NEW RELIC, INC.
Form 10-Q
February 07, 2019

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, 2018
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes 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	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 28, 2019, there were 57,351,466 shares of the registrant’s common stock, par value $0.001 per share, outstanding.

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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 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 ne 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 and limitations of non-GAAP financial measures;
- the sufficiency of our cash and cash equivalents to meet our working capital, capital expenditures, 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 rights;
- 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.

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

	December 31, 2018	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$185,462	$132,479
Short-term investments	536,849	115,441
Accounts receivable, net of allowance for doubtful accounts of $1,748 and $1,728, respectively	102,433	99,488
Prepaid expenses and other current assets	16,739	15,591
Deferred contract acquisition costs	25,275	—
Total current assets	866,758	362,999
Property and equipment, net	71,076	53,899
Restricted cash	8,254	8,202
Goodwill	15,334	11,828
Intangible assets, net	3,394	1,312
Deferred contract acquisition costs, non-current	24,487	—
Other assets	4,536	5,086
Total assets	$993,839	$443,326
Liabilities, redeemable non-controlling interest and stockholders’ equity		
Current liabilities:		
Accounts payable	$11,237	$2,985
Accrued compensation and benefits	23,222	17,414
Other current liabilities	11,054	8,619
Deferred revenue	200,231	189,633
Total current liabilities	245,744	218,651
Convertible senior notes, net	400,845	—
Deferred rent, non-current	10,620	8,147
Deferred revenue, non-current	6,638	649
Other liabilities, non-current	899	775
Total liabilities	664,746	228,222
Commitments and contingencies (Note 9)		
Redeemable non-controlling interest	3,313	—
Stockholders’ equity:		
Common stock, $0.001 par value; 100,000 shares authorized at December 31, 2018 and March 31, 2018; 57,536 shares and 56,213 shares issued at December 31, 2018 and March 31, 2018, respectively; and 57,276 shares and 55,953 shares outstanding at December 31, 2018 and March 31, 2018, respectively	57	56
Treasury stock - at cost (260 shares)	(263)	(263)
Additional paid-in capital	614,674	521,119
Accumulated other comprehensive income (loss)	39	(324)
Accumulated deficit	(288,727)	(305,484)
Total stockholders’ equity	325,780	215,104
Total liabilities, redeemable non-controlling interest and stockholders’ equity	$993,839	$443,326

See notes to condensed consolidated financial statements.

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,	
	2018	2017	2018	2017
Revenue	$124,011	$91,827	$347,128	$256,610
Cost of revenue	20,206	15,671	55,703	46,342
Gross profit	103,805	76,156	291,425	210,268
Operating expenses:				
Research and development	26,182	18,154	72,747	54,686
Sales and marketing	66,461	51,393	185,091	152,015
General and administrative	19,702	14,596	51,293	42,843
Total operating expenses	112,345	84,143	309,131	249,544
Loss from operations	(8,540)	(7,987)	(17,706)	(39,276)
Other income (expense):				
Interest income	3,922	534	9,026	1,503
Interest expense	(5,669)	(21)	(13,932)	(64)
Other income (expense), net	(8)	(45)	(1,285)	117
Loss before income taxes	(10,295)	(7,519)	(23,897)	(37,720)
Income tax provision (benefit)	(106)	210	440	634
Net loss	$(10,189)	$(7,729)	$(24,337)	$(38,354)
Net loss attributable to redeemable non-controlling interest	86	—	283	—
Net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Net loss attributable to New Relic per share, basic and diluted	$(0.18)	$(0.14)	$(0.42)	$(0.70)
Weighted-average shares used to compute net loss per share, basic and diluted	57,096	55,196	56,663	54,534

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,	
	2018	2017	2018	2017
Net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Other comprehensive loss:				
Unrealized gain (loss) on available-for-sale securities, net of tax	612	(135)	363	(133)
Comprehensive loss	$(9,491)	$(7,864)	$(23,691)	$(38,487)

See notes to condensed consolidated financial statements.

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

	Nine Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net loss attributable to New Relic	$(24,054)	$(38,354)
Net loss attributable to redeemable non-controlling interest (Note 3)	(283)	—
Net loss:	(24,337)	(38,354)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	38,585	17,306
Stock-based compensation expense	39,624	29,778
Amortization of debt discount and issuance costs	12,313	—
Other	(800)	498
Changes in operating assets and liabilities:		
Accounts receivable	(3,411)	9,223
Prepaid expenses and other assets	3,262	(4,438)
Deferred contract acquisition costs	(27,689)	—
Accounts payable	3,850	(829)
Accrued compensation and benefits and other liabilities	7,771	2,475
Deferred revenue	16,827	8,938
Deferred rent	899	(504)
Net cash provided by operating activities	66,894	24,093
Cash flows from investing activities:		
Purchases of property and equipment	(29,715)	(17,577)
Cash paid for acquisition (Note 2)	(5,556)	—
Purchases of short-term investments	(581,504)	(78,074)
Proceeds from sale and maturity of short-term investments	161,237	88,232
Capitalized software development costs	(3,810)	(3,054)
Net cash used in investing activities	(459,348)	(10,473)
Cash flows from financing activities:		
Investment from redeemable non-controlling interest	3,596	—
Proceeds from issuance of convertible senior notes, net of issuance costs paid of $11,582	488,669	—
Purchase of capped call related to convertible senior notes	(63,182)	—
Proceeds from employee stock purchase plan	4,887	3,029
Proceeds from exercise of employee stock options	11,519	20,370
Net cash provided by financing activities	445,489	23,399
Net increase in cash, cash equivalents and restricted cash	53,035	37,019
Cash, cash equivalents and restricted cash at beginning of period	140,681	96,420
Cash, cash equivalents and restricted cash at end of period	$193,716	$133,439
Supplemental disclosure of cash flow information:		
Cash paid for interest and income taxes	$683	$358
Noncash investing and financing activities:		
Property and equipment purchased but not yet paid	$5,758	$256
Acquisition holdback	865	—

