NEW RELIC, INC.
Form 10-Q
February 07, 2018

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-36766

New Relic, Inc.
(Exact name of registrant as specified in its charter)

Delaware	26-2017431
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

188 Spear Street, Suite 1200
San Francisco, California 94105
(Address of principal executive offices, including zip code)
(650) 777-7600
(Registrant's telephone number, including area code)

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ý No ¨

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Smaller reporting company
Emerging growth company		

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

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

As of January 26, 2018, there were 55,441,340 shares of the registrant’s common stock, par value $0.001 per share, outstanding.

NEW RELIC, INC.
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Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to “New Relic,” “we,” “Company,” “us,” and “our” refer to New Relic, Inc. and its wholly owned subsidiaries. “New Relic,” the New Relic logo, and other trademarks or service marks of New Relic that may appear in this Quarterly Report on Form 10-Q are the property of the Company. This Quarterly Report on Form 10-Q contains additional trade names, trademarks, and service marks of other companies. The Company does not intend its use or display of other companies’ trade names, trademarks, or service marks to imply a relationship with, or endorsement or sponsorship of the Company by, these other companies, and all such third-party trade names, trademarks, and service marks are the property of their respective owners.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “would,” “shall,” “might,” “expects,” “plans,” “anticip “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the n these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our revenue, cost of revenue, gross profit, gross margin, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain GAAP (as defined below) and non-GAAP profitability;
- use of non-GAAP financial measures;
- the sufficiency of our cash and cash equivalents to meet our working capital, capital expenditure, and liquidity needs;
- our ability to attract and retain customers to use our products, to optimize the pricing for our products, to expand our sales to our customers, and to convince our existing customers to renew subscriptions;
- the evolution of technologies affecting our products and markets;
- our ability to innovate and provide a superior user experience and our intentions and strategy with respect thereto;
- our ability to successfully penetrate enterprise markets;
- our ability to successfully expand in our existing markets and into new markets, including international markets;
- the attraction and retention of key personnel;
- our ability to effectively manage our growth and future expenses;
- our ability to maintain, protect, and enhance our intellectual property;
- worldwide economic conditions and their impact on spending; and
- our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations.

We caution you that the foregoing list does not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the sections titled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NEW RELIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	December 31, 2017	March 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$125,237	$88,305
Short-term investments	107,799	118,101
Accounts receivable, net of allowance for doubtful accounts of $1,075 and $1,117, respectively	52,676	62,032
Prepaid expenses and other current assets	9,431	8,169
Total current assets	295,143	276,607
Property and equipment, net	52,572	50,728
Restricted cash	8,202	8,115
Goodwill	11,828	11,828
Intangible assets, net	1,508	2,499
Other assets	5,740	2,492
Total assets	$374,993	$352,269
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$3,737	$6,522
Accrued compensation and benefits	18,092	15,935
Other current liabilities	6,904	7,607
Deferred revenue	134,889	125,269
Total current liabilities	163,622	155,333
Deferred rent, non-current	8,159	8,272
Deferred revenue, non-current	453	1,135
Other liabilities, non-current	709	685
Total liabilities	172,943	165,425
Commitments and contingencies (Note 5)		
Stockholders’ equity:		
Common stock, $0.001 par value; 100,000 shares authorized at December 31, 2017 and March 31, 2017; 55,657 shares and 53,539 shares issued at December 31, 2017 and March 31, 2017, respectively; and 55,397 shares and 53,279 shares outstanding at December 31, 2017 and March 31, 2017, respectively	56	53
Treasury stock - at cost (260 shares)	(263)	(263)
Additional paid-in capital	501,004	447,314
Accumulated other comprehensive loss	(229)	(96)
Accumulated deficit	(298,518)	(260,164)
Total stockholders’ equity	202,050	186,844
Total liabilities and stockholders’ equity	$374,993	$352,269

See notes to condensed consolidated financial statements.

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NEW RELIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Revenue	$91,827	$68,096	$256,610	$190,143
Cost of revenue	15,671	12,627	46,342	36,060
Gross profit	76,156	55,469	210,268	154,083
Operating expenses:				
Research and development	18,154	14,377	54,686	45,087
Sales and marketing	51,393	43,458	152,015	122,626
General and administrative	14,596	11,578	42,843	32,647
Total operating expenses	84,143	69,413	249,544	200,360
Loss from operations	(7,987)	(13,944)	(39,276)	(46,277)
Other income (expense):				
Interest income	534	325	1,503	796
Interest expense	(21)	(21)	(64)	(63)
Other income (expense), net	(45)	(280)	117	(517)
Loss before income taxes	(7,519)	(13,920)	(37,720)	(46,061)
Income tax provision (benefit)	210	(37)	634	23
Net loss	$(7,729)	$(13,883)	$(38,354)	$(46,084)
Net loss per share, basic and diluted	$(0.14)	$(0.27)	$(0.70)	$(0.90)
Weighted-average shares used to compute net loss per share, basic and diluted	55,196	52,328	54,534	51,297

See notes to condensed consolidated financial statements.

NEW RELIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net loss	$(7,729)	$(13,883)	$(38,354)	$(46,084)
Other comprehensive loss:				
Unrealized loss on available-for-sale securities, net of tax	(135)	(86)	(133)	(87)
Comprehensive loss	$(7,864)	$(13,969)	$(38,487)	$(46,171)

See notes to condensed consolidated financial statements.

NEW RELIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net loss:	$(38,354)	$(46,084)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	17,306	13,356
Stock-based compensation expense	29,778	23,719
Other	498	822
Changes in operating assets and liabilities:		
Accounts receivable	9,223	(6,478)
Prepaid expenses and other assets	(4,438)	(1,651)
Accounts payable	(829)	1,125
Accrued compensation and benefits and other liabilities	2,475	3,307
Deferred revenue	8,938	18,169
Deferred rent	(504)	3,052
Net cash provided by operating activities	24,093	9,337
Cash flows from investing activities:		
Purchases of property and equipment	(17,577)	(16,601)
Increase in restricted cash	(87)	—
Purchases of short-term investments	(78,074)	(116,285)
Proceeds from sale and maturity of short-term investments	88,232	126,113
Capitalized software development costs	(3,054)	(3,075)
Net cash used in investing activities	(10,560)	(9,848)
Cash flows from financing activities:		
Proceeds from employee stock purchase plan	3,029	2,504
Proceeds from exercise of employee stock options	20,370	12,263
Net cash provided by financing activities	23,399	14,767
Net increase in cash and cash equivalents	36,932	14,256
Cash and cash equivalents, beginning of period	88,305	65,914
Cash and cash equivalents, end of period	$125,237	$80,170
Supplemental disclosure of cash flow information:		
Cash paid for interest and income taxes	$358	$226
Noncash investing and financing activities:		
Property and equipment purchased but not yet paid	$256	$2,534

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1.Description of Business and Summary of Significant Accounting Policies
Description of Business—New Relic, Inc. (the "Company" or "New Relic") was founded in 2007 and incorporated in Delaware on February 20, 2008. The Company is a software-as-a-service provider of digital intelligence products that allow users to monitor software and infrastructure performance and measure end-user activities across desktop and mobile devices with applications deployed in the cloud or in a data center. New Relic's digital intelligence products and platform capabilities enable software developers, IT operations, and business users to better understand their digital business.
Basis of Presentation—These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("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. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017, as filed with the SEC on May 18, 2017 (the "Annual Report"). There have been no changes to the Company's significant accounting policies described in the Annual Report that have had a material impact on its condensed consolidated financial statements and related notes.
In the opinion of management, the 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 of operations to be anticipated for the full fiscal year ending March 31, 2018. The condensed consolidated balance sheet as of March 31, 2017 included herein was derived from the audited financial statements as of that date.
Use of Estimates—The preparation of the Company's condensed 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 at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management's estimates.
Concentration of Risk—There were no customers that represented more than 10% of the Company's accounts receivable balance as of December 31, 2017. One customer represented 12% of the Company's accounts receivable balance as of March 31, 2017. There were no customers that individually exceeded 10% of the Company's revenue during the three and nine months ended December 31, 2017 or 2016.
Short-term Investments—Short-term investments consist of commercial paper, certificates of deposit, U.S. treasury securities, U.S. agency securities, and corporate debt securities and are classified as available-for-sale securities. The Company has classified its investments as current based on the nature of the investments and their availability for use in current operations. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income, while realized gains and losses are reported within the statement of operations. The Company reviews its debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer, and the Company's intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's amortized-cost basis. If the Company determines that an other-than-temporary decline exists in one of these securities, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized as other income, net in the condensed consolidated statement of operations. Any portion not related to credit loss would be included in accumulated other comprehensive income (loss). The Company did not identify any investments as other-than-temporarily impaired as of December 31, 2017 and March 31, 2017.

Business Combinations—The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company’s condensed consolidated statements of operations. There has been no such adjustment as of December 31, 2017.

Goodwill—Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is evaluated for impairment annually in the third quarter of the Company’s fiscal year, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of goodwill or a significant decrease in expected cash flows. Since inception through December 31, 2017, the Company has not had any goodwill impairment.

Intangible Assets—Intangible assets consist of identifiable intangible assets, primarily developed technology, resulting from the Company’s acquisitions. Acquired intangible assets are recorded at cost, net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance provides principles for recognizing revenue to which an entity expects to be entitled for the transfer of promised goods or services to customers. The new guidance will be effective for the Company in its fiscal year beginning April 1, 2018. The guidance may be applied retrospectively to each prior period presented (full retrospective method), or with the cumulative effect recognized as of the date of initial adoption (modified retrospective method). The Company currently intends to adopt Topic 606 using the modified retrospective approach in the first quarter of fiscal year 2019. As the Company continues to assess the new standard along with industry trends and internal progress, the Company may adjust its implementation plan accordingly.

The Company anticipates that the significant impacts of adopting Topic 606 will include the deferral of incremental commission costs of obtaining contracts and additional disclosure requirements. Currently, the Company records commissions as sales and marketing expenses as incurred. Under the new standard, the Company will capitalize incremental commissions related to initial contracts over the expected period of benefit. The Company has not yet concluded the amortization period of these capitalized costs, which will affect the classification and magnitude of the deferred costs at each reporting period. The Company will continue to quantify the effects of adopting Topic 606 on its condensed consolidated financial statements, including the impact on its revenue as well as the changes discussed above.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard will be effective for the Company in the fiscal year beginning April 1, 2019; early adoption is permitted. The amendments require a modified retrospective approach with optional practical expedients. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted this standard in the first quarter of fiscal year 2018. Upon adoption, the Company recognized all of the previously unrecognized excess tax benefits related to stock awards using the modified retrospective transition method. These excess tax benefits, recognized upon adoption, were recorded as a deferred tax asset, which was then fully offset by the U.S. federal and state deferred tax asset valuation allowance resulting in no impact to the accumulated deficit.

Without the valuation allowance, the Company’s deferred tax asset would have increased by $39.5 million. All future excess tax benefits resulting from the settlement of stock awards will be recorded to the income tax provision.
In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The updated guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The measurement of credit losses for newly recognized financial assets and subsequent changes in the allowance for credit losses are recorded in the statement of income. The update to the standard will be effective for the Company in the fiscal year beginning April 1, 2020; early adoption is permitted in the fiscal

year beginning April 1, 2019. The Company is currently evaluating the effect the standard will have on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will be effective for the Company in its fiscal year beginning April 1, 2018. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

2. Fair Value Measurements

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2017 and March 31, 2017 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$42,280	$—	$ —	$42,280
Commercial paper	—	6,486	—	6,486
U.S. treasury securities	2,997	—	—	2,997
U.S. government agencies	—	3,925	—	3,925
Short-term investments:				
Certificates of deposit	—	25,601	—	25,601
Commercial paper	—	12,648	—	12,648
Corporate notes and bonds	—	15,837	—	15,837
U.S. treasury securities	18,937	—	—	18,937
U.S. government agencies	—	34,776	—	34,776
Restricted cash:				
Money market funds	8,202	—	—	8,202
Total	$72,416	$99,273	$ —	$171,689
Included in cash and cash equivalents				$55,688
Included in short-term investments				$107,799
Included in restricted cash				$8,202

	Fair Value Measurements as of March 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$36,180	$—	$ —	$36,180
Commercial paper	—	5,441	—	5,441
U.S. government agencies	—	2,600	—	2,600
Short-term investments:				
Certificates of deposit	—	28,210	—	28,210
Commercial paper	—	10,549	—	10,549
Corporate notes and bonds	—	17,378	—	17,378
U.S. treasury securities	11,276	—	—	11,276
U.S. government agencies	—	50,688	—	50,688
Restricted cash:				
Money market funds	8,115	—	—	8,115
Total	$55,571	$114,866	$ —	$170,437

Included in cash and cash equivalents	$44,221
Included in short-term investments	$118,101
Included in restricted cash	$8,115

There were no transfers between fair value measurement levels during the nine months ended December 31, 2017 and 2016.
Gross unrealized gains or losses for cash equivalents and short-term investments as of December 31, 2017 and March 31, 2017 were not significant. As of December 31, 2017 and March 31, 2017, there were no securities that were in an unrealized loss position for more than 12 months.
The following table classifies the Company's available-for-sale short-term investments by contractual maturities as of December 31, 2017 and March 31, 2017 (in thousands):

	December 31, 2017	March 31, 2017
Due within one year	$92,163	$92,874
Due in one to two years	15,636	25,227
Total	$107,799	$118,101

For certain other financial instruments, including accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

3. Property and Equipment

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

	December 31, 2017	March 31, 2017
Computers, software, and equipment	$8,023	$7,060
Site operation equipment	36,396	25,874
Furniture and fixtures	2,375	1,770
Leasehold improvements	31,943	30,586
Capitalized software development costs	36,199	32,618
Total property and equipment	114,936	97,908
Less: accumulated depreciation and amortization	(62,364)	(47,180)
Total property and equipment, net	$52,572	$50,728

Depreciation and amortization expense related to property and equipment was $5.5 million and $4.6 million for the three months ended December 31, 2017 and 2016, respectively, and $16.3 million and $12.6 million for the nine months ended December 31, 2017 and 2016, respectively.

