect our operating results in a given period.

Our ability to increase revenues and achieve profitability depends, in large part, on widespread acceptance of our platform by large enterprises. As we target our sales efforts at these customers, we face greater costs, longer sales cycles and less predictability in completing some of our sales. As a result of the variability and length of the sales cycle, we have only a limited ability to forecast the timing of sales. A delay in or failure to complete sales could harm our business and financial results, and could cause our financial results to vary significantly from period to period. Our sales cycle varies widely, reflecting differences in potential customers' decision-making processes, procurement requirements and budget cycles, and is subject to significant risks over which we have little or no control, including:

- customers' budgetary constraints and priorities;
- the timing of customers' budget cycles;
- the need by some customers for lengthy evaluations; and
- the length and timing of customers' approval processes.

In the large enterprise market, the customer's decision to use our platform may be an enterprise-wide decision; therefore, these types of sales require us to provide greater levels of education regarding the use and benefits of our platform, which causes us to expend substantial time, effort and money educating them as to the value of our platform. In addition, because we are a relatively new company with a limited operating history, our target customers may prefer to purchase software that is critical to their business from one of our larger, more established competitors. Our typical sales cycle can range from three to nine months, and it's possible that sales cycles may continue to be lengthy or increase. Longer sales cycles could cause our operating and financial results to suffer in a given period.

If our security measures are breached or unauthorized access to customer data is otherwise obtained, our platform may be perceived as not being secure, customers may reduce the use of or stop using our platform and we may incur significant liabilities.

Our platform involves the storage and transmission of our customers' sensitive proprietary information, including their spending and other related data. As a result, unauthorized access or security breaches could result in the loss of information, litigation, indemnity obligations and other liability. While we have security measures in place that are designed to protect customer information and prevent data loss and other security breaches, if these measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and someone obtains unauthorized access to our customers' data, we could face loss of business, regulatory investigations or orders, our reputation could be severely damaged, we could be required to expend significant capital and other resources to alleviate the problem, as well as incur significant costs and liabilities, including due to litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, and costs for remediation and other incentives offered to customers or other business partners in an effort to maintain business relationships after a breach.

We cannot assure you that any limitations of liability provisions in our contracts would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim relating to a security lapse or breach. We also cannot be sure that our existing insurance coverage will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims related to a security breach, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Cyber-attacks and other malicious Internet-based activities continue to increase generally. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, third parties may attempt to fraudulently induce employees or users to disclose information to gain access to our data or our customers' data. While it did not involve any customer data, we have previously suffered the loss of certain employee information related to an employee error. If any of these events occur, our or our customers' information could be accessed or disclosed improperly. Any or all of these issues could negatively affect our ability to attract new customers, cause existing customers to elect to not renew their subscriptions, result in reputational damage or subject us to third-party lawsuits, regulatory fines or other action or liability, which could adversely affect our operating results.

The markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be adversely affected.

The market for business spend management software is highly competitive, with relatively low barriers to entry for some software or service organizations. Our competitors include Oracle Corporation ("Oracle") and SAP AG ("SAP"), well-established providers of business spend management software that have long-standing relationships with many customers. Some customers may be hesitant to switch vendors or to adopt cloud-based software such as ours and prefer to maintain their existing relationships with their legacy software vendors. Oracle and SAP are larger and have greater name recognition, much longer operating histories, larger marketing budgets and significantly greater resources than we do. These vendors, as well as other competitors, may offer business spend management software on a standalone basis at a low price or bundled as part of a larger product sale. In order to take advantage of customer demand for cloud-based software, legacy vendors are expanding their cloud-based software through acquisitions and organic development. For example, SAP acquired Ariba, Inc. and Concur Technologies, Inc. Legacy vendors may also seek to partner with other leading cloud providers. We also face competition from custom-built software vendors and from vendors of specific applications, some of which offer cloud-based solutions. We may also face competition from a variety of vendors of cloud-based and on-premise software products that address only a portion of our platform. In addition, other companies that provide cloud-based software in different target markets may develop software or acquire companies that operate in our target markets, and some potential customers may elect to develop their own internal software. With the introduction of new technologies and market entrants, we expect this competition to intensify in the future.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products and services. Furthermore, our current or potential competitors may be acquired by third parties with greater available resources and the ability to initiate or withstand substantial price competition. In addition, many of our competitors have established marketing relationships, access to larger customer bases and major distribution agreements with consultants, system integrators and resellers. Our competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their product offerings or resources. If our platform does not become more accepted relative to our competitors', or if our competitors are successful in bringing their products or services to market earlier than ours, or if their products or services are more technologically capable than ours, then our revenues could be adversely affected. In addition, some of our competitors may offer their products and services at a lower price. If we are unable to achieve our target pricing levels, our operating results will be negatively affected. Pricing pressures and increased competition could result in reduced sales, reduced margins, losses or a failure to maintain or improve our competitive market position, any of which could adversely affect our business.

Our business depends substantially on our customers renewing their subscriptions and purchasing additional subscriptions from us. Any decline in our customer renewals would harm our future operating results.

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions when the initial contract term expires and add additional authorized users and additional business spend management modules to their subscriptions. Our customers have no obligation to renew their subscriptions, and we cannot assure you that our customers will renew subscriptions with a similar contract period or with the same or a greater number of authorized users and modules. Some of our customers have elected not to renew their agreements with us, and we may not be able to accurately predict renewal rates.

Our renewal rates may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our subscription service, our professional services, our customer support, our prices and contract length, the prices of competing solutions, mergers and acquisitions affecting our customer base, the effects of global economic conditions or reductions in our customers' spending levels. Our future success also depends in part on our ability to add additional authorized users and modules to the subscriptions of our current customers. If our customers do not renew their subscriptions, renew on less favorable terms or fail to add more authorized users or additional business spend management modules, our revenues may decline, and we may not realize improved operating results from our customer base.

If we fail to develop widespread brand awareness cost-effectively, our business may suffer.

We believe that developing and maintaining widespread awareness of our brand in a cost-effective manner is critical to achieving widespread acceptance of our platform and attracting new customers. For example, widespread awareness of our brand is critical to ensuring that we are invited to participate in requests for proposals from prospective customers. Our success in this area will depend on a wide range of factors, some of which are beyond our control, including the following:

- the efficacy of our marketing efforts;
- our ability to offer high-quality, innovative and error- and bug-free modules;
- our ability to retain existing customers and obtain new customers;
- the ability of our customers to achieve successful results by using our platform;
- the quality and perceived value of our platform;
- our ability to successfully differentiate our offerings from those of our competitors;
- actions of competitors and other third parties;
- our ability to provide customer support and professional services;
- any misuse or perceived misuse of our platform and modules;
- positive or negative publicity;
- interruptions, delays or attacks on our platform or modules; and
- litigation, legislative or regulatory-related developments.