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 incorporated in Delaware on February 20, 2008, when it converted from a Delaware limited liability company called New Relic Software, LLC, which was formed in Delaware in September 2007. The Company is a software-as-a-service provider of 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 products and platform capabilities enable software developers, IT operations, and business users to better operate 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, 2018, as filed with the SEC on May 11, 2018 (the "Annual Report"). Except for updates to the Company's accounting policies related to the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers regarding Accounting Standards Codification ("ASC") Topic 606 ("ASC 606"), 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.

Effective April 1, 2018, the Company adopted the requirements of ASC 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the period presented, ASC 605, Revenue Recognition ("ASC 605").
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 period, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending March 31, 2019. The condensed consolidated balance sheet as of March 31, 2018 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. Significant items subject to such estimates and assumptions include the fair value of share-based awards, fair value of purchased intangible assets and goodwill, fair value of debt and equity components related to the 0.5% convertible senior notes due 2023 (the "Notes"), useful lives of purchased intangible assets, unrecognized tax benefits, expected benefit period for deferred commissions and the capitalization and estimated useful life of the Company's software development costs.
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 was one customer that represented more than 10% of the Company's accounts receivable balance as of December 31, 2018 and no customers that represented more than 10% of the Company's accounts receivable balance as of March 31, 2018. There were no customers that individually exceeded 10% of the Company's revenue during the three and nine months ended December 31, 2018 or 2017.

Summary of Significant Accounting Policies—Except for the accounting policies for revenue recognition, deferred revenue and deferred commissions that were updated as a result of adopting ASC 606 and those related to our Notes, there have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, filed with the SEC on May 11, 2018 that have had a material impact on our condensed consolidated financial statements and related notes. See Note 4—Revenue Recognition for a summary of our new accounting policies under ASC 606.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 regarding ASC 606, amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASC 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. The Company adopted ASC 606 and its related amendments effective on April 1, 2018 using the modified retrospective method. See Note 4—Revenue Recognition for disclosure on the impact of adopting this standard on the Company's condensed consolidated financial statements.

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. ASU 2016-02 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. The Company plans to adopt this new standard using the modified retrospective approach with optional practical expedients in the first quarter of fiscal 2020. The Company continues to evaluate the accounting, transition, and disclosure requirements of this standard and cannot currently estimate the financial statement impact of adoption.

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 November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents in the statements of cash flows. The Company adopted the standard in its fiscal year beginning April 1, 2018. Adoption was applied on a retrospective basis to all periods presented. Aside from conforming to new cash flow presentation and restricted cash disclosure requirements, the standard did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. This standard is effective for goodwill impairment tests performed by the Company in the fiscal year beginning April 1, 2020; early adoption is permitted. The Company has not yet adopted ASU 2017-04 and does not believe that this standard will have a material impact on its consolidated financial statements or disclosures.

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. On April 1, 2018, the Company adopted ASU 2017-09 and the adoption did not have a significant impact on its condensed consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, which amends ASC Topic 740, Income Taxes to conform with SEC Staff Accounting Bulletin (SAB) No. 118, issued in December 2017. The guidance was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act. See Note 11—Income Taxes.

In March 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use

Software and Cloud Computing Arrangements, which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Non-Employee Share Based Payment Accounting (“ASU 2018-07”), with an intent to reduce cost and complexity and to improve financial reporting for share-based payments issued to non-employees. The amendments in ASU 2018-07 provide for the simplification of the measurement of share-based payment transactions for acquiring goods and services from non-employees. Currently, the accounting requirements for nonemployee and employee share-based payment transactions are significantly different. This standard expands the scope of Topic 718 to include share-based payments issued to nonemployees for goods or services, aligning the accounting for share-based payments to nonemployees and employees. ASU 2018-07 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those periods, and early adoption is permitted. The Company plans to adopt this new standard in the first quarter of fiscal 2020. The Company does not expect the adoption to have a significant impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”), which amends ASC 820, Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The effective date is the first quarter of fiscal year 2021, with early adoption permitted for the removed disclosures and delayed adoption permitted until fiscal year 2021 for the new disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company has not yet adopted ASU 2018-13 and is currently evaluating the effect the standard will have on its consolidated financial statements.

2. Business Combination

On October 9, 2018, the Company acquired certain assets of CoScale NV (“CoScale”), a public limited liability company organized and existing under the laws of Belgium that provides solutions for monitoring the performance of software container environments for $6.3 million in cash. The Company held back approximately $0.9 million from the aggregate purchase price. Of the total purchase price, $2.9 million was allocated to acquired technology with an estimated useful life of three years, with the excess $3.4 million of the purchase price over the fair value of intangible assets acquired recorded as goodwill. The Company also recognized transaction costs of approximately $0.3 million, which is also included in general and administrative expense in its condensed consolidated statement of operations for the nine months ended December 31, 2018. The acquisition has been accounted for as a business combination under the acquisition method. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities, and is not deductible for tax purposes.The business combination did not have a material impact on the condensed consolidated financial statements and therefore historical and proforma disclosures have not been presented.