4. Goodwill and Purchased Intangibles Assets

There were no changes to the carrying amount of goodwill for the nine months ended December 31, 2017.
Purchased intangible assets subject to amortization as of December 31, 2017 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 4,900	$ (3,392)	$ 1,508

Purchased intangible assets subject to amortization as of March 31, 2017 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 4,900	$ (2,401)	$ 2,499

Amortization expense of purchased intangible assets was $0.2 million and $0.2 million for the three months ended December 31, 2017 and 2016, respectively, and $1.0 million and $0.7 million for the nine months ended December 31, 2017 and 2016, respectively.

Estimated future amortization expense as of December 31, 2017 is as follows (in thousands):

Fiscal Years Ending March 31,	Estimated Future Amortization Expense
2018 (remaining 3 months)	$ 196
2019	787
2020	525
	$ 1,508

5. Commitments and Contingencies

Leases—The Company leases office space under non-cancelable operating lease agreements, which expire from 2018 through 2027.

On November 1, 2017, the Company entered into a lease amendment (the "Amendment") with 188 Spear Street LLC, the landlord of the building which is located at 188 Spear Street, San Francisco, California, to early renew and extend the term of its current operating lease through July 2027. The landlord has agreed to provide the Company with a construction allowance of approximately $2.6 million.

Deferred Rent—Certain of the Company's operating leases contain rent holidays, allowances, and rent escalation provisions. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease from the date the Company takes possession of the office and records the difference between amounts charged to operations and amounts paid as deferred rent. These rent holidays, allowances, and rent escalations are considered in determining the straight-line expense to be recorded over the lease term. As of December 31, 2017 and March 31, 2017, $8.9 million and $9.2 million was recorded as deferred rent, respectively.

Rent expense, net of sublease income, for operating leases was $3.1 million and $2.4 million for the three months ended December 31, 2017 and 2016, respectively, and $8.4 million and $7.3 million for the nine months ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2017 were as follows (in thousands):

Fiscal Years Ending March 31,	Operating Leases
2018 (remaining 3 months)	$ 3,357
2019	13,088
2020	14,339
2021	14,601
2022	14,739
Thereafter	59,507
Total minimum future lease payments	$ 119,631

Purchase Commitments—As of December 31, 2017 and March 31, 2017, the Company had purchase commitments of $24.7 million and $29.9 million, respectively, primarily related to hosting services.

Legal Proceedings—From time to time, the Company may become involved in various legal proceedings in the ordinary course of its business, and may be subject to third-party infringement claims.

On November 5, 2012, CA, Inc. filed suit against the Company in the United States District Court, Eastern District of New York for alleged patent infringement. CA, Inc.'s complaint against the Company claims that certain aspects of the Company's products infringe certain patents held by CA, Inc. Discovery is complete in the case, and the court has ruled on summary judgment motions filed by both parties. A trial date has not been set as of December 31, 2017. The Company cannot at this time predict the likely outcome of this proceeding or estimate the amount or range of loss or possible loss that may arise from it. The Company has not accrued any loss related to the outcome of this case as of December 31, 2017.

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In the normal course of business, the Company may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that the Company's products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. To date, the Company has not incurred any costs as a result of such obligations and has not accrued any liabilities related to such obligations in the condensed consolidated financial statements. In addition, the Company indemnifies its officers, directors, and certain key employees while they are serving in good faith in their respective capacities. The Company does not currently believe there is a reasonable possibility that a loss may have been incurred under these indemnification obligations. To date, there have been no claims under any such indemnification provisions.

6. Common Stock and Stockholders' Equity

Employee Stock Purchase Plan—The Company's board of directors adopted, and the Company's stockholders approved, the Company's 2014 Employee Stock Purchase Plan (the "ESPP"), which became effective in December 2014. The ESPP initially reserved and authorized the issuance of up to 1,000,000 shares of common stock. The ESPP provides that the number of shares reserved and available for issuance under the ESPP automatically increases each April, beginning on April 1, 2015, by the lesser of 500,000 shares, 1% of the number of the Company's common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company's board of directors. For each of the three and nine months ended December 31, 2017, 101,493 shares of common stock were purchased under the ESPP. For each of the three and nine months ended December 31, 2016, 118,658 shares of common stock were purchased under the ESPP. Stock-based compensation expense recognized related to the ESPP was $0.6 million and $0.5 million for the three months ended December 31, 2017 and 2016, respectively, and $1.6 million and $1.4 million for the nine months ended December 31, 2017 and 2016, respectively. As of December 31, 2017, there were 2,046,251 shares available for issuance under the ESPP.

2008 Equity Incentive Plan—The Company's board of directors adopted, and the Company's stockholders approved, the 2008 Equity Incentive Plan (the "2008 Plan") in February 2008. The 2008 Plan was terminated in connection with the Company's initial public offering ("IPO"), and accordingly, no shares are available for future issuance under this plan. The 2008 Plan continues to govern outstanding awards granted thereunder.

2014 Equity Incentive Plan—The Company's board of directors adopted, and the Company's stockholders approved, the Company's 2014 Equity Incentive Plan (the "2014 Plan"), which became effective in December 2014. The 2014 Plan serves as the successor to the Company's 2008 Plan. The 2014 Plan initially reserved and authorized the issuance of 5,000,000 shares of the Company's common stock. Additionally, shares not issued or subject to outstanding grants under the 2008 Plan upon its termination became available under the 2014 Plan, resulting in a total of 5,184,878 available shares under the 2014 Plan as of the effective date of the 2014 Plan. Pursuant to the terms of the 2014 Plan, any shares subject to outstanding stock options or other stock awards under the 2008 Plan that (i) expire or terminate for any reason prior to exercise or settlement, (ii) are forfeited because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company or (iii) are reacquired, withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award will become available for issuance pursuant to awards granted under the 2014 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan automatically increases each April 1, beginning on April 1, 2015, by 5% of the outstanding number of shares of the Company's common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company's board of directors. As of December 31, 2017, there were 9,821,601 shares available for issuance under the 2014 Plan.

The following table summarizes the Company's stock option and RSU award activities for the nine months ended December 31, 2017 (in thousands, except per share information):

	Options Outstanding				RSUs Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding - April 1, 2017	4,607	$ 17.49	7.1	$ 90,339	1,978	$ 29.32	2.8	$ 73,309
Stock options granted	475	45.27						
RSUs granted					1,001	45.59		
Stock options exercised	(1,386)	14.67		42,151				
RSUs vested					(587)	30.89		
Stock options canceled/forfeited	(246)	26.20						
RSUs canceled/forfeited					(354)	32.02		
Outstanding - December 31, 2017	3,450	$ 21.83	6.8	$ 124,015	2,038	$ 36.40	2.7	$ 117,718

Stock-Based Compensation Expense—Aggregate stock-based compensation expense for employees and nonemployees was $9.9 million and $8.1 million for the three months ended December 31, 2017 and 2016, respectively, and $29.8 million and $23.7 million for the nine months ended December 31, 2017 and 2016, respectively. Cost of revenue, research and development, sales and marketing, and general and administrative expenses were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Cost of revenue	$587	$475	$1,716	$1,369
Research and development	2,959	2,390	9,100	7,453
Sales and marketing	3,933	3,479	12,114	9,650
General and administrative	2,454	1,774	6,848	5,247
Total stock-based compensation expense	$9,933	$8,118	$29,778	$23,719

As of December 31, 2017, unrecognized stock-based compensation cost related to outstanding unvested stock options was $16.8 million, which is expected to be recognized over a weighted-average period of approximately 2.0 years. As of December 31, 2017, unrecognized stock-based compensation cost related to outstanding unvested stock units was $67.9 million, which is expected to be recognized over a weighted-average period of approximately 2.7 years.

7. Income Taxes

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are expected to be reinvested indefinitely.

The Company recorded an income tax provision of $0.2 million and an income tax benefit of $37,000 for the three months ended December 31, 2017 and 2016, respectively, and an income tax provision of $0.6 million and $23,000 for the nine months ended December 31, 2017 and 2016, respectively, related to foreign income taxes and state minimum taxes. Based on the available objective evidence during the three and nine months ended December 31, 2017, the Company believes it is more likely than not that the tax benefits of the U.S. losses incurred during the three and nine months ended December 31, 2017 may not be realized. Accordingly, the Company did not record the tax benefits of U.S. losses incurred during the three and nine months ended December 31, 2017. The primary difference between the effective tax rate and the local statutory tax rate relates to the valuation allowance on the Company's U.S. losses, foreign tax rate differences, and amortization of a deferred charge associated with the intercompany transfer of intellectual property from prior periods.

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was signed into federal law, which among other changes reduces the federal corporate tax rate to 21%. The Company does not expect the TCJA to have a material impact on its condensed consolidated financial statements due to its valuation allowance in the U.S., which nets deferred tax balances to zero. Based on the Company's analysis, deferred tax assets have been revalued from 34% to 21% with a corresponding offset to the valuation allowance and any other potential taxes arising due to the TCJA will result in reductions to its net operating loss and valuation allowance. The Company will continue to analyze the TCJA to assess the full effects on the Company's financial results, including disclosures, for its fiscal year ending March 31, 2018.

8. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee share-based awards and warrants. Diluted net loss per share is computed giving effect to all potential dilutive common shares, including common stock issuable upon exercise of stock options and unvested restricted common stock. As the Company had net losses for each of the three and nine months ended December 31, 2017 and 2016, all potential common shares were determined to be anti-dilutive, resulting in basic and diluted net loss per share being equal.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Numerator:				
Net loss	$(7,729)	$(13,883)	$(38,354)	$(46,084)
Denominator:				
Weighted average shares used to compute net loss per share, basic and diluted	55,196	52,328	54,534	51,297
Net loss per share—basic and diluted	$(0.14)	$(0.27)	$(0.70)	$(0.90)

The following outstanding options, unvested shares, and ESPP shares were excluded (as common stock equivalents) from the computation of diluted net loss per common share for the periods presented as their effect would have been antidilutive (in thousands):

	As of December 31,	
	2017	2016
Options to purchase common stock	3,450	4,931
Restricted stock units	2,038	2,080
ESPP shares	99	104
Common stock reserved for issuance in connection with acquisition	—	43
	5,587	7,158

9. Revenue by Geographic Location

The following table shows the Company's revenue by geographic areas, as determined based on the billing address of its customers (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
United States	$62,966	$46,084	$175,765	$128,806
EMEA	16,732	13,036	47,225	36,043
APAC	6,918	5,080	19,025	14,443
Other	5,211	3,896	14,595	10,851
Total revenue	$91,827	$68,096	$256,610	$190,143

Substantially all of the Company's long-lived assets were attributable to operations in the United States as of December 31, 2017 and March 31, 2017.

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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. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that could impact our business. In particular, we encourage you to review the risks and uncertainties described in Part II, Item 1A "Risk Factors" included elsewhere in this report. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Forward-looking statements are statements that attempt to forecast or anticipate future developments in our business, financial condition or results of operations. See the section titled "Special Note Regarding Forward-Looking Statements" in this report. These statements, like all statements in this report, speak only as of their date (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments, except as required by law.

Overview

We help companies see their digital business more clearly. Our cloud-based platform and suite of products, which we call the New Relic Digital Intelligence Platform, enables organizations to collect, store, and analyze massive amounts of data in real time so they can better understand their application and infrastructure performance, improve their digital customer experience, and achieve business success. We design all our products to be highly intuitive and frictionless; they are easy to deploy, and customers can rapidly, often within minutes, realize benefits and results. Software developers can build better applications faster, as they can see how their software will perform and is actually performing for end-users. IT operations teams can use our products to quickly find and fix performance problems as well as prevent future issues. Business users such as product managers can get answers to how their new product launch is being received, or how a pricing change impacted customer retention, without waiting for help from IT. For each of these audiences—software developers, IT operations, and business users—we aim to be the first, best place to look to understand their digital business.