Brand promotion activities may not generate customer awareness or increase revenues, and, even if they do, any increase in revenues may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses, we may fail to attract or retain customers necessary to realize a sufficient return on our brand-building efforts or to achieve the widespread brand awareness that is critical for broad customer adoption of our platform.

Furthermore, negative publicity (whether or not justified) relating to events or activities attributed to us, our employees, our partners or others associated with any of these parties, may tarnish our reputation and reduce the value of our brand. Damage to our reputation and loss of brand equity could reduce demand for our platform and have an adverse effect on our business, operating results and financial condition. Moreover, any attempts to rebuild our reputation and restore the value of our brands may be costly and time consuming, and such efforts may not ultimately be successful.

We have experienced rapid growth and expect our growth to continue and if we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

We have experienced a rapid growth in our business, headcount and operations since inception. We have also significantly increased the size of our customer base. We anticipate that we will continue to expand our operations and headcount, including internationally. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in deploying customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features and/or other operational difficulties, any of which could adversely affect our business performance and results of operations.

Because we recognize subscription revenues over the term of the contract, fluctuations in new sales and renewals may not be immediately reflected in our operating results and may be difficult to discern.

We generally recognize subscription revenues from customers ratably over the terms of their contracts, which are typically three years, although some customers commit for shorter periods. As a result, most of the subscription revenues we report on each quarter are derived from the recognition of deferred revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter would likely have only a small impact on our revenues for that quarter. However, such a decline would negatively affect our revenues in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our platform, and potential changes in our pricing policies or rate of renewals, may not be fully apparent from our reported results of operations until future periods.

We may be unable to adjust our cost structure to reflect the changes in revenues. In addition, a significant majority of our costs are expensed as incurred, while subscription revenues are recognized over the life of the customer agreement. As a result, increased growth in the number of our customers could result in our recognition of more costs than revenues in the earlier periods of the terms of our agreements. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new customers must be recognized over the applicable subscription term.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly results of operations, as well as our key metrics discussed elsewhere in this quarterly report, including the levels of our revenues, gross margin, cash flow and deferred revenue, may vary significantly in the future and period-to-period comparisons of our operating results and key metrics may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly financial results and metrics may fluctuate as a result of a variety of factors, many of which are outside of our control, as a result they may not fully reflect the underlying performance of our business. These quarterly fluctuations may negatively affect the value of our common stock. Factors that may cause these fluctuations include, without limitation:

- our ability to attract new customers;
- the addition or loss of large customers, including through acquisitions or consolidations;
- the timing of recognition of revenues;
- the amount and timing of operating expenses;
- general economic, industry and market conditions, both domestically and internationally;
- the timing of our billing and collections;
- customer renewal and expansion rates;
- significant security breaches of, technical difficulties with, or interruptions to the delivery and use of our products on our platform;
- the amount and timing of completion of professional services engagements;
- increases or decreases in the number of users for our platform, increases or decreases in the modules purchased for our platform or pricing changes upon any renewals of customer agreements;
- changes in our pricing policies or those of our competitors;
- seasonal variations in sales of our software subscriptions, which have historically been highest in the fourth quarter of a calendar year but may vary in future quarters;
- the timing and success of new module introductions by us or our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers or strategic partners;
- changes in foreign currency exchange rates;
- extraordinary expenses such as litigation or other dispute-related expenses or settlement payments;
- sales tax and other tax determinations by authorities in the jurisdiction in which we conduct business;
- the impact of new accounting pronouncements and the adoption thereof;
- fluctuations in stock-based compensation expense;
- expenses in connection with mergers, acquisitions or other strategic transactions; and
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill or intangibles from acquired companies.

Acquisitions could be difficult to identify, pose integration challenges, divert the attention of management, disrupt our business, dilute stockholder value, and adversely affect our operating results and financial condition.

We have in the past acquired and may in the future seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our platform, enhance our technical capabilities or otherwise offer growth opportunities. For example, we acquired Vinimaya, Inc. (d/b/a Aqiire) in October 2018, acquired certain assets from DCR Workforce in August 2018 and acquired Simeno Holdings AG in December 2017. Acquisitions may disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business.

In addition, we have limited experience in acquiring other businesses and we may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired technologies or services in a profitable manner;
- unanticipated costs, accounting charges or other liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- difficulty integrating the accounting systems, operations and personnel of the acquired business;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business, including due to language, geographical or cultural differences;
- difficulty converting the customers of the acquired business onto our platform and contract terms, including disparities in the revenues, licensing, support or professional services model of the acquired company;
- adverse effects to our existing business relationships with business partners and customers as a result of the acquisition;
- the potential loss of key employees;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations. In addition, our exposure to risks associated with various claims, including the use of intellectual property, may be increased as a result of acquisitions of other companies. For example, we may have a lower level of visibility into the development process with respect to intellectual property or the care taken to safeguard against infringement risks with respect to the acquired company or technology. In addition, third parties may make infringement and similar or related claims after we have acquired technology that has not been asserted prior to our acquisition.

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial position may suffer.

Changes in privacy laws, regulations, and standards may cause our business to suffer.

Our customers can use our platform to collect, use and store certain types of personal or identifying information regarding their employees and suppliers. Federal, state and foreign government bodies and agencies have adopted, are considering adopting or may adopt laws and regulations regarding the collection, use, storage and disclosure of personal information obtained from consumers and individuals, such as compliance with the Health Insurance Portability and Accountability Act and the recently created EU-U.S. Privacy Shield. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our platform and reduce overall demand or lead to significant fines, penalties or liabilities for any noncompliance with such privacy laws. Furthermore, privacy concerns may cause our customers' employees to resist providing the personal data necessary to allow our customers to use our platform effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our platform in certain industries.

All of these domestic and international legislative and regulatory initiatives may adversely affect our customers' ability to process, handle, store, use and transmit demographic and personal information from their employees, customers and suppliers, which could reduce demand for our platform. The European Union ("EU") and many countries in Europe have stringent privacy laws and regulations, which may affect our ability to operate cost effectively in certain European countries. In particular, the EU has adopted the General Data Protection Regulation ("GDPR") which went into effect on May 25, 2018 and contains numerous requirements and changes, including more robust obligations on data processors and heavier documentation requirements for data protection compliance programs by companies. Specifically, the GDPR introduced numerous privacy-related changes for companies operating in the EU, including greater control for data subjects (e.g., the "right to be forgotten"), increased data portability for EU consumers, data breach notification requirements, and increased fines. In particular, under the GDPR, fines of up to 20 million Euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater, could be imposed for violations of certain of the GDPR's requirements. Complying with the GDPR may cause us to incur substantial operational costs or require us to change our business practices. Despite our efforts to bring practices into compliance with the GDPR, we may not be successful either due to internal or external factors such as resource allocation limitations or a lack of vendor cooperation. Non-compliance could result in proceedings against us by governmental entities, customers, data subjects or others. We may also experience difficulty retaining or obtaining new European or multi-national customers due to the compliance cost, potential risk exposure, and uncertainty for these entities, and we may experience significantly increased liability with respect to these customers pursuant to the terms set forth in our engagements with them. We may find it necessary to establish systems to maintain personal data originating from the EU in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business. In the meantime, there could be uncertainty as to how to comply with EU privacy law.