3. Joint Venture

On July 13, 2018, the Company entered into an agreement with Japan Cloud Computing L.P. (“JCC”) and M30 LLC (collectively, the Investors) to engage in the investment, organization, management and operation of New Relic K.K., a Japanese subsidiary of the Company that is focused on the sale of the Company’s products and services in Japan. On August 21, 2018, the investors initially contributed approximately $3.6 million (396,000,000 Japanese Yen) in exchange for 40% of the outstanding common stock of New Relic K.K. Furthermore, under the terms of the agreement, the Company and the Investors have agreed to subscribe to additional shares by contributing additional funding of up to approximately $1.4 million (156,000,000 Japanese Yen) and approximately $0.9 million (104,000,000 Japanese Yen), respectively, on August 21, 2019. The additional funding amounts are fixed in Japanese Yen irrespective of any currency fluctuation. As of December 31, 2018, the Company owned approximately 60% of the outstanding common stock in New Relic K.K.

All of the common stock held by the Investors may be callable by the Company or puttable by the Investors upon certain contingent events. Should the call or put option be exercised, the redemption value would be determined based on a prescribed formula derived from the discrete revenues of New Relic K.K. and the Company and may be settled, at the Company's discretion, with Company stock or cash. As a result of the put right available to the redeemable non-controlling interest holders in the future, the redeemable non-controlling interests in New Relic K.K. are classified outside of permanent equity in the Company's condensed consolidated balance sheet as of December 31, 2018, and the balance is reported at the greater of the initial carrying amount adjusted for the redeemable non-controlling interests' share of earnings or losses, or its estimated redemption value. The resulting changes in the estimated redemption amount are recorded within retained earnings or, in the absence of retained earnings, additional paid-in-capital. The estimated redemption value of the call/put option embedded in the redeemable non-controlling interests was $0 at December 31, 2018.

The following table summarizes the activity in the redeemable non-controlling interests for the period indicated below:

Balance as of July 1, 2018	$—
Investment by redeemable non-controlling interest	3,596
Net loss attributable to redeemable non-controlling interest	$(283)
Balance as of December 31, 2018	$3,313

4. Revenue Recognition

The Company offers a comprehensive suite of products delivered on its open and extensible cloud-based platform that enable organizations to collect, store and analyze massive amounts of data in real time so they can better operate their applications and infrastructure and improve their digital customer experience. The Company generates revenue by selling subscription-based arrangements that allow its customers to access its cloud-based platform.

The Company determines revenue recognition through the following steps: (i) identification of the contract, or contracts with a customer, (ii) identification of the performance obligations in the contract, (iii) determination of the transaction price, (iv) allocation of the transaction price to the performance obligations in the contract, and (v) recognition of revenue, when, or as, the Company satisfies a performance obligation.

Subscription revenue is recognized on a ratable basis over the contractual subscription period of the arrangement beginning when or as control of the promised goods or services is transferred to the customer. Deferred revenue consists of billings or payments received in advance of revenue being recognized.

ASC 606 Adoption Impact

The primary impact of adopting the new standard relates to the deferral of incremental commission costs of obtaining contracts. Previously, the Company recorded commissions as sales and marketing expenses as incurred. Under the new standard, the Company capitalizes incremental commissions related to initial contracts and amortizes such costs over the expected period of benefit, which the Company has determined to be three years. With regards to incremental commissions related to renewal contracts, the Company has adopted the practical expedient to expense such commissions as incurred, as the commission paid on renewals are commensurate and the contract periods are generally one year or less. The Company has adopted ASC 606 in the first quarter of fiscal year 2019 using the modified retrospective approach and applied the standard to all contracts as of April 1, 2018. The cumulative effect of applying this standard was recognized on April 1, 2018. See below for the impact of adopting this standard.

The Company recognized the cumulative effect of applying the new revenue standard as an adjustment to the opening balance of accumulated deficit at April 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the periods prior to adoption, ASC 605. In connection with the adoption of ASC 606, the Company also adopted ASC 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Company refers to ASC 606 and ASC 340-40 as the “new standard.”

Adoption of the new standard resulted in changes to the Company’s accounting policies for revenue recognition, commissions and deferred commissions as discussed below. The Company recorded a net reduction to the opening balance of accumulated deficit of $40.8 million as of April 1, 2018 due to the cumulative impact of adopting the new standard. The primary impact of adopting the new standard relates to the deferral of $40.6 million in incremental commission costs of obtaining subscription contracts. Under ASC 605, the Company recorded commissions as sales and marketing expenses as incurred. Under the new standard, the Company capitalizes incremental commissions related to initial contracts and amortizes these costs over a period of benefit determined to be three years. The remaining impact of adopting the standard is immaterial.

Practical Expedients and Exemptions

The Company applied ASC 606 using the following practical expedients: (i) costs of obtaining contracts with customers are expensed when the amortization period would have been one year or less; and (ii) contract acquisition costs are calculated based on a portfolio of contracts with similar characteristics instead of on a contract-by-contract analysis.