We were founded in 2007 and we launched our first product offering, New Relic APM (Application Performance Management), in 2008. Since then, we have broadened our product offerings to support a wide variety of programming languages and frameworks and have added a number of additional products and platform capabilities that now form the New Relic Digital Intelligence Platform. For example, in 2013, we released New Relic Mobile to support mobile by providing native mobile application performance management for the iOS and Android mobile operating systems; in 2014, we released New Relic Browser to improve browser-side performance, New Relic Synthetics to enable our users to test their software through simulated usage and New Relic Insights to leverage big data analytics; and in 2016, we released New Relic Infrastructure to provide real-time visibility into critical configuration changes that affect a company's cloud infrastructure.

We sell our products primarily through direct sales and marketing channels utilizing a wide range of online and offline sales and marketing activities. The majority of our users visit our website, create an account, and deploy our software. Many users initially subscribe to one of our products to address a particular use case and broaden the usage of our products as they become more familiar with our products. For larger mid-market and enterprise organizations, our sales team focuses on leveraging users in existing accounts to expand our product users and usage across the organization. Although enterprise organizations constitute a minority of our total paid business accounts, we anticipate that the revenue we receive from enterprise paid business accounts will over time provide a significant majority of our overall revenue.

We offer access to the New Relic Digital Intelligence Platform under subscription plans that also include service and support. Our plans typically have terms of one year, although some of our customers commit for shorter or longer periods. We recognize revenue from subscription fees ratably over the service period. Historically, most of our customers have paid us on a monthly basis. As a result, our deferred revenue at any given period of time has been relatively low. In recent periods we have secured an increased percentage of multi-year commitments, which has grown as we have sold more to larger organizations. Because we generally invoice many of these larger organizations less frequently, our deferred revenue has increased over time, and we expect it to continue to increase on a year-over-year basis. However, due to our mix of subscription plans and billing frequencies, we do not believe that changes in our deferred revenue in a given period are directly correlated with our revenue growth.

We have grown rapidly in recent periods, with revenue for the three months ended December 31, 2017 and 2016 of $91.8 million and $68.1 million, respectively, representing year-over-year growth of 35%. For the nine months ended December 31, 2017 and 2016, our revenue was $256.6 million and $190.1 million, respectively, representing year-over-year growth of 35%. We expect that the rate of growth in our revenue will decline over the long term as our business scales, even if our revenue continues to grow in absolute terms. We have continued to make significant expenditures and investments, including in personnel-related costs, sales and marketing, infrastructure and operations, and have incurred net losses in each period since our inception, including net losses of $7.7 million and $13.9 million for the three months ended December 31, 2017 and 2016, respectively, and $38.4 million and $46.1 million for the nine months ended December 31, 2017 and 2016, respectively. Our accumulated deficit as of December 31, 2017 was $298.5 million.

Internationally, we currently offer our products in Europe, Middle East, and Africa, or EMEA; Asia-Pacific, or APAC; and other non-U.S. locations, as determined based on the billing address of our customers, and our revenue from those regions constituted 18%, 8%, and 6%, respectively, of our revenue for the three months ended December 31, 2017, and 19%, 7%, and 6%, respectively, of our revenue for the three months ended December 31, 2016. Our revenue from those regions constituted 18%, 7%, and 6%, respectively, of our revenue for the nine months ended December 31, 2017, and 19%, 8%, and 6%, respectively, of our revenue for the nine months ended December 31, 2016. We believe there is further opportunity to increase our international revenue overall and as a proportion of our revenue, and we are increasingly investing in our international operations and intend to invest in further expanding our footprint in international markets.

Our employee headcount has increased to 1,253 employees as of December 31, 2017 from 1,032 employees as of December 31, 2016 and we plan to continue to invest aggressively in the growth of our business to take advantage of our market opportunity. For example, we intend to continue to increase our investment in sales and marketing, including further expanding our sales teams, increasing our marketing activities, and growing our international operations, particularly as we increase our sales to larger organizations. In addition, we plan to continue to invest in research and development to enhance and further develop our products and platform capabilities.

While these areas represent significant opportunities for us, we also face significant risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results. We are continuing to incur expenses in the near term as we continue to invest in the growth of our sales and expansion of paid business accounts. However, we may not realize any long-term benefit from these investments in the growth of our business. In addition, any investments that we make in sales and marketing or other areas will occur in advance of our experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources in these areas. As a result, we have never achieved profitability and we do not expect to be profitable for the foreseeable future. Further, our reported revenue, operating results, and cash flows for a given period may not be indicative of future results due to our limited operating history and fluctuations in the number of new employees, the rate of our expansion, the timing of expenses we incur to grow our business and operations, levels of competition, and market demand for our products.

Factors Affecting Our Performance

Market Adoption of Our Products. We are defining a new category of software, which we refer to as digital intelligence. Our success is dependent on the market adoption of this emerging category of software, which may not yet be well understood by the market. For the foreseeable future, we expect that our revenue growth will be primarily driven by the pace of adoption and penetration of our products and we will incur significant expenses associated with educating the market about the benefits of our products.

Increasing the Number of Paid Business Accounts. Our future growth is dependent on our ability to increase the number of accounts that pay us to use our products. Many users experience our products with a free trial after which they have the option to purchase one or more of our subscription plans. We believe that we have a significant competitive advantage as our users experience the ease of installation and the full set of features that our products deliver during the free trial period.

Retention and Expansion within Paid Business Accounts. A key factor in our success is the retention and expansion of our subscription agreements with our existing customers. In order for us to continue to grow our business, it is important to generate additional revenue from our existing customers, and we intend to do this in several ways. As we improve our existing products and platform capabilities and introduce new products, we believe that the demand for our products will generally grow. We also believe that there is a significant opportunity for us to increase the number of subscriptions we sell to our current customers as they become more familiar with our products and adopt our products to address additional business use cases.

Investment in Sales and Marketing. We expect to continue to invest aggressively in sales and marketing to drive additional revenue. Any investments that we make in sales and marketing will occur in advance of our experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources. As we continue to focus sales and marketing investments more heavily towards large organizations, this may require more of our resources. In addition, we expect our sales cycle to be longer and less predictable with respect to larger customers, which may delay realization of future sales. We also intend to increase our sales and marketing investment in international markets, such as Europe, and those markets may take longer and be more costly to develop than the U.S. market.

Key Operating Metrics
We review the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make key strategic decisions:
Number of Paid Business Accounts and Number of Paid Business Accounts with Annual Recurring Revenue over $100,000. We believe that our ability to increase our number of paid business accounts is one indicator of our market penetration, the growth of our business and our potential future prospects. We define the number of paid business accounts at the end of any particular period as the number of accounts at the end of the period, as identified by a unique account identifier, for which we have recognized revenue on the last day of the period indicated. A single organization or customer may have multiple paid business accounts for separate divisions, segments, or subsidiaries. We round the number of total paid business accounts that we report as of a particular date down to the nearest hundred. We had over 16,600 paid business accounts as of December 31, 2017, compared to over 14,900 as of December 31, 2016. We expect the rate at which we add paid business accounts to decrease over time as we scale our business, but it may fluctuate from period to period as a result of the introduction of alternative pricing options for our products or other factors.
As a subset of this metric, we believe that our number of paid business accounts with annual recurring revenue over $100,000 is one indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. For this purpose, we define annual recurring revenue as the revenue we would contractually expect to receive from those customers over the following 12 months, without any increase or reduction in any of their subscriptions. We had 629 paid business accounts with annual recurring revenue over $100,000 as of December 31, 2017, which was a 31.6% increase compared to 478 as of December 31, 2016. We believe this increase reflects our continued focus of a greater proportion of our sales and marketing efforts on larger mid-market and enterprise customers. As with our total paid business accounts, we expect the rate at which we add paid business accounts with annual recurring revenue over $100,000 to decrease over time as a result of deeper penetration into the enterprise market.
Percentage of Annualized Recurring Revenue from Enterprise Paid Business Accounts. We believe that our ability to increase the percentage of annualized recurring revenue from enterprise paid business accounts relative to our overall business is an important indicator of our success with respect to our focus in recent periods to improve our market penetration with enterprise companies. We define an enterprise paid business account as a paid business account that we measure to have over 1,000 employees. Growth or reduction reflected in this figure would include, in addition to the acquisition, loss or consolidation of enterprise paid business accounts, any changes we make to the categorization of existing paid business accounts, for example to reflect that they have expanded beyond the employee threshold, which we review periodically.
Our percentage of annualized recurring revenue from enterprise paid business accounts was 52% as of December 31, 2017, compared to 44% as of December 31, 2016. We expect the percentage of annualized recurring revenue from enterprise paid business accounts to increase over time. However, because of the size of our large installed base and potential seasonality in regard to selling into enterprise customers, we believe the percentage may not move significantly from quarter to quarter and we expect the rate of increase in the percentage of enterprise paid business accounts to moderate over time.
Annualized Revenue per Average Paid Business Account. We believe that our annualized revenue per average paid business account is another indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. We define our annualized revenue per average paid business account as the annualized revenue for the current period divided by the average of the number of paid business accounts at the end of the current period and the end of the prior period. We round down our annualized revenue per average paid business account to the nearest $500.
Our annualized revenue per average paid business account for the quarter ended December 31, 2017 grew to over $22,500, which was an increase of 25.0% compared to over $18,000 for the quarter ended December 31, 2016. We

believe this increase reflects our continued focus on larger mid-market and enterprise customers. We have experienced a decrease in the rate of growth of our annualized revenue per average paid business account and we expect the decrease to continue over time as our business scales and we introduce alternative pricing options for our products.

Dollar-Based Net Expansion Rate. Our ability to generate revenue is dependent on our ability to maintain and grow our relationships with our existing customers. We track our performance in this area by measuring our dollar-based net expansion rate. Our dollar-based net expansion rate increases when customers increase their use of our products, use additional products, or upgrade to a higher subscription tier. Our dollar-based net expansion rate is reduced when customers decrease their use of our products, use fewer products, or downgrade to a lower subscription tier.

Our dollar-based net expansion rate compares our recurring subscription revenue from paid business accounts from one period to the next. We measure our dollar-based net expansion rate on a monthly basis because many of our customers change their subscriptions more frequently than quarterly or annually. To calculate our annual dollar-based net expansion rate, we first establish the base period monthly recurring revenue from all our paid business accounts at the end of a month. This represents the revenue we would contractually expect to receive from those paid business accounts over the following month, without any increase or reduction in any of their subscriptions. We then (i) calculate the actual monthly recurring revenue from those same paid business accounts at the end of that following month; then (ii) divide that following month's recurring revenue by the base month's recurring revenue to arrive at our monthly net expansion rate; then (iii) calculate a quarterly net expansion rate by compounding the net expansion rates of the three months in the quarter; and then (iv) calculate our annualized net expansion rate by compounding our quarterly net expansion rate over an annual period.

The quarterly fluctuations in our dollar-based net expansion rate are primarily driven by transactions within a particular quarter in which certain paid business accounts from larger subscription customers either significantly upgrade or significantly downgrade their subscriptions and by increased sales to existing paid business accounts in particular quarters due to sales and marketing campaigns in a particular quarter. In addition, we believe that the composition of our customer base also has an impact on the net expansion rate, such that a relative increase in the number of paid business accounts from larger enterprises versus small to medium-sized organizations will tend to increase our quarterly net expansion rate, while a relative increase in the number or paid business accounts from small to medium-sized organizations versus larger enterprises will tend to decrease the quarterly net expansion rate, as smaller businesses tend to cancel subscriptions more frequently than larger enterprises. This rate is also impacted by factors including, but not limited to, new product introductions, promotional activity, mix of customer size, and the variable timing of renewals.

Our annualized dollar-based net expansion rate increased to 125.2% for the three-month period ended December 31, 2017 from 124.6% for the three-month period ended December 31, 2016. In the three-month period ended December 31, 2017, we saw comparable churn rates relative to the same period in the prior year, but a modestly higher amount of upsell activity relative to our total installed base.

Key Components of Results of Operations

Revenue

We offer access to our products under subscription plans that include service and support for one or more of our products. For our paying customers, we offer a variety of pricing plans based on the particular product purchased by an account, number of servers monitored, number of applications monitored, or number of mobile devices monitored. Our plans typically have terms of one year, although some of our customers commit for shorter or longer periods. Historically, most of our customers have paid us on a monthly basis. As a result, our deferred revenue at any given period of time has been relatively low. As we have increased our sales to larger organizations, we have increasingly been invoicing our customers on a less frequent basis, and therefore, we expect our deferred revenue to continue to increase on a year-over-year basis.

Additionally, we expect our business to continue to become more seasonal as mid-market and enterprise customers start to represent a larger percentage of our revenues. The first two quarters of each fiscal year usually have lower sequential deferred revenue growth than the third and fourth fiscal quarters, during which we generally benefit from a larger renewal pool and opportunity to upsell existing customers. As a result, over time we could potentially see stronger sequential revenue results in our fourth and first fiscal quarters as our deferred revenue is recognized. We expect that this seasonality will continue to affect our sales and operating results in the future, which can make it difficult to achieve sequential growth in certain financial metrics or could result in sequential declines on a quarterly basis.

Cost of Revenue

Cost of revenue consists of expenses relating to data center operations, hosting-related costs, payment processing fees, depreciation and amortization, consulting costs, and salaries and benefits of operations and global customer support personnel. Salaries and benefits costs associated with our operations and global customer support personnel consist of salaries, benefits, bonuses, and stock-based compensation. We plan to continue increasing the capacity, capability, and reliability of our infrastructure to support the growth of our customer adoption and the number of products we offer and therefore expect a corresponding increase in our cost of revenue.