Because the interpretation and application of many privacy and data protection laws along with contractually imposed industry standards are uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our products and platform capabilities. If so, in addition to the possibility of fines, lawsuits, and other claims and penalties, we could be required to fundamentally change our business activities and practices or modify our products and platform capabilities, which could have an adverse effect on our business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable privacy and data security laws, regulations, and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our products. Privacy and data security concerns, whether valid or not valid, may inhibit market adoption of our products, particularly in certain industries and foreign countries. If we are not able to adjust to changing laws, regulations, and standards related to the Internet, our business may be harmed.

We may be sued by third parties for various claims including alleged infringement of their proprietary rights.

We are involved in various legal matters arising from normal course of business activities. These may include claims, suits, and other proceedings involving alleged infringement of third-party patents and other intellectual property rights, as well as commercial, corporate and securities, labor and employment, wage and hour, and other matters. In particular, there has been considerable activity in our industry to develop and enforce intellectual property rights. Our success depends upon our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. In the past third parties have claimed and in the future third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. For example, between March 2012 and August 2014 and between May 2014 and September 2015, we and Ariba, Inc. were involved in patent and trade secret litigation cases, each of which eventually resulted in a settlement agreement that requires us to maintain certain ongoing compliance measures that if challenged, could be costly, time-consuming and divert the attention of our management and key personnel from our business operations.

We may experience future claims that our platform and underlying technology infringe or violate others' intellectual property rights, and we may be found to be infringing upon such rights. We may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers and business partners or to pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify our platform or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly, distracting and time-consuming and could harm our brand, business, results of operations and financial condition.

The profitability of our customer relationships may fluctuate.

Our business model focuses on maximizing the lifetime value of our customer relationships and we need to make significant investments in order to add new customers to grow our customer base. The profitability of a customer relationship in any particular period depends in part on how long the customer has been a subscriber on our platform. In general, the upfront costs associated with new customers are higher in the first year than the aggregate revenues we recognize from those new customers in the first year.

We review the lifetime value and associated acquisition costs of our customers, as discussed further in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this quarterly report. The lifetime value of our customers and customer acquisition costs has and will continue to fluctuate from one period to another depending upon the amount of our net new subscription revenues (which depends on the number of new customers in a period, upsells of additional modules to existing customers and changes in subscription fees charged to existing customers), gross margins (which depends on investments in and other changes to our cost of customer support and allocated overhead), sales and marketing expenses and renewal rates (which depend on our ability to maintain or grow subscription fees from customers). These amounts have fluctuated from quarter to quarter and will continue to fluctuate in the future. We may not experience lifetime value to customer acquisition cost ratios in future years or periods similar to those we have achieved to date. Other companies may calculate lifetime value and customer acquisition costs differently than our chosen method and, therefore, may not be directly comparable.

We depend on our senior management team and the loss of our chief executive officer or one or more key employees or an inability to attract and retain highly skilled employees could adversely affect our business.

Our success depends largely upon the continued services of our key executive officers. In particular, our chief executive officer, Robert Bemshteyn, is critical to our vision, strategic direction, culture and overall business success. We also rely on our leadership team in the areas of research and development, marketing, sales, services and general and administrative functions, and on mission-critical individual contributors in research and development. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We do not maintain key-man insurance for Mr. Bemshteyn or any other member of our senior management team. We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers or key employees could have a serious adverse effect on our business.

To execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for engineers with high levels of experience in designing and developing software for Internet-related services. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or our company have breached their legal obligations, resulting in a diversion of our time and resources. In addition, job candidates and existing employees in the San Francisco Bay Area often consider the value of the stock awards they receive in connection with their employment. If the perceived value of our stock declines, it may adversely affect our ability to recruit and retain highly skilled employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

If we cannot maintain our company culture as we grow, we could lose the innovation, teamwork, passion and focus on execution that we believe contribute to our success and our business may be harmed.

We believe that a critical component of our success has been our company culture, which is based on our core values of ensuring customer success, focusing on results and striving for excellence. We have invested substantial time and resources in building our team within this company culture. As we grow and develop the infrastructure of a public company, we may find it difficult to maintain these important aspects of our company culture. If we fail to preserve our culture, our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives could be compromised, potentially harming our business.

We have a history of cumulative losses, and we do not expect to be profitable for the foreseeable future.

We have incurred significant losses in each period since our inception in 2006. We incurred net losses of \$43.8 million, \$37.6 million and \$46.2 million in the fiscal years ended January 31, 2018, 2017 and 2016, respectively and we incurred net losses of \$9.5 million for our fiscal quarter ended October 31, 2018. We had an accumulated deficit of \$204.5 million and \$160.5 million at January 31, 2018 and 2017, respectively, and we had an accumulated deficit of \$238.1 million at October 31, 2018. Our losses and accumulated deficit reflect the substantial investments we made to acquire new customers and develop our platform. We expect our operating expenses to increase in the future due to anticipated increases in sales and marketing expenses, research and development expenses, operations costs and general and administrative costs, and, therefore, we expect our losses to continue for the foreseeable future. Furthermore, to the extent we are successful in increasing our customer base, we will also incur increased losses because costs associated with acquiring customers are generally incurred up front, while subscription revenues are generally recognized ratably over the terms of the agreements (typically three years, although some customers commit for shorter periods). You should not consider our recent growth in revenues as indicative of our future performance. Accordingly, we cannot assure you that we will achieve profitability in the future, or that, if we do become profitable, we will sustain profitability or achieve our target margins on a midterm or long term basis.

We do not have a long history with our subscription or pricing models and changes could adversely affect our operating results.

We have limited experience with respect to determining the optimal prices and contract length for our platform. As the markets for our software subscriptions grow, as new competitors introduce new products or services that compete with ours or as we enter into new international markets, we may be unable to attract new customers at the same price or based on the same pricing model as we have used historically. For example, customers may demand pricing models that include price adjustments that are correlated to the savings they realize using our products and services. While this is not and has not been our pricing model, we have discussed it with some customers in the past and may choose to implement it in the future. Moreover, regardless of pricing model used, large customers, which are the focus of our sales efforts, may demand higher price discounts than in the past. As a result, in the future we may be required to reduce our prices, offer shorter contract durations or offer alternative pricing models, which could adversely affect our revenues, gross margin, profitability, financial position and cash flow.