Impact on the Condensed Consolidated Financial Statements

Select condensed consolidated balance sheet line items, which reflects the adoption impact of the new standard as reported, as well as the impact of adoption, are as follows (in thousands):

	December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)
Assets:			
Deferred contract acquisition costs, current	$25,275	$—	$25,275
Deferred contract acquisition costs, non-current	24,487	—	24,487
Liabilities:			
Deferred revenue, current	$200,231	$201,286	$(1,055)
Deferred revenue, non-current	6,638	6,624	14
Stockholders' equity:			
Accumulated deficit	$(288,727)	$(339,920)	$51,193

Select condensed consolidated statement of operations line items, which reflects the adoption of the new standard, as reported, as well as the impact of adoption, are as follows (in thousands, except per share information):

	Three Months Ended December 31, 2018			Nine Months Ended December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)	As Reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)
Revenue	$124,011	$123,603	$408	$347,128	$346,339	$789
Sales and marketing	66,461	$70,083	$(3,622)	185,091	$194,290	$(9,199)
Loss from operations	$(8,540)	$(12,570)	$4,030	$(17,706)	$(27,694)	$9,988
Net loss attributable to New Relic	$(10,103)	$(14,133)	$4,030	$(24,054)	$(34,042)	$9,988
Net loss per share, basic and diluted	$(0.18)	$(0.25)	$0.07	$(0.42)	$(0.60)	$0.18

Select condensed consolidated cash flow line items, which reflects the adoption of the new standard as reported, as well as the impact of adoption, are as follows (in thousands):

Nine Months Ended December 31, 2018		
As Reported	Balances without adoption of ASC	Effect of Change

		606	Higher (Lower)
Depreciation and amortization	$38,585	$20,095	$18,490
Deferred contract acquisition costs	$(27,689)	$—	$(27,689)
Net cash provided by operating activities	$66,896	$66,896	$—

Disaggregation of Revenue

For disaggregated revenue by geography, refer to Note 13—Revenue by Geographic Location.

Contract Balances

The following table provides information about deferred revenue (in thousands):

	Deferred Revenue	
	Current	Non-Current
April 1, 2018	$188,860	$ 1,182
December 31, 2018	200,231	6,638

The Company receives payments from customers based upon billing cycles. As the Company performs under customer contracts, its right to consideration that is unconditional is considered to be accounts receivable. If the Company's right to consideration for such performance is contingent upon a future event or satisfaction of additional performance obligations, the amount of revenues the Company has recognized in excess of the amount it has billed to the customer is considered to be a contract asset. Contract assets are immaterial, and as a result, the Company has no asset impairment charges related to contract assets in the period. Deferred revenue represents considerations received from customers in excess of revenues recognized.

Revenue recognized during the three and nine months ended December 31, 2018, which was included in the deferred revenue balances at the beginning of the period, was $90.5 million and $169.3 million, respectively. The satisfaction of performance obligations typically lags behind payments received under the new standard, which may lead to an increase in the Company's deferred revenue balance over time. Movements between contract assets and receivables was not significant during the three and nine months ended December 31, 2018.

Deferred Commission Costs (Contract Acquisition Costs)

In connection with the adoption of ASC 340-40, the Company is required to capitalize certain contract acquisition costs primarily consisting of commissions. As of April 1, 2018, the date of adoption of ASC 340-40, the Company had $40.6 million capitalized in deferred contract acquisition costs related to contracts where the benefit period had not yet expired. In the three and nine months ended December 31, 2018, amortization from amounts capitalized was $6.7 million and $18.5 million, respectively, and amounts expensed as incurred were $2.3 million and $5.5 million, respectively. The Company had no impairment loss in relation to costs capitalized.

Remaining Performance Obligations

As of December 31, 2018, the unrecognized transaction price related to remaining performance obligations was $415.7 million. The Company expects to recognize more than 93% of the remaining performance obligations over the next 24 months, with the remainder recognized thereafter.

5. 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, 2018 and March 31, 2018 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$101,475	$—	$ —	$101,475
Commercial paper	—	10,153	—	10,153
Short-term investments:				
Certificates of deposit	—	33,248	—	33,248
Commercial paper	—	35,157	—	35,157
Corporate notes and bonds	—	18,302	—	18,302
U.S. treasury securities	429,947	—	—	429,947
U.S. government agencies	—	20,195	—	20,195
Restricted cash:				
Money market funds	8,254	—	—	8,254
Total	$539,676	$117,055	$ —	$656,731
Included in cash and cash equivalents				$111,628
Included in short-term investments				$536,849
Included in restricted cash				$8,254

	Fair Value Measurements as of March 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$38,458	$—	$ —	$38,458
Commercial paper	—	21,710	—	21,710
U.S. treasury securities	2,698	—	—	2,698
U.S. government agencies	—	5,498	—	5,498
Short-term investments:				
Certificates of deposit	—	20,492	—	20,492
Commercial paper	—	21,699	—	21,699
Corporate notes and bonds	—	9,794	—	9,794
U.S. treasury securities	40,187	—	—	40,187
U.S. government agencies	—	23,269	—	23,269
Restricted cash:				
Money market funds	8,202	—	—	8,202
Total	$89,545	$102,462	$ —	$192,007
Included in cash and cash equivalents				$68,364
Included in short-term investments				$115,441
Included in restricted cash				$8,202

There were no transfers between fair value measurement levels during the nine months ended December 31, 2018 and 2017.

Gross unrealized gains or losses for cash equivalents and short-term investments as of December 31, 2018 and March 31, 2018 were not significant. As of December 31, 2018 and March 31, 2018, 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, 2018 and March 31, 2018 (in thousands):

	December 31, 2018	March 31, 2018
Due within one year	$362,542	$96,924
Due after one year through two years	174,307	18,517
Total	$536,849	$115,441

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.

Convertible Senior Notes

As of December 31, 2018, the fair value of the Notes was $456.8 million. The fair value was determined based on the quoted price of the Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 in the fair value hierarchy.

6. Property and Equipment

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

	December 31, 2018	March 31, 2018
Computers, software, and equipment	$10,014	$8,335
Site operation equipment	56,627	37,254
Furniture and fixtures	3,408	2,981
Leasehold improvements	37,341	34,316
Capitalized software development costs	41,478	38,062
Total property and equipment	148,868	120,948
Less: accumulated depreciation and amortization	(77,792)	(67,049)
Total property and equipment, net	$71,076	$53,899

Depreciation and amortization expense related to property and equipment was $6.5 million and $5.5 million for the three months ended December 31, 2018 and 2017, respectively, and $18.7 million and $16.3 million for the nine months ended December 31, 2018 and 2017, respectively.