Gross Profit and Margin

Gross profit is revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin has been, and will continue to be, affected by a number of factors, including the timing and extent of our investments in our operations and global customer support personnel, hosting-related costs, and the amortization of capitalized software. We expect that our gross margin will decline modestly over the long term, although we expect our gross margin to fluctuate from period to period as a result of these factors.

Operating Expenses

Personnel costs, which consist of salaries, benefits, bonuses, stock-based compensation and, with regard to sales and marketing expenses, sales commissions, are the most significant component of our operating expenses. We also incur other non-personnel costs such as an allocation of our general overhead expenses.

Research and Development. Research and development expenses consist primarily of personnel costs and an allocation of our general overhead expenses. We continue to focus our research and development efforts on adding new features and products, and increasing the functionality and enhancing the ease of use of our existing products. We capitalize the portion of our software development costs that meets the criteria for capitalization.

We plan to continue to hire employees for our engineering, product management, and design teams to support our research and development efforts. As a result, we expect our research and development expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our research and development expenses to decrease modestly as a percentage of our revenue over the long term, although our research and development expenses may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our research and development expenses.

Sales and Marketing. Sales and marketing expenses consist of personnel costs for our sales, marketing, and business development employees and executives. Commissions are expensed in the period when a customer contract is executed. Sales and marketing expenses also include the costs of our marketing and brand awareness programs.

We plan to continue investing in sales and marketing globally by increasing the number of our sales personnel, expanding our domestic and international marketing activities, building brand awareness, and sponsoring additional marketing events. We expect our sales and marketing expenses to continue to increase in absolute dollars and continue to be our largest operating expense category for the foreseeable future. However, we expect our sales and marketing expenses to decrease as a percentage of our revenue over the long term, although our sales and marketing expenses may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our sales and marketing expenses.

General and Administrative. General and administrative expenses consist primarily of personnel costs for our administrative, legal, human resources, information technology, finance and accounting employees, and executives. Also included are non-personnel costs, such as external legal and other professional fees.

We plan to continue to expand our business both domestically and internationally, and we expect to increase the size of our general and administrative function to support the growth of our business. We also expect that we will continue to incur additional general and administrative expenses as a result of being a publicly traded company. As a result, we expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our general and administrative expenses to decrease modestly as a percentage of our revenue over the long term, although our general and administrative expense may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our general and administrative expenses, such as litigation costs.

Other Income, Net

Other income, net consists primarily of interest income, interest expense, and foreign exchange gains and losses.

Results of Operations

The following tables summarize our consolidated statements of operations data for the periods presented and as a percentage of our revenue for those periods.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
	(in thousands, except per share data)			
Revenue	$91,827	$68,096	$256,610	$190,143
Cost of revenue (1)	15,671	12,627	46,342	36,060
Gross profit	76,156	55,469	210,268	154,083
Operating expenses:				
Research and development (1)	18,154	14,377	54,686	45,087
Sales and marketing (1)	51,393	43,458	152,015	122,626
General and administrative (1)	14,596	11,578	42,843	32,647
Total operating expenses	84,143	69,413	249,544	200,360
Loss from operations	(7,987)	(13,944)	(39,276)	(46,277)
Other income (expense):				
Interest income	534	325	1,503	796
Interest expense	(21)	(21)	(64)	(63)
Other income (expense), net	(45)	(280)	117	(517)
Loss before income taxes	(7,519)	(13,920)	(37,720)	(46,061)
Income tax provision (benefit)	210	(37)	634	23
Net loss	$(7,729)	$(13,883)	$(38,354)	$(46,084)
Net loss per share, basic and diluted	$(0.14)	$(0.27)	$(0.70)	$(0.90)
Weighted-average shares used to compute net loss per share, basic and diluted	55,196	52,328	54,534	51,297

(1) Includes stock-based compensation expense as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
	(in thousands)			
Cost of revenue	$587	$475	$1,716	$1,369
Research and development	2,959	2,390	9,100	7,453
Sales and marketing	3,933	3,479	12,114	9,650
General and administrative	2,454	1,774	6,848	5,247
Total stock-based compensation expense	$9,933	$8,118	$29,778	$23,719

	Three Months Ended December 31, 2017	2016	Nine Months Ended December 31, 2017	2016
	(as a percentage of revenue)			
Revenue	100 %	100 %	100 %	100 %
Cost of revenue (1)	17	19	18	19
Gross profit	83	81	82	81
Operating expenses:				
Research and development (1)	20	21	22	24
Sales and marketing (1)	56	64	59	64
General and administrative (1)	16	17	17	17
Total operating expenses	92	102	98	105
Loss from operations	(9)	(21)	(16)	(24)
Other income (expense):				
Interest income	1	1	1	—
Interest expense	—	—	—	—
Other income (expense), net	—	—	—	—
Loss before income taxes	(8)	(20)	(15)	(24)
Income tax provision (benefit)	—	—	—	—
Net loss	(8 %)	(20 %)	(15 %)	(24 %)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended December 31, 2017	2016	Nine Months Ended December 31, 2017	2016
	(as a percentage of revenue)			
Cost of revenue	1 %	1 %	1 %	1 %
Research and development	3	4	4	4
Sales and marketing	4	5	5	5
General and administrative	3	2	2	2
Total stock-based compensation expense	11%	12%	12%	12%

Revenue

	Three Months Ended December 31, 2017	2016	Change Amount	%	Nine Months Ended December 31, 2017	2016	Change Amount	%
	(dollars in thousands)							
United States	$62,966	$46,084	$16,882	37%	$175,765	$128,806	$46,959	36%
EMEA	16,732	13,036	3,696	28	47,225	36,043	11,182	31
APAC	6,918	5,080	1,838	36	19,025	14,443	4,582	32

Other	5,211	3,896	1,315	34	14,595	10,851	3,744	35
Total revenue	$91,827	$68,096	$23,731	35%	$256,610	$190,143	$66,467	35%

Revenue increased $23.7 million, or 35%, in the three months ended December 31, 2017 compared to the same period of 2016. The increase was a result of an increase in the number of paid business accounts and an increase in product adoption by existing paid business accounts. Our revenue from EMEA increased $3.7 million, or 28%, in the three months ended December 31, 2017 compared to the same period of 2016, and our revenue from APAC increased $1.8 million, or 36%, in the three months ended December 31, 2017 compared to the same period of 2016, as a result of an increase in the number of paid business accounts and an increase in product adoption by existing paid business accounts located in these geographic regions.

Revenue increased $66.5 million, or 35%, in the nine months ended December 31, 2017 compared to the same period of 2016. The increase was a result of an increase in the number of paid business accounts and an increase in product adoption by existing paid business accounts. Our revenue from EMEA increased $11.2 million, or 31%, in the nine months ended December 31, 2017 compared to the same period of 2016, and our revenue from APAC increased $4.6 million, or 32%, in the nine months ended December 31, 2017 compared to the same period of 2016, as a result of an increase in the number of paid business accounts and an increase in product adoption by existing paid business accounts located in these geographic regions.

Cost of Revenue

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2017	2016	Amount	%	2017	2016	Amount	%
	(dollars in thousands)							
Cost of revenue	$15,671	$12,627	$3,044	24%	$46,342	$36,060	$10,282	29%

Cost of revenue increased $3.0 million, or 24%, in the three months ended December 31, 2017 compared to the same period of 2016. The increase was primarily a result of an increase in personnel-related costs and hosting-related costs necessary to support our growth, an increase in amortization expense related to capitalized software development costs, and an increase in payment processing costs due to the increase in revenue. Hosting-related costs, depreciation expense, amortization expense, and payment processing fees increased by $1.7 million. Personnel-related costs increased by $1.3 million, driven by higher headcount.

Cost of revenue increased $10.3 million, or 29%, in the nine months ended December 31, 2017 compared to the same period of 2016. The increase was primarily a result of an increase in personnel-related costs and hosting-related costs necessary to support our growth, an increase in amortization expense related to capitalized software development costs, and an increase in payment processing costs due to the increase in revenue. Hosting-related costs, depreciation expense, amortization expense, and payment processing fees increased by $6.3 million. Personnel-related costs increased by $4.0 million, driven by higher headcount.

Research and Development

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2017	2016	Amount	%	2017	2016	Amount	%
	(dollars in thousands)							
Research and development	$18,154	$14,377	$3,777	26%	$54,686	$45,087	$9,599	21%

Research and development expenses increased $3.8 million, or 26%, in the three months ended December 31, 2017 compared to the same period of 2016. The increase was primarily a result of an increase of $3.3 million in personnel-related costs, driven by higher headcount, $0.4 million increase in hosting costs, and a $0.1 million increase of other miscellaneous expenses.

Research and development expenses increased $9.6 million, or 21%, in the nine months ended December 31, 2017 compared to the same period of 2016. The increase was primarily a result of an increase of $8.4 million in personnel-related costs, driven by higher headcount. The remaining increase was primarily due to a $0.9 million increase in software subscription expenses and a $0.3 million increase in depreciation expense.

Sales and Marketing

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2017	2016	Amount	%	2017	2016	Amount	%
	(dollars in thousands)							
Sales and marketing	$51,393	$43,458	$7,935	18%	$152,015	$122,626	$29,389	24%

Sales and marketing expenses increased $7.9 million, or 18%, in the three months ended December 31, 2017 compared to the same period of 2016. The increase was primarily a result of an increase in personnel-related costs of $7.8 million, driven by higher headcount, and a $0.1 million increase of other miscellaneous expenses.

Sales and marketing expenses increased $29.4 million, or 24%, in the nine months ended December 31, 2017 compared to the same period of 2016. The increase was primarily a result of an increase in personnel-related costs of $27.0 million, driven by higher headcount. The remaining increase was primarily due to a $1.6 million increase in travel expenses, and a $0.8 million increase in software subscription expenses.

General and Administrative

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2017	2016	Amount	%	2017	2016	Amount	%
	(dollars in thousands)							
General and administrative	$14,596	$11,578	$3,018	26%	$42,843	$32,647	$10,196	31%

General and administrative expenses increased $3.0 million, or 26%, in the three months ended December 31, 2017 compared to the same period of 2016. The increase in general and administrative expenses was primarily a result of an increase in personnel-related costs of $1.6 million, driven by an increase in headcount. The remaining increase was primarily due to a $0.9 million increase in consultant expenses and a $0.5 million increase in facilities expenses.

General and administrative expenses increased $10.2 million, or 31%, in the nine months ended December 31, 2017 compared to the same period of 2016. The increase in general and administrative expenses was primarily a result of an increase in personnel-related costs of $4.7 million, driven by an increase in headcount. The remaining increase was primarily due to a $3.9 million increase in consultant expenses, a $1.1 million increase in facilities expenses, and a $0.5 million increase in software subscription expenses.

Other Income, Net

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2017	2016	Amount	%	2017	2016	Amount	%
	(dollars in thousands)							
Other income, net	$468	$ 24	$444	1,850%	$1,556	$216	$1,340	620%

Other income, net increased by $0.4 million in the three months ended December 31, 2017 compared to the same period of 2016, and $1.3 million in the nine months ended December 31, 2017 compared to the same period of 2016. These increases were primarily a result of an increase in interest income.

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Non-GAAP Financial Measures

Non-GAAP Income (Loss) From Operations

To supplement our condensed consolidated financial statements presented in accordance with GAAP, we provide investors with certain non-GAAP financial measures, including non-GAAP income (loss) from operations. We define non-GAAP income (loss) from operations as the respective GAAP balance, adjusted for: (1) stock-based compensation expense, (2) amortization of stock-based compensation capitalized in software development costs, (3) the amortization of purchased intangibles, (4) the transaction costs related to acquisition, (5) lawsuit litigation expense, and (6) employer payroll tax expense on equity incentive plans, as applicable. We use non-GAAP income (loss) from operations internally to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate our financial performance. We believe the measure is useful to investors, as a supplement to GAAP measures, in evaluating our operational performance. We have provided below a reconciliation of non-GAAP income (loss) from operations.

We believe non-GAAP income (loss) from operations is useful to investors and others in assessing our operating performance due to the following factors:

Stock-based compensation expense and amortization of stock-based compensation capitalized in software development costs. We utilize share-based compensation to attract and retain employees. It is principally aimed at aligning their interests with those of its stockholders and at long-term retention, rather than to address operational performance for any particular period. As a result, share-based compensation expenses vary for reasons that are generally unrelated to financial and operational performance in any particular period.

The amortization of purchased intangibles and the transaction costs related to acquisition. We view amortization of purchased intangible assets as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are evaluated for impairment regularly, amortization of the cost of purchased intangibles is an expense that is not typically affected by operations during any particular period. Similarly, we view acquisition related expenses as events that are not necessarily reflective of operational performance during a period.

Lawsuit litigation expense. We may from time to time incur charges or benefits related to litigation that are outside of the ordinary course of our business. We believe it is useful to exclude such charges or benefits because we do not consider such amounts to be part of the ongoing operation of our business and because of the singular nature of the claims underlying the matter.