If we are not able to provide successful and timely enhancements, new features and modifications for our platform and modules, we may lose existing customers or fail to attract new customers and our revenues and financial performance may suffer.

If we are unable to provide enhancements and new features for our existing modules or new modules that achieve market acceptance or to integrate technology, products and services that we acquire into our platform, our business could be adversely affected. The success of enhancements, new features and modules depends on several factors, including the timely completion, introduction and market acceptance of the enhancements or new features or modules. Failure in this regard may significantly impair the growth of our revenues. We have experienced, and may in the future experience, delays in the planned release dates of enhancements to our platform, and we have discovered, and may in the future discover, errors in new releases after their introduction. Either situation could result in adverse publicity, loss of sales, delay in market acceptance of our platform or customer claims, including, among other things, warranty claims against us, any of which could cause us to lose existing customers or affect our ability to attract new customers.

We rely heavily on Amazon Web Services to deliver our platform and modules to our customers, and any disruption in service from Amazon Web Services or material change to our arrangement with Amazon Web Services could adversely affect our business.

We rely heavily upon Amazon Web Services (“AWS”) to operate certain aspects of our platform and any disruption of or interference with our use of AWS could impair our ability to deliver our platform and modules to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers and harm to our business. We have architected our software and computer systems to use data processing, storage capabilities and other services provided by AWS. Currently, our cloud service infrastructure is run on AWS. Given this, we cannot easily switch our AWS operations to another cloud provider, so any disruption of or interference with our use of AWS would adversely affect our operations and potentially our business.

AWS provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. AWS may terminate the agreement for cause with 30 days’ prior written notice, including any material default or breach of the agreement by us that we do not cure within the 30 day period. Additionally, AWS has the right to terminate the agreement immediately with notice to us in certain scenarios such as if AWS believes providing the services could create a substantial economic or technical burden or material security risk for AWS, or in order to comply with the law or requests of governmental entities. The agreement requires AWS to provide us their standard computing and storage capacity and related support in exchange for timely payment by us. If any of our arrangements with AWS were terminated, we could experience interruptions in our software as well as delays and additional expenses in arranging new facilities and services.

We utilize third-party data center hosting facilities operated by AWS, located in various facilities around the world. Our operations depend, in part, on AWS's abilities to protect these facilities against damage or interruption due to a variety of factors, including infrastructure changes, human or software errors, natural disasters, power or telecommunications failures, criminal acts, capacity constraints and similar events. For instance, in February 2017, AWS suffered a significant outage in the United States that had a widespread impact on the ability of certain of our customers to fully use our modules for a small period of time. Despite precautions taken at these data centers, the occurrence of spikes in usage volume, a natural disaster, an act of terrorism, vandalism or sabotage, a decision to close a facility without adequate notice or other unanticipated problems at a facility could result in lengthy interruptions in the availability of our platform. Even with current and planned disaster recovery arrangements, our business could be harmed. Also, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could further reduce our revenues, subject us to liability and cause us to issue credits or cause customers to fail to renew their subscriptions, any of which could harm our business.

If we are unable to maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal controls over financial reporting, which must be attested to by our independent registered public accounting firm. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. While we were able to determine the effectiveness of our internal controls over financial reporting in our management's report as of January 31, 2018, as well as provide an unqualified attestation report from our independent registered public accounting firm to that effect, in the future, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion, or otherwise assert that our internal controls are effective, and additionally, our independent registered public accounting firm may not be able to formally attest to the effectiveness of our internal controls over financial reporting.

If in the future we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal controls over financial reporting are effective or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the Securities and Exchange Commission ("SEC"), stock exchange or other regulatory authorities, which could require additional financial and management resources to address.

The loss of one or more of our key customers could negatively affect our ability to market our platform.

We rely on our reputation and recommendations from key customers in order to promote subscriptions to our platform. The loss of any of our key customers could have a significant impact on our revenues, reputation and our ability to obtain new customers. In addition, acquisitions of our customers could lead to cancellation of our contracts with those customers or by the acquiring companies, thereby reducing the number of our existing and potential customers.

If we fail to manage our technical operations infrastructure, our existing customers may experience service outages and our new customers may experience delays in the implementation of our platform.

We have experienced significant growth in the number of users, transactions and data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our operations infrastructure to meet the needs of all of our customers, as well as to facilitate the rapid provision of new customer implementations and the expansion of existing customer implementations. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our platform. However, the provision of new hosting infrastructure requires significant lead time. We have experienced, and may in the future experience, website disruptions, outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks, fraud, spikes in customer usage and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. If we do not accurately predict our infrastructure requirements, our customers may experience service outages that may subject us to financial penalties, financial liabilities and customer losses. If our operations infrastructure fails to keep pace with increased sales, customers may experience delays as we seek to obtain additional capacity, which could adversely affect our revenue as well as our reputation.

Our business could be adversely affected if our customers are not satisfied with the implementation services provided by us or our partners.

Our business depends on our ability to satisfy our customers, both with respect to our platform and modules and the professional services that are performed to help our customers use features and functions that address their business needs. Professional services may be performed by our own staff, by a third-party partner or by a combination of the two. Our strategy is to work with partners to increase the breadth of capability and depth of capacity for delivery of these services to our customers, and we expect the number of our partner-led implementations to continue to increase over time. If a customer is not satisfied with the quality of work performed by us or a partner or with the type of professional services or modules delivered, we may incur additional costs to in addressing the situation, the profitability of that work might be impaired and the customer's dissatisfaction with our services could damage our ability to expand the number of modules subscribed to by that customer. In addition, negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

We typically provide service level commitments under our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face contract terminations, which could adversely affect our revenues.

Our customer agreements typically provide service level commitments on a monthly basis. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our platform, we may be contractually obligated to provide these customers with service credits, typically 10% of the customer's subscription fees for the month in which the service level was not met, and we could face contract terminations, in which case we would be subject to refunds for prepaid amounts related to unused subscription services. Our revenues could be significantly affected if we suffer unexcused downtime under our agreements with our customers. Any extended service outages could adversely affect our reputation, revenues and operating results.

If we fail to integrate our platform with a variety of third-party technologies, our platform may become less marketable and less competitive or obsolete and our operating results may be harmed.

Our platform must integrate with a variety of third-party technologies, and we need to continuously modify and enhance our platform to adapt to changes in cloud-enabled hardware, software, networking, browser and database technologies. Any failure of our platform to operate effectively with future technologies could reduce the demand for our platform, resulting in customer dissatisfaction and harm to our business. If we are unable to respond to these changes in a cost-effective manner, our platform may become less marketable and less competitive or obsolete and our operating results may be negatively affected. In addition, an increasing number of individuals within the enterprise are utilizing mobile devices to access the Internet and corporate resources and to conduct business. If we cannot continue to effectively make our platform available on these mobile devices and offer the information, services and functionality required by enterprises that widely use mobile devices, we may experience difficulty attracting and retaining customers.