7. 0.5% Convertible Senior Notes and Capped Call

In May 2018, the Company issued $500.25 million in aggregate principal amount of Notes in a private offering, including an additional $65.25 million aggregate principal amount of such notes pursuant to the exercise in full of the initial purchasers' over-allotment option. The Notes are the Company's senior unsecured obligations and bear interest at a fixed rate of 0.5% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2018. The Notes will mature on May 1, 2023, unless earlier converted or repurchased. The total net proceeds from the Notes, after deducting initial purchase discounts and debt issuance costs, were approximately $487.4 million. Each $1,000 principal amount of the Notes will initially be convertible into 9.0244 shares of our common stock, (the "Conversion Option"), which is equivalent to an initial conversion price of approximately $110.81 per share. The Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding November 1, 2022, only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on September 30, 2018 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the Notes) per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the Notes on each such trading day; or (3) upon the occurrence of specified corporate events as set forth in the indenture governing the Notes. On or after November 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, in the manner and subject to the terms and conditions provided in the indenture governing the Notes. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the indenture governing the Notes. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate, in certain circumstances, for a holder who elects to convert its Notes in connection with such a corporate event. During the three and nine months ended December 31, 2018, the conditions allowing holders of the Notes to convert have not been met. The Notes are therefore not convertible during the three and nine months ended December 31, 2018 and are classified as long-term debt for such periods.

In accounting for the transaction, the Notes were separated into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The carrying amount of the equity component representing the Conversion Option was $102.5 million and was determined by deducting the fair value of the liability component from the proceeds received upon issuance of the Notes. The equity component was recorded in additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the Notes over the liability component (the "Debt Discount") is amortized to interest expense over the contractual term of the Notes at an effective interest rate of 5.74%.

In accounting for the debt issuance costs of $11.6 million related to the Notes, the Company allocated the total amount incurred to the liability and equity components using the same proportions as the proceeds of the Notes. Issuance costs attributable to the liability component were $9.2 million and will be amortized to interest expense using the effective interest method over the contractual term of the Notes. Issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

The net carrying amount of the liability component of the Notes is as follows (in thousands):

	December 31, 2018	March 31, 2018
Principal	$500,250	$ —
Unamortized debt discount	(91,087)	—
Unamortized issuance costs	(8,318)	—
Net carrying amount	$400,845	$ —

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Interest expense related to the Notes is as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Amortization of debt discount	$ 4,654	—	$ 11,421	—
Amortization of issuance costs	367	—	891	—
Contractual interest expense	625	—	1,549	—
Total interest expense	$ 5,646	—	$ 13,861	—

In connection with the offering of the Notes, the Company entered into privately negotiated capped call transactions with certain counterparties, (the "Capped Calls"). The Capped Calls each have an initial strike price of approximately $110.81 per share, subject to certain adjustments, which correspond to the initial conversion price of the Notes. The Capped Calls have initial cap prices of $173.82 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 4.5 million shares of our common stock. Conditions that cause adjustments to the initial strike price of the Capped Calls mirror conditions that result in corresponding adjustments for the Notes. The Capped Calls are generally intended to reduce potential dilution to holders of the Company's common stock upon any conversion of the Notes and/or offset any cash payments New Relic is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of $63.2 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital

8. Goodwill and Purchased Intangibles Assets

The changes in the carrying amount of goodwill for the nine months ended December 31, 2018 consist of the following (in thousands):

Goodwill as of March 31, 2018	$11,828
Goodwill acquired	3,506
Goodwill as of December 31, 2018	$15,334

Purchased intangible assets subject to amortization as of December 31, 2018 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 7,816	$ (4,422)	$ 3,394

Purchased intangible assets subject to amortization as of March 31, 2018 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 4,900	$ (3,588)	$ 1,312

Amortization expense of purchased intangible assets was $0.4 million and $0.2 million for the three months ended December 31, 2018 and 2017, respectively, and $0.8 million and $1.0 million for the nine months ended December 31, 2018 and 2017, respectively.

Estimated future amortization expense as of December 31, 2018 is as follows (in thousands):

Fiscal Years Ending March 31,	Estimated Future Amortization Expense
2019 (remaining 3 months)	$ 440
2020	1,496
2021	972
2022	486
	$ 3,394

9. Commitments and Contingencies

Leases—The Company leases office space under non-cancelable operating lease agreements, which expire from 2019 through 2028.

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, 2018 and March 31, 2018, $11.7 million and $8.9 million was recorded as deferred rent, respectively.

Rent expense, net of sublease income, for operating leases was $3.8 million and $3.1 million for the three months ended December 31, 2018 and 2017, respectively, and $11.4 million and $8.4 million for the nine months ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2018 were as follows (in thousands):

Fiscal Years Ending March 31,	Operating Leases
2019 (remaining 3 months)	$ 4,021
2020	15,530
2021	15,432
2022	15,077
2023	15,495
Thereafter	45,866
Total minimum future lease payments	$ 111,421

Purchase Commitments—As of December 31, 2018 and March 31, 2018, the Company had purchase commitments of $30.8 million and $26.5 million, respectively, primarily related to data center, cloud and 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, 2018. 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, 2018.

Other Contingencies—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.