Employer payroll tax expense on equity incentive plans. We exclude employer payroll tax expense on equity incentive plans as these expenses are tied to the exercise or vesting of underlying equity awards and the price of our common stock at the time of vesting or exercise. As a result, these taxes may vary in any particular period independent of the financial and operating performance of our business.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies in our industry and exclude expenses that may have a material impact on our reported financial results.

The following table presents our non-GAAP income (loss) from operations and reconciles our GAAP to non-GAAP income (loss) from operations for the three and nine months ended December 31, 2017 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
GAAP loss from operations	$(7,987)	$(13,944)	$(39,276)	$(46,277)
Plus: Stock-based compensation	9,933	8,118	29,778	23,719
Plus: Lawsuit litigation	—	44	—	48
Plus: Amortization of purchased intangibles	196	266	990	766
Plus: Amortization of stock-based compensation capitalized in software development costs	228	190	702	524

Plus: Employer payroll tax on employee equity incentive plans	309	403	1,557	1,553
Non-GAAP income (loss) from operations	$2,679	$(4,923)	$(6,249)	$(19,667)

Non-GAAP income (loss) from operations for the periods presented reflects the same trends discussed above in "Results of Operations." Although overall expenses were higher than the same periods presented in the prior fiscal year, expense as a percentage of revenue decreased significantly. As a result, we generated non-GAAP income from operations for the first time in the third quarter of fiscal 2018. We anticipate we will continue to maintain non-GAAP income from operations in future periods.

Liquidity and Capital Resources

	Nine Months Ended December 31,	
	2017	2016
	(in thousands)	
Cash provided by operating activities	$24,093	$9,337
Cash used in investing activities	(10,560)	(9,848)
Cash provided by financing activities	23,399	14,767
Net increase in cash and cash equivalents	$36,932	$14,256

To date, we have financed our operations primarily through private and public equity financings and customer payments for subscription services. We believe that our existing cash, cash equivalents, and short-term investment balances, together with cash generated from operations, will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months.

Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support research and development efforts, the continued expansion of sales and marketing activities, the introduction of new and enhanced products, seasonality of our billing activities, timing and extent of spending to support our growth strategy, and the continued market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise such financing 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

During the nine months ended December 31, 2017, cash provided by operating activities was $24.1 million as a result of a net loss of $38.4 million, adjusted by non-cash charges of $47.6 million and a change of $14.9 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of a $9.2 million decrease in accounts receivable, an $8.9 million increase in deferred revenue, and a $2.5 million increase in accrued compensation and benefits and other liabilities. This was partially offset by a $4.4 million increase in prepaid expenses and other assets, a $0.8 million decrease in accounts payable, and a $0.5 million decrease in deferred rent.

During the nine months ended December 31, 2016, cash provided by operating activities was $9.3 million as a result of a net loss of $46.1 million, adjusted by non-cash charges of $37.9 million and a change of $17.5 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of an $18.2 million increase in deferred revenue due to increased sales of subscriptions to our products, a $3.3 million increase in accrued compensation and benefits and other liabilities, a $3.1 million increase in deferred rent, and a $1.1 million increase in accounts payable. This was partially offset by a $6.5 million increase in accounts receivable and a $1.7 million increase in prepaid expenses and other assets.

Investing Activities

Cash used in investing activities during the nine months ended December 31, 2017 was $10.6 million, primarily as a result of purchases of short-term investments of $78.1 million, purchases of property and equipment of $17.6 million, and increases in capitalization of software development costs of $3.1 million. This was partially offset by proceeds from the maturity and sale of short-term investments of $88.2 million.

Cash used in investing activities during the nine months ended December 31, 2016 was $9.8 million, primarily as a result of purchases of short-term investments of $116.3 million, purchases of property and equipment of $16.6 million, and increases in capitalization of software development costs of $3.1 million. This was partially offset by proceeds from the maturity and sale of short-term investments of $126.1 million.

Financing Activities

Cash provided by financing activities during the nine months ended December 31, 2017 was $23.4 million, which was the result of proceeds from the exercise of stock options and proceeds from our employee stock purchase plan.

Cash provided by financing activities during the nine months ended December 31, 2016 was $14.8 million, which was the result of proceeds from the exercise of stock options and proceeds from our employee stock purchase plan.

Contractual Obligations and Commitments

Our principal contractual commitments primarily consist of obligations under leases for office space and purchase commitments. Except as set forth in Note 5 — Commitments and Contingencies contained in the “Notes to Condensed Consolidated Financial Statements” in Item 1 of Part I of this Quarterly Report on Form 10-Q, there were no material changes in our commitments under contractual obligations, as disclosed in our audited consolidated financial statements for the fiscal year ended March 31, 2017 in our Annual Report.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with GAAP. In the preparation of these condensed consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates.

There have been no significant changes in our critical accounting policies and estimates during the nine months ended December 31, 2017 as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017, or our Annual Report, as filed with the Securities and Exchange Commission, or SEC, on May 18, 2017.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance provides principles for recognizing revenue to which an entity expects to be entitled for the transfer of promised goods or services to customers. The new guidance will be effective for us in our fiscal year beginning April 1, 2018. The guidance may be applied retrospectively to each prior period presented (full retrospective method), or with the cumulative effect recognized as of the date of initial adoption (modified retrospective method). We currently intend to adopt Topic 606 using the modified retrospective approach in our first quarter of fiscal year 2019. As we continue to assess the new standard along with industry trends and internal progress, we may adjust our implementation plan accordingly.

We anticipate the significant impacts of adopting Topic 606 will include the deferral of incremental commission costs of obtaining contracts and additional disclosure requirements. Currently, we record commissions as sales and marketing expenses as incurred. Under the new standard, we will capitalize incremental commissions related to initial contracts over the expected period of benefit. We have not yet concluded the amortization period of these capitalized costs, which will affect the classification and magnitude of the deferred costs at each reporting period. We will continue to quantify the effects of adopting Topic 606 on our condensed consolidated financial statements, including the impact on our revenue as well as the changes discussed above.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard will be effective for us in the fiscal year beginning

April 1, 2019; early adoption is permitted. The amendments require a modified retrospective approach with optional practical expedients. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this standard in our first quarter of fiscal year 2018. Upon adoption, we recognized all of the previously unrecognized excess tax benefits related to stock awards using the modified retrospective transition method. These excess tax benefits, recognized upon adoption, were recorded as a deferred tax asset, which was then fully offset by our U.S. federal and state deferred tax asset valuation allowance resulting in no impact to our accumulated deficit. Without the valuation allowance, our deferred tax asset would have increased by $39.5 million. All future excess tax benefits resulting from the settlement of stock awards will be recorded to the income tax provision.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The updated guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The measurement of credit losses for newly recognized financial assets and subsequent changes in the allowance for credit losses are recorded in the statement of income. The update to the standard will be effective for us in the fiscal year beginning April 1, 2020; early adoption is permitted in the fiscal year beginning April 1, 2019. We are currently evaluating the effect the standard will have on our condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will be effective for us in our fiscal year beginning April 1, 2018. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

Our subscription agreements are primarily denominated in U.S. dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies and subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statements of operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our historical consolidated financial statements.

Interest Rate Risk

We had cash and cash equivalents of $125.2 million as of December 31, 2017, consisting of bank deposits, commercial paper, and money market funds. These interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in our interest income have not been significant. We also had no outstanding debt for any of the periods presented. We have an agreement to maintain cash balances at a financial institution of no less than $8.0 million as collateral for three letters of credit in favor of our landlords. The letters of credit carry a fixed interest rate of 1%.

We had short-term investments of $107.8 million as of December 31, 2017, consisting of certificates of deposit, commercial paper, corporate notes and bonds, U.S. treasury securities, and U.S. agency securities. Our investments in marketable securities are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure.

Due to the short-term nature of these investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates.

A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief 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 this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On November 5, 2012, CA, Inc. filed an action against us in the U.S. District Court for the Eastern District of New York alleging that we willfully infringe certain of its U.S. patents. CA, Inc. asserts that a portion of our application performance management software – the .NET and Java agents – infringes certain claims of those patents. Among other things, CA, Inc. has sought permanent injunctive relief against us and damages in an amount to be determined at trial. Specifically, CA, Inc. alleges in the complaint that we willfully infringe certain CA, Inc. United States Patents, including U.S. Patent Nos. 7,225,361 B2, or the ’361 patent, 7,512,935 B1, or the ’935 patent, and 7,797,580 B2, or the ’580 patent. Discovery is complete in the case, and the court has ruled on summary judgment motions filed by both parties. On April 8, 2015, the court granted CA, Inc.’s partial summary judgment motion seeking to estop New Relic from contesting the validity of the ’361 and ’580 patents. On September 28, 2015, the court granted New Relic’s partial summary judgment motion as to non-infringement of the ’935 patent by the Java and .NET agents, and denied summary judgment as to invalidity of the ’935 patent. Following the court’s summary judgment rulings, the only remaining claims for infringement in this litigation are CA, Inc.’s assertions that the Java agent infringes asserted claims of the ’361 and ’580 patents. A trial date is not currently set.

We intend to continue to contest this lawsuit vigorously. If this matter has an adverse outcome, it may have an impact on our financial position, results from operations, and cash flows. Should CA, Inc. prevail on its claims, we could be required to pay substantial damages for past sales of such products, enjoined from using and selling such products if a license or other right to continue selling our products is not made available to us, and required to pay substantial ongoing royalties and comply with unfavorable terms if such a license is made available to us. Any of these outcomes could result in a material adverse effect on our business. However, we cannot at this time predict the likely outcome of this proceeding or estimate the amount or range of loss or possible loss that may arise from it. Even if we were to prevail, litigation is costly and time-consuming, and could divert the attention of our management and key personnel from our business operations and dissuade potential customers from purchasing our products, either of which could materially harm our business.

During the course of litigation, we anticipate announcements of the results of hearings and motions, and other interim developments related to the litigation, which our competitors could try to use to their competitive advantage by creating uncertainty amongst our customers. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

In addition, from time to time, we are involved in legal proceedings and are subject to claims arising in the ordinary course of our business. 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

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, or results of operations. This description includes any material changes to and supersedes the description of the risk factors disclosed in Part I, Item 1A of our Annual Report. We have marked with an asterisk (*) those risks described below that reflect material substantive changes from the risks disclosed in Part I, Item 1A of our Annual Report.

The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and accompanying notes.

We have a history of losses and we expect our revenue growth rate to continue to decline. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability. *

We have incurred net losses in each fiscal period since our inception, including net losses of $38.4 million and $46.1 million in the nine months ended December 31, 2017 and 2016, respectively. At December 31, 2017, we had an accumulated deficit of $298.5 million. We expect to continue to expend substantial financial and other resources on, among other things:

- sales and marketing, including expanding our direct sales organization and marketing programs, particularly for larger customers;
- investments in our research and development team, and the development of new products, capabilities, features, and functionality;
- expansion of our operations and infrastructure, both domestically and internationally;
- hiring of additional employees; and
- general administration, including legal, accounting, and other expenses related to our growing operations and infrastructure.

These investments may not result in increased revenue or growth of our business. We expect that our revenue growth rate will continue to decline over time. Accordingly, we may not be able to generate sufficient revenue to offset our expected cost increases and to achieve and sustain profitability. If we fail to achieve and sustain profitability, our operating results and business would be harmed.

We have a limited operating history, which makes it difficult to evaluate our current business and future prospects and increases the risk of your investment.

We were founded in 2007 and launched our first commercial product in 2008. This limited operating history limits our ability to forecast our future operating results and subjects us to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth should not be considered indicative of our future performance. We have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as determining appropriate investments of our limited resources, market adoption of our existing and future products and platform capabilities, competition from other companies, acquiring and retaining customers, hiring, integrating, training and retaining skilled personnel, developing new products and platform capabilities, determining prices and pricing structures for our products and platform capabilities, unforeseen expenses, and challenges in forecasting accuracy. 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 and our business could suffer.

We have experienced significant growth in recent periods and expect our growth to continue. If we are not able to manage this growth and expansion, or if our business does not grow as we expect, our operating results may suffer.

We have experienced significant growth in our customer adoption and have expanded and intend to continue to significantly expand our operations, including our domestic and international employee headcount. This growth has placed, and will continue to place, significant demands on our management and our operational and financial infrastructure.

To manage this growth effectively, we must continue to improve our operational, financial, and management systems and controls by, among other things:

- effectively attracting, training, integrating, and retaining a large number of new employees, particularly members of our sales and marketing teams and employees and consultants in jurisdictions outside of the United States;
- further improving our key business systems, processes, and information technology infrastructure, including our and third-party hosted data centers, to support our business needs;
- enhancing our information, training, and communication systems to ensure that our employees are well-coordinated and can effectively communicate with each other and our customers; and
- improving our internal control over financial reporting and disclosure controls and procedures to ensure timely and accurate reporting of our operational and financial results.

If we fail to manage our expansion, implement and transition to our new systems, implement improvements, or maintain effective internal controls and procedures, our costs and expenses may increase more than we plan and we may lose the ability to increase our customer adoption, enhance our existing solutions, develop new solutions, satisfy our customers, respond to competitive pressures, or otherwise execute our business plan. If we are unable to manage our growth, our operating results likely will be harmed.