Any failure to offer high-quality technical support services may adversely affect our relationships with our customers and our financial results.

Once our modules are implemented, our customers depend on our support organization to resolve technical issues relating to our modules. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. We also may be unable to modify the format of our support services to compete with changes in support services provided by our competitors. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on our platform and business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell subscriptions to our modules to existing and prospective customers and our business, operating results and financial position.

Failure to adequately expand our direct sales force will impede our growth.

We will need to continue to expand and optimize our sales infrastructure in order to grow our customer base and our business. We plan to continue to expand our direct sales force, both domestically and internationally. Identifying and recruiting qualified personnel and training them in the use of our software requires significant time, expense and attention. It often takes six months or longer before our sales representatives are fully-trained and productive. Our business may be adversely affected if our efforts to expand and train our direct sales force do not generate a corresponding increase in revenues. In particular, if we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the expected benefits of this investment or increase our revenues.

Sales to customers outside the United States or with international operations expose us to risks inherent in international sales.

A key element of our growth strategy is to expand our international operations and develop a worldwide customer base. The combined revenues from non-U.S. regions, as determined based on the billing address of our customers, constituted 35%, 32% and 28% of our total revenues for the fiscal years ended January 31, 2018, 2017 and 2016, respectively, and constituted 37% of our total revenues for our fiscal quarter ended October 31, 2018. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks that are different from those in the United States. Because of our limited experience with international operations, our international expansion efforts may not be successful in creating additional demand for our platform outside of the United States or in effectively selling subscriptions to our platform in all of the international markets we enter. There can be no assurance that we will be able to continue to grow our combined revenues from non-U.S. regions as a percentage of our total revenues. In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- the need to localize and adapt our platform for specific countries, including translation into foreign languages and associated expenses;
- data privacy laws that require customer data to be stored and processed in a designated territory;
- difficulties in staffing and managing foreign operations and working with foreign partners;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws and business practices favoring local competitors;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- fluctuations in currency exchange rates, which could increase the price of our products outside of the United States, increase the expenses of our international operations and expose us to foreign currency exchange rate risk;
- adverse tax consequences; and
- unstable regional and economic political conditions.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international sales and operations. Our failure to manage any of these risks successfully, or to comply with these laws and regulations, could harm our operations, reduce our sales and harm our business, operating results and financial condition. For example, in certain foreign countries, particularly those with developing economies, certain business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act, may be more commonplace. Although we have policies and procedures designed to ensure compliance with these laws and regulations, our employees, contractors and agents, as well as channel partners involved in our international sales, may take actions in violation of our policies. Any such violation could have an adverse effect on our business and reputation.

Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

Weakened global economic conditions may harm our industry, business and results of operations.

Our overall performance depends in part on worldwide economic conditions. Global financial developments and downturns seemingly unrelated to us or the enterprise software industry may harm us. The United States and other key international economies have been affected from time to time by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies, and overall uncertainty with respect to the economy, including with respect to tariff and trade issues. In particular, the economies of countries in Europe have been experiencing weakness associated with high sovereign debt levels, weakness in the banking sector and uncertainty over the future of the Euro zone, including instability surrounding “Brexit,” the United Kingdom’s decision to exit the European Union. We have operations, as well as current and potential new customers, throughout most of Europe. If economic conditions in Europe and other key markets for our platform continue to remain uncertain or deteriorate further, many customers may delay or reduce their information technology spending.

The growth of our revenues and potential profitability of our business depends on demand for platform and modules generally, and business spend management specifically. In addition, our revenues are dependent on the number of users of our modules. Historically, during economic downturns there have been reductions in spending on enterprise software as well as pressure for extended billing terms or pricing discounts, which would limit our ability to grow our business and negatively affect our operating results. These conditions affect the rate of enterprise software spending and could adversely affect our customers’ ability or willingness to subscribe to our platform, delay prospective customers’ purchasing decisions, reduce the value or duration of their subscriptions or affect renewal rates, all of which could harm our operating results.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results for periods prior and subsequent to such change. For example, recent new standards issued by the FASB that could materially impact our financial statements include revenue from contracts with customers, certain improvements to employee share-based payment accounting, accounting for leases and the Convertible Notes. We may adopt one or more of these standards retrospectively to prior periods and the adoption may result in an adverse change to previously reported results. Additionally, the adoption of these standards may potentially require enhancements or changes in our systems and will require significant time and cost on behalf of our financial management.

We adopted the new revenue recognition standard on February 1, 2018 using a modified retrospective approach. One of the impacts of the new standard on us is the removal of the previous limitation on contingent revenue. In addition, commissions accounting under the new standard is significantly different than our previous capitalization policy. The new standard results in additional types of costs that are capitalized and amounts that are amortized over a period longer than our previous policy of amortizing the deferred amounts over the specific revenue contract-terms. Specifically, incremental contract costs will be deferred and amortized over an estimated customer life of five years, which is calculated based on quantitative and qualitative factors. The new standard also requires incremental disclosures including information about the remaining performance obligations. We have implemented control activities related to the new standard, particularly related to evaluating the impact of the standard on our revenue recognition policies, the determination of average customer life, and the new disclosure requirements, and did not require the implementation of new information technology systems.

The prescribed periods of adoption of these standards and other pending changes in accounting principles generally accepted in the United States, are further discussed in Note 2 “Significant Accounting Policies—Recently Adopted Accounting Pronouncements and New Accounting Pronouncements Not Yet Adopted” in the notes to our condensed consolidated financial statements.

We may face exposure to foreign currency exchange rate fluctuations, which could adversely affect our business, results of operations and financial condition.

As our international operations expand, our exposure to the effects of fluctuations in currency exchange rates grows because our international contracts are sometimes denominated in local currencies, in particular with respect to the Euro, British Pound Sterling, Swedish Krona, Swiss Franc, and Australian Dollar. Over time, an increasing portion of our international contracts may be denominated in local currencies. Therefore, as exchange rates vary, revenue, cost of revenue, operating expenses and other operating results, when re-measured, may differ materially from expectations. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Additionally, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments. Moreover, we anticipate growing our business further outside of the United States, and the effects of movements in currency exchange rates will increase as our transaction volume outside of the United States increases.

If we cannot continue to expand the use of our platform, our ability to grow our business may be harmed and the growth rate of our revenues may decline.

Our ability to grow our business depends in part on our ability to compete in the market for the additional modules on our platform, including strategic sourcing, inventory, contracts, supplier management and spend analysis. Our efforts to market these other modules is relatively new, and it is uncertain whether these other modules will ever result in significant revenues for us. While we have recently acquired businesses related to certain of these modules, there can be no assurance that these acquisitions will facilitate our efforts to market and sell these other modules. Further, the introduction of new modules beyond these markets may not be successful.