10. 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 the nine months ended December 31, 2018, 82,851 shares of common stock were purchased under the ESPP. For the nine months ended December 31, 2017, 101,493 shares of common stock were purchased under the ESPP. Stock-based compensation expense recognized related to the ESPP was $1.0 million and $0.6 million for the three months ended December 31, 2018 and 2017, respectively, and $2.5 million and $1.6 million for the nine months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there were 2,346,386 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, 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, 2018, there were 11,662,042 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, 2018 (in thousands, except exercise price, contractual term and fair value 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, 2018	3,215	$ 22.79	6.7	$ 165,041	2,079	$ 42.31	2.7	$ 154,071
Stock options granted	307	98.32						
RSUs granted					748	96.28		
Stock options exercised	(552)	20.89		41,555				
RSUs vested					(688)	41.38		
Stock options canceled/forfeited	(96)	52.74						
RSUs canceled/forfeited					(248)	50.84		
Outstanding - December 31, 2018	2,874	$ 30.22	6.1	$ 150,780	1,891	$ 62.88	2.7	$ 153,149

Stock-Based Compensation Expense—Aggregate stock-based compensation expense for employees and nonemployees was $14.8 million and $9.9 million for the three months ended December 31, 2018 and 2017, respectively, and $39.6 million and $29.8 million for the nine months ended December 30, 2018 and 2017, 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,	
	2018	2017	2018	2017
Cost of revenue	$934	$587	$2,522	$1,716
Research and development	4,322	2,959	11,443	9,100
Sales and marketing	6,222	3,933	17,040	12,114
General and administrative	3,286	2,454	8,619	6,848
Total stock-based compensation expense	$14,764	$9,933	$39,624	$29,778

As of December 31, 2018, unrecognized stock-based compensation cost related to outstanding unvested stock options was $18.1 million, which is expected to be recognized over a weighted-average period of approximately 2.2 years. As of December 31, 2018, unrecognized stock-based compensation cost related to outstanding unvested stock units was $109.1 million, which is expected to be recognized over a weighted-average period of approximately 2.7 years.

11. 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 to be reinvested indefinitely.

The Company recorded an income tax benefit of $0.1 million and income tax provision of $0.2 million for the three months ended December 31, 2018 and 2017, respectively, and an income tax provision of $0.4 million and $0.6 million for the nine months ended December 31, 2018 and 2017, respectively, related to foreign income taxes and state minimum taxes. Based on the available objectively verifiable evidence during the three and nine months ended December 31, 2018, the Company believes it is more likely than not that the tax benefits of the U.S. losses and New Relic K.K losses incurred during the three and nine months ended December 31, 2018 may not be realized. Accordingly, the Company did not record the tax benefits for U.S. losses and New Relic K.K losses incurred during the three and nine months ended December 31, 2018. The primary difference between the effective tax rate and the statutory tax rate relates to the valuation allowance on the Company's U.S. losses and New Relic K.K losses and foreign tax rate differences.

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "TCJA") was enacted into law. The TCJA includes significant changes to the U.S corporate Internal Revenue Code of 1986, as amended (the "Code"). The TCJA changes include, but are not limited to, reduction in the U.S. corporate tax rate from 35% to 21% effective for tax years beginning after December 31, 2017, limitations on the deductibility of executive compensation, interest expense and net operating loss ("NOL") immediate expensing of capital expenditures, transition of the U.S. international taxation from a "worldwide" system to a territorial system of taxation and the introduction of a base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") and a new minimum tax on certain foreign earnings.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. These provisional tax effects may differ during the measurement period, due to further updates to the calculations related to changes in interpretations and assumptions made, and additional guidance that may be issued by the Department of the U.S. Treasury, the Internal Revenue Service, and other regulatory and standard setting bodies. During the fourth quarter of fiscal year 2018, the Company recorded provisional amounts in its consolidated financial statements. During the third quarter of fiscal year 2019, the Company made adjustments to the provisional amounts, including continued refinements to its deferred taxes. The adjustments made to the provisional amounts include an increase in the depreciation deduction, the "Transition Tax" and NOL carryforward. The analysis and accounting for the tax effects of the TCJA were completed in the third quarter of fiscal 2019. Any subsequent adjustment to these amounts will be recorded as a change in tax law.

12. 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, 2018 and 2017, all potential common shares were determined to be anti-dilutive, resulting in basic and diluted net loss per share being equal. Additionally, the 4.5 million shares underlying the conversion option in the Notes are not considered in the calculation of diluted net loss per share as the effect would be anti-dilutive. The Notes are not convertible as of December 31, 2018. The Company expects to settle the principal amount of the Notes in cash and therefore use the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable.

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,	
	2018	2017	2018	2017
Numerator:				
Net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Denominator:				
Weighted average shares used to compute net loss per share, basic and diluted	57,096	55,196	56,663	54,534
Net loss attributable to New Relic per share—basic and diluted	$(0.18)	$(0.14)	$(0.42)	$(0.70)

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,	
	2018	2017
Options to purchase common stock	2,874	3,450
Restricted stock units	1,891	2,038
ESPP shares	62	99
	4,827	5,587

13. 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,	
	2018	2017	2018	2017
United States	$84,731	$62,966	$237,099	$175,765
EMEA	22,533	16,732	63,752	47,225
APAC	10,086	6,918	27,551	19,025
Other	6,661	5,211	18,726	14,595
Total revenue	$124,011	$91,827	$347,128	$256,610

Substantially all of the Company's long-lived assets were attributable to operations in the United States as of December 31, 2018 and March 31, 2018.

14. Subsequent Events

On January 25, 2019, the Company completed the acquisition of SignifAI, Inc. ("SignifAI"), an event intelligence company specializing in artificial intelligence and machine learning, pursuant to which the Company acquired all of the capital stock of SignifAI for $25.1 million in cash and up to 143,861 shares of the Company's common stock, for an aggregate preliminary purchase price of $37.0 million.