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

Our future success depends in part on our ability to sell more subscriptions and additional products to our current customers. If our customers do not purchase additional subscriptions and products from us, our revenue may decline and our operating results may be harmed.

In addition, in order for us to maintain or improve our operating results, it is important that our customers enter into paid subscriptions and renew their subscriptions when the contract term expires. Many of our customers start their accounts on a free trial and have no obligation to begin a paid subscription. Our customers that enter into paid subscriptions have no obligation to renew their subscriptions after the expiration of their subscription period. Subscription periods are most often one year in length, but in recent fiscal years we have secured an increased percentage of multi-year commitments with respect to new paid business accounts. In addition, our customers may renew for lower subscription amounts or for shorter contract lengths. In the past, some of our customers have elected not to renew their agreements with us, and we cannot accurately predict future net expansion rates. Moreover, certain legacy customers with annual subscriptions have the right to cancel their agreements prior to the termination of the subscription term.

Our customer expansions and renewals may decline or fluctuate as a result of a number of factors, including: customer usage, customer satisfaction with our products and platform capabilities and customer support, our prices, the prices of competing products, mergers and acquisitions affecting our customer base, consolidation of affiliates' multiple paid business accounts into a single paid business account, the effects of global economic conditions, or reductions in our customers' spending levels generally. These factors may also be exacerbated if, consistent with our growth strategy, our customer base continues to grow to encompass larger enterprises.

If we are not able to develop enhancements to our products, increase adoption and usage of our products, and introduce new products and capabilities that achieve market acceptance, our business could be harmed. *

Our ability to attract new customers and increase revenue from existing customers depends in large part on our ability to enhance and improve our existing products, increase adoption and usage of our products, and introduce new products and capabilities. The success of any enhancement or new products depends on several factors, including timely completion, adequate quality testing, introduction, and market acceptance. Any products that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects, or may not achieve the broad market acceptance necessary to generate sufficient revenue. If we are unable to successfully enhance our existing products to meet customer requirements, increase adoption and usage of our products, or develop new products, our business and operating results will be harmed.

If customers do not expand their use of our products beyond the current predominant use cases, our ability to grow our business and operating results may be adversely affected. *

Most of our customers currently use our products to support application performance management functions, and the majority of our revenue to date has been from our application performance management products. Our ability to grow our business depends in part on our ability to persuade current and future customers to expand their use of our software to additional use cases, such as infrastructure monitoring and customer usage analytics. If we fail to achieve market acceptance of our software, or if a competitor establishes a more widely adopted solution, our ability to grow our business and financial results will be adversely affected. In addition, as the amount of data stored for a given customer grows, that customer may have to agree to higher subscription fees for certain of our software or limit the amount of data stored in order to stay within the limits of its existing subscription. If their fees grow significantly, customers may react adversely to this pricing model, particularly if they perceive that the value of our software has become eclipsed by such fees or otherwise.

We have limited experience with respect to determining the optimal prices and pricing structures for our products. We expect that we may need to change our pricing model from time to time, including as a result of global economic conditions, reductions in our customers' spending levels generally or changes in how computing infrastructure is broadly consumed. Similarly, as we introduce new products or services, or as a result of the evolution of our existing products and services, we may have difficulty determining the appropriate price structure for our products. In addition, as new and existing competitors introduce new products or services that compete with ours, or revise their pricing structures, we may be unable to attract new customers at the same price or based on the same pricing model as we have used historically. Moreover, as we continue to target selling our products to larger organizations, these larger organizations may demand substantial price concessions. As a result, we may be required from time to time to revise our pricing structure or reduce our prices, which could adversely affect our business.

Failure to effectively expand our marketing and sales capabilities could harm our ability to increase our customer adoption and achieve broader market acceptance of our products. *

Our ability to increase our customer adoption and achieve broader market acceptance of our products will depend to a significant extent on our ability to expand our marketing and sales operations, with an emphasis on continuing to improve our ability to target sales to large enterprise organizations. We plan to continue expanding our sales force, both domestically and internationally. We also dedicate significant resources to sales and marketing programs, including online advertising and field marketing programs. For example, during the nine months ended December 31, 2017, sales and marketing expenses represented 59% of our revenue. The effectiveness of our marketing programs has varied over time and may vary in the future due to competition. All of these efforts have required and will continue to require us to invest significant financial and other resources. If we are unable to hire, develop, and retain talented sales personnel, if our sales personnel are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective, our ability to increase our customer adoption and achieve broader market acceptance of our products could be harmed.

If we are unable to continue to increase the sales of our solutions to large enterprises while mitigating the risks associated with serving such customers, our business, financial position, and results of operations may suffer.

Our growth strategy is dependent, in part, upon the continued increase of sales to large enterprises. Sales to large customers involve risks that may not be present or that are present to a lesser extent with sales to smaller entities, such as longer sales cycles, more complex customer requirements, substantial upfront sales costs, and less predictability in completing some of our sales. For example, enterprise customers may require considerable time to evaluate and test our applications and those of our competitors prior to making a purchase decision and placing an order. A number of factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our applications, the discretionary nature of purchasing and budget cycles, and the competitive nature of evaluation and purchasing approval processes. As a result, the length of our sales cycle, from identification of the opportunity to deal closure, may vary significantly from customer to customer, with sales to large enterprises typically taking longer to complete. Moreover, large enterprise customers often begin to deploy our products on a limited basis, but nevertheless demand extensive configuration, integration services, and pricing negotiations, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our products widely enough across their organization to justify our substantial upfront investment.

In addition, our ability to improve our sales of products to large enterprises is dependent on us continuing to attract and retain sales personnel with experience in selling to large organizations. Also, because security breaches with respect to larger, high-profile enterprises are likely to be heavily publicized, there is increased reputational risk associated with serving such customers. If we are unable to continue to increase sales of our products to large enterprise customers while mitigating the risks associated with serving such customers, our business, financial position, and results of operations may suffer.

Because users are able to configure our platform to collect and store confidential or proprietary information, security concerns could result in additional cost and liability to us or inhibit sales of our products. *

Our operations involve protection of our intellectual property, along with the storage and transmission and processing of our customers’ proprietary data, which customers might choose to have include some personally identifiable information, and security breaches, computer malware, and computer hacking attacks could expose us to a risk of loss of this information, loss of business, severe reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for remediation and incentives offered to customers or other business partners in an effort to maintain business relationships after a breach and other liabilities.

Cyber-attacks and other malicious Internet-based activity continue to increase generally. If our products or security measures are perceived as weak or actually compromised as a result of third-party action, employee or customer error, malfeasance, stolen or fraudulently obtained log-in credentials, or otherwise, our customers may curtail or stop using our products, our reputation could be damaged, our business may be harmed, and we could incur significant liability. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because they change frequently and generally are not detected until after an incident has occurred. As we increase our customer adoption and our brand becomes more widely known and recognized, we may become more of a target for third parties seeking to compromise our security systems or gain unauthorized access to our customers' data.

If we are not able to detect and indicate activity on our platform that might be nefarious in nature, our customers could suffer harm. In such cases, we could face exposure to legal claims, particularly if the customer suffered actual harm. We cannot assure you that any limitations of liability provisions in our contracts for a security lapse or breach would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim. 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 expansion rates, financial condition, operating results, and reputation.

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

We are subject to federal, state, and international laws relating to the collection, use, retention, security, and transfer of personally identifiable information. The regulatory framework for privacy and security issues worldwide is rapidly evolving and as a result implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future. We publicly post documentation regarding our practices concerning the processing, use, and disclosure of data. Any failure by us, our suppliers, or other parties with whom we do business to comply with this documentation or with other federal, state, or international regulations could result in proceedings against us by governmental entities or others. In many jurisdictions, enforcement actions and consequences for noncompliance are rising. In the United States, these include enforcement actions in response to rules and regulations promulgated under the authority of federal agencies and state attorneys general and legislatures and consumer protection agencies. In addition, privacy advocates and industry groups have regularly proposed, and may propose in the future, self-regulatory standards with which we must legally comply or that contractually apply to us, like the Payment Card Industry Data Security Standard, or PCI DSS. If we fail to follow these security standards, such as those set forth in the PCI DSS, even if no customer information is compromised, we may incur significant fines or experience a significant increase in costs.

Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply, including but not limited to the European Union, or EU. The EU’s data protection landscape is currently unstable, resulting in possible significant operational costs for internal compliance and risk to our business. While we have taken steps to mitigate the impact on us, such as implementing standard contractual clauses and self-certifying under the EU-US Privacy Shield, the efficacy and longevity of these mechanisms remains uncertain. In addition, the EU has adopted the General Data Protection Regulation, or GDPR, which is scheduled to go into effect in May 2018 and contains numerous requirements and changes from existing EU law, including more robust obligations on data processors and heavier documentation requirements for data protection compliance programs by companies. Specifically, the GDPR will introduce 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. The GDPR requirements apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information.

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 before the effective date of 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 legal requirements, 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.

Domestic laws in this area are also complex and developing rapidly. Many state legislatures have adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches.

Laws in 48 states require businesses to provide notice to customers whose personally identifiable information has been disclosed as a result of a data breach, including New Mexico, which enacted its data breach notification law in April 2017. The laws are not consistent, and compliance in the event of a widespread data breach is costly. Further, states are constantly amending existing laws, requiring attention to frequently changing regulatory requirements. Additionally, in August 2017, Delaware amended its data breach notification law in order to expand what constitutes "personal information", to require breach notification to the Delaware Attorney General, and to require the provision of credit monitoring in certain circumstances. In October 2017, a new

Nevada law took effect that requires website and online service operators to post a privacy notice on their websites regarding the company's privacy practices. Nevada is the third state to have such a privacy policy requirement. 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.

If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, and changing customer needs, requirements, or preferences, our products may become less competitive.

The software industry is subject to rapid technological change, evolving industry standards and practices, and changing customer needs, requirements, and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. If we are unable to develop and sell new products that satisfy our customers and provide enhancements and new features for our existing products and platform capabilities that keep pace with rapid technological and industry change, our revenue and operating results could be adversely affected. If new technologies emerge that are able to deliver competitive products and applications at lower prices, more efficiently, more conveniently, or more securely, such technologies could adversely impact our ability to compete.

Our platform must also integrate with a variety of network, hardware, mobile, and software platforms and technologies, and we need to continuously modify and enhance our products and platform capabilities to adapt to changes and innovation in these technologies. If developers widely adopt new software platforms, we would have to develop new versions of our products and platform capabilities to work with those new platforms. This development effort may require significant engineering, marketing, and sales resources, all of which would affect our business and operating results. Any failure of our products and platform capabilities to operate effectively with future infrastructure platforms and technologies could reduce the demand for our products. If we are unable to respond to these changes in a cost-effective manner, our products may become less marketable and less competitive or obsolete, and our operating results may be negatively affected.

We are dependent upon lead generation strategies to drive our sales and revenue. If these marketing strategies fail to continue to generate sales opportunities, our ability to grow our revenue will be adversely affected.

We are dependent upon lead generation strategies to generate sales opportunities. These strategies may not be successful in continuing to generate sufficient sales opportunities necessary to increase our revenue. To the extent that we are unable to successfully attract and grow paying customers, we will not realize the intended benefits of these marketing strategies and our ability to grow our revenue will be adversely affected.

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed. *

The market for application and infrastructure performance monitoring is rapidly evolving, significantly fragmented, and highly competitive, with relatively low barriers to entry in some segments. Our competitors fall into four primary categories:

- performance monitoring providers such as AppDynamics, Inc. (an operating division of Cisco Systems, Inc.), Datadog, Inc., Dynatrace LLC, and Splunk Inc.;
-

diversified technology companies such as International Business Machines Corporation, Microsoft Corporation, and Oracle Corporation;

- large enterprise software and service companies such as BMC Software, Inc. and CA, Inc.; and
- companies offering analytics products competing with our New Relic Insights product, including Amazon Web Services, Inc. and Google Inc.

Some of our competitors and potential competitors are larger and have greater name recognition, longer operating histories, more established customer relationships, larger budgets, and significantly greater resources than we do, and have the operating flexibility to bundle competing products and services with other software offerings at little or no perceived incremental cost, including offering them at a lower price as part of a larger sale. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. In addition, some competitors may offer products or services that address one or a limited number of functions at lower prices or with greater depth than our products. Our current and potential competitors may develop and market new technologies with comparable functionality to our products and platform capabilities, and this could lead to us having to decrease prices in order to remain competitive.

With the introduction of new technologies, the evolution of our products and platform capabilities and new market entrants, we expect competition to intensify in the future. Moreover, as we expand the scope of our solutions, we may face additional competition. Additionally, some potential customers, particularly large enterprises, may elect to develop their own internal products. If one or more of our competitors were to merge or partner with another of our competitors or another large diversified technology company, the change in the competitive landscape could also adversely affect our ability to compete effectively. For example, in March 2017, Cisco Systems, Inc. completed its purchase of AppDynamics, Inc. If we are unable to maintain our current pricing due to the competitive pressures, our margins will be reduced and our operating results will be negatively affected. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses, or the failure of our solutions to achieve or maintain more widespread market acceptance, any of which could harm our business.