Large customers often demand more configuration and integration services, or customized features and functions that we do not offer, which could adversely affect our business and operating results.

Large customers may demand more configuration and integration services, which increase our upfront investment in sales and deployment efforts, with no guarantee that these customers will increase the scope of their subscription. As a result of these factors, we must devote a significant amount of sales support and professional services resources to individual customers, increasing the cost and time required to complete sales. Additionally, our platform does not currently permit customers to modify our code. If prospective customers require customized features or functions that we do not offer and that would be difficult for them to deploy themselves, then the market for our platform will be more limited and our business could suffer.

If our platform fails to perform properly, our reputation could be adversely affected, our market share could decline and we could be subject to liability claims.

Our platform is inherently complex and may contain material defects or errors. Any defects in functionality or that cause interruptions in the availability of our platform could result in:

- loss or delayed market acceptance and sales;
- breach of warranty claims;
- sales credits or refunds for prepaid amounts related to unused subscription services;
- loss of customers;
- diversion of development and customer service resources; and
- injury to our reputation.

The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results.

Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our systems could result in data loss or corruption or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. Furthermore, the availability or performance of our platform could be adversely affected by a number of factors, including customers' inability to access the Internet, failure of our network or software systems, security breaches or variability in user traffic for our platform. We may be required to issue credits or refunds for prepaid amounts related to unused services or otherwise be liable to our customers for damages they incur resulting from certain of these events. For example, our customers access our modules through their Internet service providers. If a service provider fails to provide sufficient capacity to support our modules or otherwise experiences service outages, such failure could interrupt our customers' access to our modules and adversely affect their perception of our modules' reliability. In addition to potential liability, if we experience interruptions in the availability of our platform, our reputation could be adversely affected and we could lose customers.

Our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover all claims made against us and defending a suit, regardless of its merit, could be costly and divert management's attention.

Our growth depends in part on the success of our strategic relationships with third parties.

We have established strategic relationships with a number of other companies. In order to grow our business, we anticipate that we will continue to establish and maintain relationships with third parties, such as implementation partners, system integrator partners and technology providers. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our services. In addition, acquisitions of our partners by our competitors could result in a decrease in the number of our current and potential customers, as our partners may no longer facilitate the adoption of our platform by potential customers.

If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results could suffer. Even if we are successful in our strategic relationships, we cannot assure you that these relationships will result in increased customer usage of our platform or increased revenues.

Our estimates of market opportunity and forecasts of market growth that we have publicly disclosed may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Our estimates and forecasts relating to the size and expected growth of our market that we have publicly disclosed may prove to be inaccurate. Even if the market in which we compete meets our size estimates and forecasted growth, our business could fail to grow at similar rates.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part upon our intellectual property. We primarily rely on copyright, patent, trade secret and trademark laws, trade secret protection and confidentiality or contractual agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate.

In order to protect our intellectual property rights, we may be required to expend significant resources to monitor and protect such rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could seriously adversely affect our brand and our business.

Our platform utilizes open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

Our platform utilizes software governed by open source licenses, including for example the MIT License and the Apache License. The terms of various open source licenses have not been interpreted by United States courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our platform. By the terms of certain open source licenses, if we combine our proprietary software with open source software in a certain manner, we could be required to release the source code of our proprietary software and make it available under open source licenses. In the event that portions of our proprietary software are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, or to re-engineer all or a portion of our technologies or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and services. In addition to risks related to license requirements, the use of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with the use of open source software cannot be eliminated and could negatively affect our business.

We employ third-party licensed software for use in or with our platform, and the inability to maintain these licenses or errors in the software we license could result in increased costs, or reduced service levels, which could adversely affect our business.

Our platform incorporates certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools from third parties in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of the software used in our platform with new third-party software may require significant work and require substantial investment of our time and resources. Also, to the extent that our platform depends upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software could prevent the deployment or impair the functionality of our platform, delay new module introductions, result in a failure of our modules and injure our reputation. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties.

We have incurred and will continue to incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC and the Nasdaq Global Select Market, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Compliance with these requirements has increased our legal and financial compliance costs and made some activities more time consuming and costly. In addition, our management and other personnel need to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we are incurring significant expenses and devoting substantial management effort toward ensuring ongoing compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, which have increased now that we are no longer an emerging growth company, as defined by the JOBS Act. We have hired and may need to continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and maintain an internal audit function. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

We have funded our operations since inception primarily through equity and debt financings and prepayments by customers. We do not know when or if our operations will generate sufficient cash to fund our ongoing operations. In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions, a decline in the level of customer prepayments or unforeseen circumstances and may determine to engage in equity or debt financings or enter into credit facilities for other reasons, and we may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock or our outstanding noteholders. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Our customers may fail to pay us in accordance with the terms of their agreements, necessitating action by us to compel payment.

We typically enter into multiple year, non-cancelable arrangements with our customers. If customers fail to pay us under the terms of our agreements, we may be adversely affected both from the inability to collect amounts due and the cost of enforcing the terms of our contracts, including litigation. The risk of such negative effects increases with the term length of our customer arrangements. Furthermore, some of our customers may seek bankruptcy protection or other similar relief and fail to pay amounts due to us, or pay those amounts more slowly, either of which could adversely affect our operating results, financial position and cash flow.

Contractual disputes with our customers could be costly, time-consuming and harm our reputation.

Our business is contract intensive and we are party to contracts with our customers all over the world. Our contracts can contain a variety of terms, including service levels, security obligations, indemnification and regulatory requirements. Contract terms may not always be standardized across our customers and can be subject to differing interpretations, which could result in disputes with our customers from time to time. If our customers notify us of a contract breach or otherwise dispute our contract, the resolution of such disputes in a manner adverse to our interests could negatively affect our operating results.

Pursuant to agreements with certain of our customers, we have placed, and in the future may be required to place in escrow the source code of some of our modules. Under these escrow arrangements, the source code pertaining to the modules may, in specified circumstances, be made available to our customers. This factor may increase the likelihood of misappropriation or other misuse of our modules.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or terrorism.

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or flood, occurring at our headquarters, at one of our other facilities or where a business partner is located could adversely affect our business, results of operations and financial condition. Further, if a natural disaster or man-made problem were to affect Internet service providers, this could adversely affect the ability of our customers to use our products and platform. Although we maintain incident management and disaster response plans, in the event of a major disruption caused by a natural disaster or man-made problem, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our development activities, lengthy interruptions in service, breaches of data security and loss of critical data, any of which could adversely affect our business, results of operations and financial condition.

We are subject to the tax laws of various jurisdictions, which are subject to unanticipated changes and to interpretation, which could harm our future results.

We are subject to income taxes in the United States and foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, the valuation of deferred tax assets and liabilities, and changes in federal, state, or international tax laws and accounting principles.