The acquisition also included a holdback arrangement with certain employees of SignifAI, totaling approximately $12.6 million or 152,840 shares of the Company's common stock, contingent upon their continuous employment with the Company. As such, compensation expense will be recorded ratably over the respective service period of 24 to 36 months.

The initial purchase price accounting is not yet complete. A preliminary purchase price allocation is currently expected to be included in the Company's consolidated financial statements for the year ending March 31, 2019. Pro forma results of operations have not been presented because the acquisition was not material to the Company's results of operations.

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 are defining a new category of enterprise software that is designed to make every aspect of modern software and infrastructure observable. Our cloud-based platform and suite of products, which we collectively call the New Relic Platform, enable organizations to collect, store, and analyze massive amounts of data in real time so they can better operate their applications and infrastructure, improve their digital customer experience, and achieve greater 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, see results and realize benefits. 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 - the New Relic Platform can help them operate 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 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 to businesses of all sizes largely through our direct sales organization 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, the revenue we receive from enterprise companies now represents a majority of our revenue and revenue growth.

We offer access to the New Relic 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 had been relatively low. In recent periods we have secured an increased percentage of longer duration commitments, largely because 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, 2018 and 2017 of $124.0 million and $91.8 million, respectively, representing year-over-year growth of 35%. For the nine months ended December 31, 2018 and 2017, our revenue was $347.1 million and $256.6 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 $10.1 million and $7.7 million for the three months ended December 31, 2018 and 2017, respectively, and $24.1 million and $38.4 million for the nine months ended December 31, 2018 and 2017, respectively. Our accumulated deficit as of December 31, 2018 was $288.7 million.

Internationally, we currently offer our products in Europe, Middle East, and Africa ("EMEA"), Asia-Pacific ("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, 2018, and 18%, 8%, and 6%, respectively, of our revenue for the three months ended December 31, 2017. Our revenue from those regions constituted 18%, 8%, and 6%, respectively, of our revenue for the nine months ended December 31, 2018, and 18%, 7%, and 6%, respectively, of our revenue for the nine months ended December 31, 2017. 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. For example, in October 2018, we announced our European Region, our data hosting center in the European Union, in Frankfurt, Germany to deliver our products to customers across the European Union.

Our employee headcount has increased to 1,627 employees as of December 31, 2018 from 1,253 employees as of December 31, 2017 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 in the near 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, market demand for our products, and any equity or debt financings we may undertake in the future.

Factors Affecting Our Performance

Market Adoption of Our Products. We are defining a new category of enterprise software that is designed to make every aspect of modern software and infrastructure observable. 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.

Retention of 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. Over the last several years, our focus has shifted from an increase in the total number of paid business accounts to an increase in the annual recurring revenue from our existing and largest paid business accounts. Accordingly, today we view our paid business accounts with annual recurring revenue over $100,000 as a strong indicator of our business, and our success depends in part on our ability to retain and expand within our paid business accounts.

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 primarily 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 with Annual Recurring Revenue over $100,000 and Number of Paid Business Accounts. We believe that our number of paid business accounts with annual recurring revenue over $100,000 is an 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 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 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 816 paid business accounts with annual recurring revenue over $100,000 as of December 31, 2018, which was a 29.7% increase compared to 629 as of December 31, 2017. We believe this increase reflects our continued sales and marketing focus on larger mid-market and enterprise customers. This growth rate has decreased in recent periods and we expect the growth rate at which we add paid business accounts with annual recurring revenue over $100,000 to continue to decrease over time as a result of deeper penetration into the enterprise market.

Further, we believe that the total number of paid business accounts is one indicator of our market penetration, the growth of our business and our potential future prospects. 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 17,000 paid business accounts as of December 31, 2018, compared to over 16,600 as of December 31, 2017.

As our primary focus has shifted to enterprise customers, the rate at which we add paid business accounts has decreased over time, and we expect that it may continue to decrease or flatten on a year-over-year basis as we scale our business. On a period-to-period basis, the total number of paid business accounts may fluctuate as a result of various market conditions, such that quarterly fluctuations may or may not be a meaningful indicator of the health of our overall business. Although we currently present the total number of paid business accounts as of each quarter-end, we anticipate that we will cease providing quarterly updates and only update this figure on an annual basis in future presentations beginning with our annual report for fiscal 2019. We believe that updating this metric annually, while still providing investors with a significant understanding of the direction of our business, reduces the chance that an investor could place undue importance on changes in this number from quarter to quarter when assessing the success of our business.

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 56% as of December 31, 2018, compared to 52% as of December 31, 2017. We expect the percentage of annualized recurring revenue from enterprise paid business accounts to continue to increase 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, 2018 grew to over $29,000, which was an increase of 28.9% compared to over $22,500 for the quarter ended December 31, 2017. We believe this increase reflects our continued focus on larger mid-market and enterprise customers. We have experienced a slight increase in the rate of growth of our annualized revenue per average paid business account year-over-year but we expect this rate to decrease 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 cease using our products, use fewer products, or downgrade to a lower subscription tier.

Our dollar-based net expansion rate compares our recurring subscription revenue from customers 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 customers at the end of a month. This represents the revenue we would contractually expect to receive from those customers 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 customers 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 customers from larger subscription customers either significantly upgrade or significantly downgrade their subscriptions and by increased sales to existing customers 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 customers 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 of customers 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 declined to 122.1% for the three-month period ended December 31, 2018 from 125.2% for the three month period ended December 31, 2017. We saw a lower amount of upsell activity relative to our total installed base than the comparable period in the prior year. Although we drove larger upsell activity in absolute dollars during the fiscal quarter, the total installed base was larger than during the comparable period in the prior year, which had a moderating effect on our annualized dollar-based net expansion rate.