Because we recognize revenue from our subscriptions over the subscription term, downturns or upturns in new sales and renewals may not be immediately reflected in our operating results and may be difficult to discern.

We generally recognize revenue from customers ratably over the terms of their subscriptions. A portion of the revenue we report in each quarter is derived from the recognition of revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter may have a small impact on our revenue for that quarter. However, such a decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our solutions, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods. In addition, a significant majority of our costs are expensed as incurred, while revenue is recognized over the life of the agreement with our customer. As a result, increased growth in the number of our customers could continue to result in our recognition of more costs than revenue in the earlier periods of the terms of our agreements. In future periods we expect that the way in which we recognize this revenue will be impacted by Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers,” or Topic 606. Please see the risk factor under the heading “The nature of our business requires the application of complex revenue recognition rules. Significant changes in U.S. generally accepted accounting principles, or GAAP, from the adoption of recently issued accounting standards could materially affect our financial position and results of operations.” for more information.

Seasonality may cause fluctuations in our sales and operating results.

We have experienced seasonality in our sales and operating results in the past, and we believe that we will increasingly experience seasonality in the future as we continue to target larger enterprise customers. The first two quarters of each fiscal year usually have lower or potentially negative sequential deferred revenue growth than the third and fourth fiscal quarters, during which we generally benefit from a larger renewal base and opportunity to up-sell existing customers. We believe that this results from the procurement, budgeting, and deployment cycles of many of our customers, particularly our enterprise customers, which tend to have a concentration of increased activity in the periods surrounding the change of the company’s fiscal year. As a result, over time we could potentially see stronger sequential revenue results in our fourth and first fiscal quarters as our deferred revenue is recognized. We expect that this seasonality will continue to affect our sales and operating results in the future, which can make it difficult to achieve sequential growth in certain financial metrics or could result in sequential declines on a quarterly basis. Accordingly, historical patterns should not be considered indicative of our future sales activity or performance.

Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business and operating results.

Our continued growth depends in part on the ability of our existing and potential customers to access our products and platform capabilities at any time and within an acceptable amount of time. We have experienced, and may in the future experience, disruptions, outages, and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of users accessing our products and platform capabilities simultaneously, denial of service attacks, or other security related incidents. It may become increasingly difficult to maintain and improve our performance, especially during peak usage times and as our products and platform capabilities become more complex and our user traffic increases. If our products and platform capabilities are unavailable or if our users are unable to access our products and platform capabilities within a reasonable amount of time or at all, our business would be negatively affected. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be adversely affected.

In addition, we currently serve our customers from third-party data centers located in the Chicago, Illinois area and, to a lesser extent, a combination of cloud hosting providers. The continuous availability of our products and platform capabilities depends on the operations of our Chicago facilities, on our cloud hosting providers, on a variety of network service providers, on third-party vendors, and on our own site operations staff. We depend on our third-party providers' abilities to protect our Chicago data center facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts, and similar events. If there are any lapses of service or damage to the facilities, we could experience lengthy interruptions in our products and platform capabilities as well as delays and additional expenses in arranging new facilities and services. Even with current and planned disaster recovery arrangements, which, to date, have not been tested in an actual crisis, 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 revenue, subject us to liability, and cause us to issue credits or cause customers not to renew their subscriptions, any of which could harm our business.

Defects or disruptions in our products and platform capabilities could diminish demand, harm our financial results, and subject us to liability.

Our customers use our products and platform capabilities for important aspects of their businesses, and any errors, defects, or disruptions to our products and platform capabilities or other performance problems with our products and platform capabilities could hurt our brand and reputation and may damage our customers' businesses. We provide regular product updates, which may contain undetected errors when first introduced or released. In the past, we have discovered software errors, failures, vulnerabilities, and bugs in our products and platform capabilities after they have been released and new errors in our existing products and platform capabilities may be detected in the future. Real or perceived errors, failures, or bugs in our products and platform capabilities could result in negative publicity, loss of or delay in market acceptance of our products, loss of competitive position, delay of payment to us, lower renewal rates, or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. In addition, we may not carry insurance sufficient to compensate us for the any losses that may result from claims arising from defects or disruptions in our products and platform capabilities. As a result, we could lose future sales and our reputation and our brand could be harmed.

Our ongoing and planned investments in data center hosting facilities are expensive and complex, may result in a negative impact on our cash flows, and may negatively impact our financial results. *

We have made and will continue to make substantial investments in new equipment to support growth at our Chicago area data center hosting facilities and to launch a new European data center, provide enhanced levels of products and platform capabilities to our customers, and potentially reduce future costs of subscription revenue. In addition, we may need to add additional data centers or similar resources to support our growth or as a result of regulatory requirements that may be applicable to us. We have also invested in a combination of cloud hosting providers to serve our customers for certain portions of our service. Ongoing or future improvements to our cloud infrastructure may be more expensive than we anticipate, and may not yield the expected savings in operating costs or the expected performance benefits. We may not be able to maintain or achieve cost savings from our investments, which could harm our financial results.

We may need to change our current operations infrastructure in order for us to achieve profitability and scale our operations efficiently, which makes our future prospects even more difficult to evaluate. For example, in order to grow sales to commercial and enterprise customers in a financially sustainable manner, we may need to further customize our offering and modify our go-to-market strategy to reduce our operating and customer acquisition costs. If we fail to implement these changes on a timely basis or are unable to implement them effectively, our business may suffer.

Because our long-term growth strategy involves further expansion of our sales to customers outside the United States, our business will be susceptible to risks associated with international operations. *

A component of our growth strategy involves the further expansion of our operations and customer adoption internationally. Operating in international markets requires significant resources and management attention and subjects us to regulatory, economic, and political risks that are different from those in the United States. We have limited operating experience in international markets, and we cannot assure you that our expansion efforts into international markets will be successful. Our international expansion efforts may not be successful in creating further demand for our products outside of the United States or in effectively selling our products in the international markets we enter. Our current international operations and future initiatives involve a variety of risks, including:

- changes in a specific country's or region's political or economic conditions;
- unexpected changes in regulatory requirements, taxes, or trade laws;
- regional data security and privacy laws and regulations and the unauthorized use of, or access to, commercial and personal information;
- differing labor regulations where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems, and regulatory systems;
- significant reliance upon, and potential disputes with, local business partners;
- increased travel, real estate, infrastructure, and legal compliance costs associated with international operations;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- limitations on our ability to repatriate earnings;
- laws and business practices favoring local competitors, or general preferences for local vendors;
- limited or insufficient intellectual property protection;
- exposure to liabilities under anti-corruption, export controls and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act, and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash or create other collection difficulties.

Our limited experience operating our business internationally increases the risk that recent and any potential future expansion efforts will not be successful. If substantial time and resources invested to expand our international operations do not result in a successful outcome, our operating results and business will suffer.

If we lose key members of our management team or are unable to attract and retain executives and employees we need to support our operations and growth, our business may be harmed. *

Our success and future growth depend largely upon the continued services of our executive officers and other key employees in the areas of research and development, marketing, sales, services, and general administrative functions. From time to time, there may be changes in our executive management team or other key employees resulting from the hiring or departure of these personnel. Our executive officers and other key employees are employed on an at-will basis, which means that these personnel could terminate their employment with us at any time. The loss of one or more of our executive officers, especially our Chief Executive Officer, Lewis Cirne, or the failure by our executive team to effectively work with our employees and lead our company, could harm our business. We also are dependent on the continued service of our existing software engineers because of the complexity of our products and platform capabilities.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel in the San Francisco Bay Area and the Portland area, where our headquarters and the majority of our research and development personnel are located, respectively, and in other locations where we maintain offices, is intense, especially for engineers experienced in designing and developing software and software-as-a-service, or SaaS, applications and experienced sales professionals. 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 we have breached their legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, or experiences significant volatility, it may adversely affect our ability to recruit and retain key 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 fail to enhance our brand, or to do so in a cost-effective manner, our ability to expand our customer adoption will be impaired and our financial condition may suffer.

We believe that our development of the New Relic brand is critical to achieving widespread awareness of our existing and future digital intelligence solutions, and, as a result, is important to attracting new customers and maintaining existing customers. We also believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts, including our ability to do so in a cost-effective manner, and on our ability to provide reliable and useful products at competitive prices. In the past, our efforts to build our brand have involved significant expenses. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brand.

If we cannot maintain our corporate 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 our corporate culture has been a critical component to our success. We have invested substantial time and resources in building our team. As we grow and mature as a public company, we may find it difficult to maintain our corporate culture. Any failure to preserve our culture could negatively affect our future success, including our ability to recruit and retain personnel and effectively focus on and pursue our corporate objectives.

Acquisitions, strategic investments, partnerships, or alliances 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 and may in the future seek to acquire or invest in businesses, joint ventures, products and platform capabilities, or technologies that we believe could complement or expand our products and platform capabilities, enhance our technical capabilities, or otherwise offer growth opportunities. Any such acquisition or investment may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable opportunities, whether or not the transactions are completed, and may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products and platform capabilities, personnel, or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their software is not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management, or otherwise. These transactions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our existing business. Any such transactions that we are able to complete may not result in any synergies or other benefits we had expected to achieve, which could result in impairment charges that could be substantial. In addition, we may not be able to find and identify desirable acquisition targets or business opportunities or be successful in entering into an agreement with any particular strategic partner. These transactions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if the resulting business from such a transaction fails to meet our expectations, our operating results, business, and financial condition may suffer or we may be exposed to unknown risks or liabilities.

We may be sued by third parties for alleged infringement of their proprietary rights. *

There is considerable patent, copyright, trademark, trade secret, and other intellectual property development activity in our industry. Our success depends in part on not infringing upon the intellectual property rights of others and how we prepare for and handle claims of infringement. From time to time, our competitors or other 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, we are currently party to a suit brought against us by CA, Inc. that alleges, among other things, that we have infringed on certain patents held by CA, Inc. For more information about these proceedings, see Part II, Item 1 “Legal Proceedings.” In the future, we may receive claims that our products, platform capabilities, and underlying technology infringe or violate the claimant’s intellectual property rights. Any claims or litigation, regardless of merit, 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 products and platform capabilities, or require that we comply with other unfavorable terms.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results. We expect that the occurrence of infringement claims is likely to grow as the market for digital intelligence products grows. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources.

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

Our success depends to a significant degree on our ability to protect our proprietary technology and our brand. We rely on a combination of trademarks, trade secret laws, patent, copyrights, service marks, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology and our business may be harmed. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks, or other intellectual property rights that we obtain may be challenged by others or invalidated through administrative process or litigation. As of December 31, 2017, we had one issued patent, eight patent applications pending, and two trademark registrations for “New Relic” in the United States, as well as two Patent Cooperation Treaty applications and four trademark registrations and two trademark applications for “New Relic” outside of the United States. Despite our issued patent and pending patent applications, we may be unable to maintain or obtain patent protection for our technology. In addition, our existing patent and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our products and platform capabilities and use information that we regard as proprietary to create products and services that compete with ours. Effective patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our products is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our international activities, our exposure to unauthorized copying and use of our products and platform capabilities and proprietary information will likely increase. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other parties. No assurance can be given that these agreements will be effective in controlling access to and distribution of our proprietary information. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our products and platform capabilities.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. 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. Further, 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 inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management’s attention and resources, could delay further sales or the implementation of our products and platform capabilities, impair the functionality of our products and platform capabilities, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our products, or injure our reputation.

Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

We use open source software in our products and platform capabilities and expect to continue to use open source software in the future. We may face claims from others claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works, or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license, or require us to devote additional research and development resources to change our platform, any of which would have a negative effect on our business and operating results. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer or discontinue our products and platform capabilities or incur additional costs. We cannot be certain that we have not incorporated open source software in our products and platform capabilities in a manner that is inconsistent with our policies.

We provide service level commitments under some of 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 subscriptions or face contract terminations, which could adversely affect our revenue.

Some of our customer agreements provide service level commitments. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our products and platform capabilities, we may be contractually obligated to provide these customers with service credits or refunds for prepaid amounts related to unused subscriptions, or we could face contract terminations. Our revenue could be significantly affected if we suffer unscheduled downtime that exceeds the allowed downtimes under our agreements with our customers. Any extended service outages could adversely affect our reputation, revenue, and operating results.

If the market for our technology delivery model and SaaS develops more slowly than we expect, our growth may slow or stall, and our operating results would be harmed.

The market for SaaS business software is less mature than traditional on-premise software applications, and the adoption rate of SaaS business software may be slower among subscribers in industries with heightened data security interests or business practices requiring highly-customizable application software. Our success will depend to a substantial extent on the widespread adoption of SaaS business software in general, but we do not know to what extent the trend of adoption of SaaS solutions will continue in the future. In particular, many organizations have invested substantial personnel and financial resources to integrate legacy software into their businesses over time, and some have been reluctant or unwilling to migrate to SaaS. It is difficult to predict customer adoption rates and demand for our products, the future growth rate and size of the SaaS business software market, or the entry of competitive applications. The expansion of the SaaS business software market depends on a number of factors, including the cost, performance, and perceived value associated with SaaS, as well as the ability of SaaS providers to address data security and privacy concerns. If SaaS business software does not continue to achieve market acceptance, or there is a reduction in demand for SaaS business software caused by a lack of customer acceptance, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, competing technologies and products, or decreases in information technology spending, it would result in decreased revenue and our business would be adversely affected.