Further, each jurisdiction has different rules and regulations governing sales and use, value added, and similar taxes, and these rules and regulations are subject to varying interpretations that change over time. Certain jurisdictions in which we did not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties, and interest, and we may be required to collect such taxes in the future. In addition, we may be subject to income tax audits by many tax jurisdictions throughout the world, many of which have not established clear guidance on the tax treatment of cloud-based companies. Any tax assessments, penalties, and interest, or future requirements may adversely affect our results of operations. Moreover, imposition of such taxes on us going forward would effectively increase the cost of our products to our customers and might adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

In addition, the application of the tax laws of various jurisdictions, including the United States, to our international business activities is subject to interpretation and depends on our ability to operate our business in a manner consistent with our corporate structure. As we operate in numerous taxing jurisdictions, the application of tax laws can also be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions.

On December 22, 2017, the U.S. government enacted comprehensive federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). The Tax Act makes changes to the corporate tax rate, business-related deductions and taxation of foreign earnings, among others, that will generally be effective for taxable years beginning after December 31, 2017. These changes could have a material adverse impact on the value of our U.S. deferred tax assets, result in significant one-time charges in the current or future taxable years and increase our future U.S. tax expense. For example, while the Tax Act allows for federal net operating losses incurred in tax years beginning prior to December 31, 2017 to be carried forward indefinitely, the Tax Act also imposes an 80% limitation on the use of net operating losses that are generated in tax years beginning after December 31, 2017. We are continuing to evaluate the Tax Act and its requirements, as well as its application to our business and its impact on our effective tax rate. At this stage, it is unclear how many U.S. states will incorporate these federal law changes, or portions thereof, into their tax codes. The implementation by us of new practices and processes designed to comply with, and benefit from, the Tax Act and its rules and regulations could require us to make substantial changes to our business practices, allocate additional resources, and increase our costs, which could negatively affect our business, results of operations and financial condition.

We may not be able to utilize a significant portion of our net operating loss or research tax credit carryforwards, which could adversely affect our potential profitability.

We have federal and state net operating loss carryforwards due to prior period losses, which if not utilized will begin to expire in 2026 and 2029 for federal and state purposes, respectively. These net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our potential profitability.

In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an “ownership change.” Such an “ownership change” generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. As of our initial public offering and our subsequent follow-on offering we have not had an ownership change that has triggered any material limitation on the use of our tax attributes for purposes of Section 382 of the Code. Subsequent changes in our stock ownership, however, could cause an “ownership change.” It is possible that an ownership change, or any future ownership change, could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our potential profitability.

We have incurred substantial indebtedness that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur substantially more debt, which may adversely affect our operations and financial results.

In January 2018, we issued \$230 million aggregate principal amount of 0.375% convertible senior notes due 2023, or the Convertible Notes. Our indebtedness may:

- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

Further, the indenture governing the Convertible Notes does not restrict our ability to incur additional indebtedness and we and our subsidiaries may incur substantial additional indebtedness in the future, subject to the restrictions contained in any future debt instruments existing at the time, some of which may be secured indebtedness.

Servicing our debt will require a significant amount of cash. We may not have sufficient cash flow from our business to pay our substantial debt, and we may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes in cash or to repurchase the Convertible Notes upon a fundamental change, which could adversely affect our business and results of operations.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness, including the amounts payable under the Convertible Notes, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our indebtedness and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Further, holders of the Convertible Notes have the right to require us to repurchase all or a portion of their Convertible Notes upon the occurrence of a “fundamental change” (as defined in the indenture governing the Convertible Notes (the “indenture”)) before the maturity date at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Convertible Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Convertible Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Convertible Notes surrendered therefor or pay cash with respect to Convertible Notes being converted.

The conditional conversion feature of the Convertible Notes, when triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Convertible Notes is triggered, holders of the Convertible Notes will be entitled to convert their Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. As disclosed in Note 9 of notes to our condensed consolidated financial statements, the conditional conversion feature was triggered as of October 31, 2018, and the Convertible Notes are currently convertible at the option of the holders as of October 31, 2018 through January 31, 2019.

In addition, even if holders of Convertible Notes do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital. As disclosed in Note 9 of notes to our condensed consolidated financial statements, because the conditional conversion feature was triggered as of October 31, 2018, the Convertible Notes have remained classified as current liabilities on the condensed consolidated balance sheet as of October 31, 2018.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options (“ASC 470-20”), an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Convertible Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Convertible Notes. As a result, we will be required to record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the Convertible Notes to their face amount over the term of the Convertible Notes. We will report larger net losses (or lower net income) in our financial results because ASC 470-20 will require interest to include both the amortization of the debt discount and the instrument’s non-convertible coupon interest rate, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Convertible Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Convertible Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable or otherwise elect not to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share could be adversely affected.

The capped call transactions may affect the value of the Convertible Notes and our common stock.

In connection with the pricing of the Convertible Notes, we entered into capped call transactions with certain financial institutions. The capped call transactions are expected generally to reduce or offset the potential dilution upon conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Convertible Notes, as the case may be, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, these financial institutions or their respective affiliates likely purchased shares of our common stock and/or entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Convertible Notes. These financial institutions or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions following the pricing of the Convertible Notes and prior to the maturity of the Convertible Notes (and are likely to do so during any observation period related to a conversion of Convertible Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Convertible Notes.

The potential effect, if any, of these transactions and activities on the price of our common stock or the Convertible Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock.

Conversion of the Convertible Notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their Convertible Notes, or may otherwise depress the price of our common stock.

The conversion of some or all of the Convertible Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares of our common stock upon conversion of any of the Convertible Notes. The Convertible Notes are currently convertible and may from time to time in the future be convertible at the option of their holders prior to their scheduled terms under certain circumstances. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the Convertible Notes could be used to satisfy short positions, or anticipated conversion of the Convertible Notes into shares of our common stock could depress the price of our common stock.

Risks Related to Ownership of Our Common Stock

Our stock price has been subject to fluctuations, and will likely continue to be subject to fluctuations and decline, due to factors beyond our control and you may lose all or part of your investment.

The market price of our common stock is subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors, as well as the volatility of our common stock, could affect the price at which our convertible noteholders could sell the common stock received upon conversion of the Convertible Notes and could also impact the trading price of the Convertible Notes. Since shares of our common stock were sold in our initial public offering in October 2016 at a price of \$18.00 per share, the reported high and low sales prices of our common stock has ranged from \$22.50 to \$84.53 through October 31, 2018. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- the overall performance of the equity markets;
- our operating performance and the performance of other similar companies;
- changes in our projected operating results and key metrics that we provide to the public, our failure to meet or exceed these projections or changes in recommendations by securities analysts that elect to follow our common stock;

- announcements of technological innovations, pricing changes, new software or enhancements to services, acquisitions, strategic alliances or significant agreements by us or by our competitors;
- disruptions in our services due to computer hardware, software or network problems;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- the economy as a whole, market conditions in our industry and the industries of our customers;
- extraordinary expenses such as litigation or other dispute-related expenses or settlement payments;
- the size of our market float; and
- any other factors discussed in this quarterly report.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business.

Sales of a substantial number of shares of our common stock in the public market, or the perception that they might occur, could cause the price of our common stock to decline.

The price of our common stock could decline if there are substantial sales of our common stock, particularly sales by our directors, executive officers, and significant stockholders. The shares held by these persons may be sold in the public market in the United States, subject to prior registration in the United States, if required, or reliance upon an exemption from United States registration, including, in the case of shares held by affiliates or control persons, compliance with the volume restrictions of Rule 144. In addition, certain of our significant stockholders that are venture capital funds have in the past and may in the future instead choose to distribute shares of our common stock to their limited partners who may at some point sell these shares in the open market. In addition, some of our executive officers have entered into Rule 10b5-1 trading plans under which they have contracted with a broker to sell shares of our common stock on a periodic basis.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, for whatever reason, could cause the market price of our common stock to decline or make it more difficult for our stockholders to sell their common stock at a time and price that they deem appropriate and could impair our ability to raise capital through the sale of additional equity or equity linked securities. Certain of our stockholders have rights, subject to some conditions, to require us to file registration statements covering their shares to include their shares in registration statements that we may file for ourselves or our stockholders, subject to market standoff and lockup agreements. The market price of our common stock and the trading price of the Convertible Notes could decline as a result of the sale of a substantial number of shares of our common stock in the public market or the perception in the market that the holders of a large number of stockholders intend to sell their shares. In addition, we have filed a registration statement to register shares reserved for future issuance under our equity compensation plans. Subject to the satisfaction of applicable exercise periods and, in the case of shares held by affiliates or control persons, compliance with the volume restrictions of Rule 144, the shares issued upon exercise of outstanding stock options, settlement of outstanding restricted stock units, or conversion of the Convertible Notes into common stock will be available for immediate resale in the United States in the open market.

We have also reserved a substantial amount of shares of our common stock in connection with awards issued under our equity incentive plans and upon conversion of the Convertible Notes, the issuance of which will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such issuance or conversion could adversely affect prevailing market prices of our common stock.

We are unable to predict the effect that sales, or the perception that our shares may be available for sale, will have on the prevailing market price of our common stock and the trading price of the Convertible Notes.

If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If industry analysts cease coverage of us, the trading price for our common stock and the trading price of the Convertible Notes will be negatively affected. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price and the trading price of the Convertible Notes will likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume, and the trading price of the Convertible Notes, to decline.

In addition, independent industry analysts, such as Gartner and Forrester, often provide reviews of our products and platform capabilities, as well as those of our competitors, and perception of our offerings in the marketplace may be significantly influenced by these reviews. We have no control over what these industry analysts report, and because industry analysts may influence current and potential customers, our brand could be harmed if they do not provide a positive review of our products and platform capabilities or view us as a market leader.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Consequently, stockholders, including holders of our Convertible Notes who receive shares of our common stock upon conversion of the Convertible Notes, must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Delaware law, provisions in our amended and restated certificate of incorporation (“Restated Certificate”) and amended and restated bylaws (“Restated Bylaws”), and provisions in the indenture for our Convertible Notes could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock and Convertible Notes.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our Restated Certificate and Restated Bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- the requirement of a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders be called only by a majority vote of our entire board of directors, the chairman of our board of directors or our chief executive officer, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including to remove directors;
- the requirement for the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then-outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our Restated Certificate relating to the management of our business or our Restated Bylaws, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders’ meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror’s own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

A Delaware corporation may opt out of this provision by express provision in its original certificate of incorporation or by amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out of this provision.

In addition, if a fundamental change occurs prior to the maturity date of the Convertible Notes, holders of the Convertible Notes will have the right, at their option, to require us to repurchase all or a portion of their Convertible Notes. If a “make-whole fundamental change” (as defined in the indenture) occurs prior the maturity date, we will in some cases be required to increase the conversion rate of the Convertible Notes for a holder that elects to convert its Convertible Notes in connection with such make-whole fundamental change. Furthermore, the indenture prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Convertible Notes.

These and other provisions in our Restated Certificate, Restated Bylaws, Convertible Notes, indenture and in Delaware law could deter or prevent a third party from acquiring us or could make it more difficult for stockholders or potential acquirors to obtain control of our board of directors or initiate actions that are opposed by our then-current board of directors, including to delay or impede a merger, tender offer, or proxy contest involving our company. The existence of these provisions could negatively affect the price of our common stock and the trading price of the Convertible Notes and limit opportunities for you to realize value in a corporate transaction.

Our Restated Certificate provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our Restated Certificate provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our Restated Certificate or our Restated Bylaws or any action asserting a claim against us that is governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees and may discourage these types of lawsuits. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we might incur additional costs associated with resolving such action in other jurisdictions.

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

On October 12, 2018, we closed our acquisition of Vinimaya, Inc. (d/b/a Aquire) pursuant to which we approved the issuance of 300,560 shares of our common stock (subject to holdback provisions). This transaction was exempt from registration under the Securities Act pursuant to Section 4(a)(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

We have filed the exhibits listed on the accompanying Exhibit Index, which is incorporated herein by reference.

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
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.				
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.				
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.				
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.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				

* Filed herewith.

† The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Coupa Software Incorporated under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

Coupa Software Incorporated

Date: December 10, 2018

By: _____
Robert Bernshteyn
Chief Executive Officer, Director
and Chairman of the Board
(Principal Executive Officer)

Date: December 10, 2018

By: _____
Todd Ford
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Bernshteyn, certify that:

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

Date: December 10, 2018

By: /s/ Robert Bernshteyn
Name: **Robert Bernshteyn**
Title: **Chief Executive Officer
and Chairman of the Board
(Principal Executive Officer)**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Todd Ford, certify that:

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

Date: December 10, 2018

By: /s/ Todd Ford

Name: **Todd Ford**

Title: **Chief Financial Officer
(Principal Financial Officer)**

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

I, Robert Bernshteyn, Chief Executive Officer of Coupa Software Incorporated (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The quarterly report on Form 10-Q for the Company for the quarter ended October 31, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: December 10, 2018

By: /s/ Robert Bernshteyn
Name: **Robert Bernshteyn**
Title: **Chief Executive Officer
and Chairman of the Board
(Principal Executive Officer)**

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

I, Todd Ford, Chief Financial Officer of Coupa Software Incorporated (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The quarterly report on Form 10-Q for the Company for the quarter ended October 31, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: December 10, 2018

By: /s/ Todd Ford
Name: **Todd Ford**
Title: **Chief Financial Officer
(Principal Financial Officer)**