Our future performance depends in part on support from third-party software developers.

We provide software that enables third-party software developers to build plugins that integrate with our products and platform capabilities. We operate a community website for sharing these third-party plugins. This presents certain risks to our business, including:

- third-party developers may not continue developing or supporting the plugins that they share on our community website;
- we cannot provide any assurance that these plugins meet the same quality standards that we apply to our own development efforts, and, to the extent they contain bugs, defects, or security risks, they may create disruptions in our customers’ use of our software or negatively affect our brand;
- we do not currently provide support for plugins developed by third-party software developers, and users may be left without support and potentially cease using our products if the third-party software developers do not provide support for these plugins; and
- these third-party software developers may not possess the appropriate intellectual property rights to develop and share their plugins.

While many of these risks are not within our control to prevent, our brand may be damaged if these plugins do not perform to our customers’ satisfaction and that dissatisfaction is attributed to us.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs. If additional capital is not available, we may have to delay, reduce, or cease certain investments.

We may in the future require additional capital to respond to business opportunities that may arise, including the need to develop new products and platform capabilities or enhance our existing products and platform capabilities, enhance our operating infrastructure, possible acquisitions of complementary businesses and technologies, a decline in the level of subscriptions for our products, or other unforeseen circumstances. 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 could involve restrictive covenants relating to 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. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to support our business and to respond to business challenges could be significantly limited, and our business, operating results, financial condition, and prospects could be harmed.

Our estimates of market opportunity and forecasts of market growth 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, if at all.

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 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, if at all.

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.

For example, the recent U.S. tax legislation enacted in December 2017 represents a significant overhaul of the U.S. federal tax code. This tax legislation significantly reduced the U.S. statutory corporate tax rate and made other changes that could have a favorable impact on our overall U.S. federal tax liability in a given period. However, the tax legislation also included a number of provisions, including, but not limited to, the limitation or elimination of various deductions or credits (including for interest expense and for performance-based compensation under Section 162(m)), the imposition of taxes on certain cross-border payments or transfers, the changing of the timing of the recognition of certain income and deductions or their character, and the limitation of asset basis under certain circumstances, that could significantly and adversely affect our U.S. federal income tax liability in the event we become profitable in the future. The legislation also made significant changes to the tax rules applicable to insurance companies and other entities with which we do business. We are continuing to evaluate the overall impact of this tax legislation on our operations and U.S. federal income tax position.

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 SaaS-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 and intercompany arrangements. The taxing authorities of jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business does not achieve the intended tax consequences. 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. For instance, it is not uncommon for taxing authorities in different countries to have conflicting views, with respect to, among other things, the manner in which the arm’s length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property.

The nature of our business requires the application of complex revenue recognition rules. Significant changes in U.S. generally accepted accounting principles, or GAAP, from the adoption of recently issued accounting standards could materially affect our financial position and results of operations. *

We prepare our financial statements in accordance with GAAP, which is subject to interpretation or changes by the Financial Accounting Standards Board, or FASB, the SEC, and other various bodies formed to promulgate and interpret appropriate accounting principles. New accounting pronouncements and changes in accounting principles have occurred in the past and are expected to occur in the future, which may have a significant effect on our financial results. For example, in May 2014, the FASB issued Topic 606, which supersedes nearly all existing revenue recognition guidance under GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This new standard is effective for our interim and annual periods beginning April 1, 2018, and we anticipate the new standard to have a significant impact on our deferred commissions asset and the related amortization expense. We are continuing to evaluate the impact of the adoption of this standard on our condensed consolidated financial statements and our preliminary assessments are subject to change. Refer to Note 1 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information on the new guidance and its potential impact on us. Adoption of this standard and any difficulties in implementation of changes in accounting principles, including the ability to modify our accounting systems, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us. In addition, certain choices in the method of implementation of the standard may have an adverse impact on our potential as an acquirer or an acquiree in a business combination.

Our ability to use our net operating loss carryforwards to offset future taxable income may be subject to certain limitations.*

As of our fiscal year ended March 31, 2017, we had U.S. federal and state net operating losses of approximately $313.8 million and $161.4 million, respectively. The federal and state net operating loss carryforwards will begin to expire, if not utilized, beginning in 2028. These net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities. Under the newly enacted federal income tax law, federal net operating losses incurred in tax years beginning after December 31, 2017 may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. It is uncertain if and to what extent various states will conform to the newly enacted federal tax law. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, if a corporation undergoes an "ownership change," which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income or taxes may be limited. We may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which may be outside of our control. If an ownership change occurs and our ability to use our net operating loss carryforwards is materially limited, it would harm our future operating results by effectively increasing our future tax obligations.

Our effective tax rate may fluctuate, and we may incur obligations in tax jurisdictions in excess of accrued amounts. *

We are subject to taxation in numerous U.S. states and territories. As a result, our effective tax rate is derived from a combination of applicable tax rates in the various places that we operate. In preparing our financial statements, we estimate the amount of tax that will become payable in each of such places. Nevertheless, our effective tax rate may be different than experienced in the past due to numerous factors, including passage of the newly enacted federal income tax law, changes in the mix of our profitability from state to state, the results of examinations and audits of our tax filings, our inability to secure or sustain acceptable agreements with tax authorities, changes in accounting for income taxes and changes in tax laws. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations and may result in tax obligations in excess of amounts accrued in our financial statements.

We may face exposure to foreign currency exchange rate fluctuations.

While we have historically transacted in U.S. dollars with substantially all of our customers and vendors, we have transacted in foreign currencies and may transact in foreign currencies in the future. In addition, any international subsidiaries will maintain net assets that are denominated in currencies other than the functional operating currencies of these entities. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar can affect our revenue and operating results due to transactional and translational remeasurement that is reflected in our earnings. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our common stock could be adversely affected. We do not currently maintain a program to hedge transactional exposures in foreign currencies. 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. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

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 information technology industry may harm us. The United States and other key international economies have been impacted in the past 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. In particular, the decision by voters in the United Kingdom to leave the EU has resulted in significant and wide-ranging economic effects across multiple markets. A withdrawal could, among other outcomes, disrupt the free movement of goods, services, and people between the United Kingdom and the EU, undermine bilateral cooperation in key policy areas, and significantly disrupt trade between the United Kingdom and the EU. In addition, a withdrawal could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which EU laws to replace or replicate. Given the lack of comparable precedent, it is unclear what financial, trade, and legal implications the withdrawal of the United Kingdom from the EU would have and how such withdrawal would affect us.

The revenue growth and potential profitability of our business depends on demand for software applications and products generally, and application performance monitoring and our other digital intelligence offerings specifically. In addition, our revenue is dependent on the number of users of our products and the degree of adoption of such users with respect to our digital intelligence products and platform capabilities. Historically, during economic downturns there have been reductions in spending on information technology systems as well as pressure for extended billing terms and other financial concessions, which would limit our ability to grow our business and negatively affect our operating results. These conditions affect the rate of information technology spending and could adversely affect our customers’ ability or willingness to purchase our products, 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.

Natural disasters and other events beyond our control could harm our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce, and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics, and other events beyond our control. We rely on our network and third-party infrastructure and enterprise applications, internal technology systems, and our website for our development, marketing, operational support, hosted products, and sales activities. The west coast of the United States contains active earthquake zones. Although we maintain crisis management and disaster response plans, in the event of a major earthquake, hurricane, or catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war, or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our product development, lengthy interruptions in service, breaches of data security, and loss of critical data, all of which could have an adverse effect on our future operating results.

The requirements of being a public company may strain our resources, divert management’s attention, and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of the New York Stock Exchange, and other applicable securities rules and regulations. Compliance with these rules and regulations increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight is required. We are required to disclose changes made in our internal control and procedures on a quarterly basis and we are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees and have engaged outside consultants to assist us in complying with these requirements, we may need to hire more employees in the future or engage additional outside consultants, which will increase our operating expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

Being a public company and the aforementioned rules and regulations have made it more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in our filings with the SEC, our business and financial condition have become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

Our quarterly results may fluctuate, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our quarterly financial results may fluctuate widely as a result of the risks and uncertainties described in this report, many of which are outside of our control. If our financial results fall below the expectations of investors or any securities analysts who follow our stock, the price of our common stock could decline substantially.

We believe that quarter-to-quarter comparisons of our revenue, operating results, and cash flows may not be meaningful and should not be relied upon as an indication of future performance. If our revenue or operating results fall below the expectations of investors or securities analysts in a particular quarter, or below any guidance we may provide, the price of our common stock could decline.

Our stock price has been subject to fluctuations, and will likely continue to be subject to fluctuations, which may be volatile and due to factors beyond our control. *

The market price of our common stock is subject to wide fluctuations in response to various factors, some of which are beyond our control. Since shares of our common stock were sold in our IPO in December 2014 at a price of $23.00 per share, the reported high and low sales prices of our common stock has ranged from $60.85 to $20.39 through December 31, 2017. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this report, factors that could cause fluctuations in the market price of our common stock include the following:

- actual or anticipated fluctuations in our operating results;
- the financial projections we may provide to the public, any changes in these projections, or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates and publication of other news by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;

- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;

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- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market from time to time, including as a result of trends in the economy as a whole;
- changes in accounting standards, policies, guidelines, interpretations, or principles, such as the adoption of FASB issued Topic 606, the new revenue recognition standard;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- developments or disputes concerning our intellectual property or our products and platform capabilities, or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws, or regulations applicable to our business;
- changes in our board of directors or management;
- sales of shares of our common stock by us, our officers, directors, or other stockholders;
- lawsuits filed or threatened against us; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

In addition, the market for technology stocks and the stock markets in general have experienced extreme price and volume fluctuations. 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 instituted 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, results of operations, financial condition, and cash flows. A decline in the value of our common stock, including as a result of one or more factors set forth above, may result in substantial losses for our stockholders.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

The market price of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers, and significant stockholders, a large number of shares of our common stock becoming available for sale, or the perception in the market that holders of a large number of shares intend to sell their shares. Additionally, the shares of common stock subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans, as well as shares issuable upon vesting of restricted stock awards, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. Moreover, some holders of shares of our common stock have rights, subject to certain conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders. We have also registered shares of common stock that we may issue under our employee equity incentive plans. Accordingly, these shares may be able to be sold freely in the public market upon issuance as permitted by any applicable vesting requirements.

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 would 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 would 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 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.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of our board of directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- provide that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of at least seventy-five percent (75%) of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any delay or prevention of a change of control transaction or changes in our management could cause the market price of our common stock to decline.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for the adjudication of certain disputes, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees. *

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee of New Relic to us or our stockholders;
- any action asserting a claim against us or any of our directors, officers, or other employees arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws; and
- any action asserting a claim against us or any of our directors, officers, or other employees that is governed by the internal affairs doctrine.

This exclusive-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, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find this exclusive-forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business.

We do not intend to pay dividends on our common stock so any returns will be limited to changes in the value of our common stock.

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation, and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends on our common stock may be prohibited or limited by the terms of any future debt financing arrangements. Any return to stockholders will therefore be limited to the increase, if any, of our stock price, which may never occur.

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

Unregistered Sales of Equity Securities

In October 2017, we issued 43,092 shares of our common stock to four accredited investors as part of the consideration for our October 2014 acquisition of Ducksboard. We believe these transactions were exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act or Regulation D promulgated thereunder or Regulation S promulgated under the Securities Act. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about our company.

Use of Proceeds from Registered Securities

On December 17, 2014, we closed our IPO of 5,750,000 shares of our common stock, including 750,000 shares of common stock from the full exercise of the option to purchase additional shares granted to the underwriters, at a price to the public of $23.00 per share. The offer and sale of all of the shares in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-200078), which was declared effective by the SEC on December 11, 2014.

There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on December 12, 2014 pursuant to Rule 424(b)(4). Pending the uses described, we have invested the net proceeds from the offering in short-term, investment-grade interest-bearing securities such as money market accounts, certificates of deposit, commercial paper, and guaranteed obligations of the U.S. government.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	File Date	
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-K	001-36766	3.1	May 28, 2015	
3.2	Amended and Restated Bylaws of the Registrant.	S-1	333-200078	3.4	November 10, 2014	
10.1	Fifth Amendment to Lease by and between the Registrant and 188 Spear Street LLC, dated as of December 29, 2017.					X
10.2	Form of Extension to Change in Control and Severance Agreement.					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1(1)	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

(1) The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any of the Registrant’s filings under the Securities Act of 1933, as amended, irrespective of any general incorporation language contained in any such filing.

SIGNATURES

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

		NEW RELIC, INC.
Date:	February 6, 2018	
	By:	/s/ Mark Sachleben
		Mark Sachleben
		Chief Financial Officer
		(Principal Financial and Accounting Officer and Duly Authorized Signatory)