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 had been relatively low. In recent periods we have secured an increased percentage of longer duration commitments, largely because 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.

Additionally, we expect our business 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 or potentially negative 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, as customer usage continues to grow.

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 considered incremental and recoverable costs of acquiring customer contracts. Under ASC 606 these costs are capitalized and amortized on a straight-line basis over the anticipated period of benefit. 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 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 (Expense)

Other income (expense) 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. On April 1, 2018, we adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers regarding Accounting Standards Codification Topic 606 (“ASC 606”), using the modified retrospective method. Results for reporting periods beginning after April 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the period presented, ASC 605, Revenue Recognition.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Revenue	$124,011	$91,827	$347,128	$256,610
Cost of revenue (1)	20,206	15,671	55,703	46,342
Gross profit	103,805	76,156	291,425	210,268
Operating expenses:				
Research and development (1)	26,182	18,154	72,747	54,686
Sales and marketing (1)	66,461	51,393	185,091	152,015
General and administrative (1)	19,702	14,596	51,293	42,843
Total operating expenses	112,345	84,143	309,131	249,544
Loss from operations	(8,540)	(7,987)	(17,706)	(39,276)
Other income (expense):				
Interest income	3,922	534	9,026	1,503
Interest expense	(5,669)	(21)	(13,932)	(64)
Other income (expense), net	(8)	(45)	(1,285)	117
Loss before income taxes	(10,295)	(7,519)	(23,897)	(37,720)
Income tax provision (benefit)	(106)	210	440	634
Net loss	$(10,189)	$(7,729)	$(24,337)	$(38,354)
Net loss attributable to redeemable non-controlling interest	86	—	283	—
Net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Net loss per share, basic and diluted	$(0.18)	$(0.14)	$(0.42)	$(0.70)
Weighted-average shares used to compute net loss per share, basic and diluted	57,096	55,196	56,663	54,534

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	$934	$587	$2,522	$1,716
Research and development	4,322	2,959	11,443	9,100
Sales and marketing	6,222	3,933	17,040	12,114
General and administrative	3,286	2,454	8,619	6,848
Total stock-based compensation expense	$14,764	$9,933	$39,624	$29,778

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(as a percentage of revenue)			
Revenue	100 %	100 %	100 %	100 %
Cost of revenue (1)	16	17	16	18
Gross profit	84	83	84	82
Operating expenses:				
Research and development (1)	21	20	21	22
Sales and marketing (1)	54	56	53	59
General and administrative (1)	16	16	15	17
Total operating expenses	91	92	89	98
Loss from operations	(7)	(9)	(5)	(16)
Other income (expense):				
Interest income	3	1	3	1
Interest expense	(5)	—	(4)	—
Other income (expense), net	—	—	—	—
Loss before income taxes	(9)	(8)	(6)	(15)
Income tax provision (benefit)	—	—	—	—
Net loss	(9 %)	(8 %)	(6 %)	(15 %)
Net loss attributable to redeemable non-controlling interest	—	—	—	—
Net loss attributable to New Relic	(9)%	(8)%	(6)%	(15)%

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(as a percentage of revenue)			
Cost of revenue	1 %	1 %	1 %	1 %
Research and development	3	3	3	4
Sales and marketing	5	4	5	5

General and administrative	3	3	2	2
Total stock-based compensation expense	12 %	11 %	11 %	12 %

Revenue

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2018	2017	Amount	%	2018	2017	Amount	%
	(dollars in thousands)							
United States	$84,731	$62,966	$21,765	35%	$237,099	$175,765	$61,334	35%
EMEA	22,533	16,732	5,801	35	63,752	47,225	16,527	35
APAC	10,086	6,918	3,168	46	27,551	19,025	8,526	45
Other	6,661	5,211	1,450	28	18,726	14,595	4,131	28
Total revenue	$124,011	$91,827	$32,184	35%	$347,128	$256,610	$90,518	35%

Revenue increased $32.2 million, or 35%, in the three months ended December 31, 2018 compared to the same period of 2017. The increase was a result of an increase in the revenue per paid business account and an increase in product adoption by existing paid business accounts. Our revenue from EMEA increased $5.8 million, or 35%, in the three months ended December 31, 2018 compared to the same period of 2017, and our revenue from APAC increased $3.2 million, or 46%, in the three months ended December 31, 2018 compared to the same period of 2017, as a result of an increase in the revenue per paid business account and an increase in product adoption by existing paid business accounts located in these geographic regions.

Revenue increased $90.5 million, or 35%, in the nine months ended December 31, 2018 compared to the same period of 2017. 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 $16.5 million, or 35%, in the nine months ended December 31, 2018 compared to the same period of 2017, and our revenue from APAC increased $8.5 million, or 45%, in the nine months ended December 31, 2018 compared to the same period of 2017, 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	
	2018	2017	Amount	%	2018	2017	Amount	%
	(dollars in thousands)							
Cost of revenue	$20,206	$15,671	$4,535	29%	$55,703	$46,342	$9,361	20%

Cost of revenue increased $4.5 million, or 29%, in the three months ended December 31, 2018 compared to the same period of 2017. The increase was primarily a result of an increase in personnel-related and hosting-related costs necessary to support our growth and an increase in payment processing costs due to the increase in revenue. Personnel-related costs increased by $1.7 million, driven by higher headcount. Hosting-related costs and payment processing fees increased by $1.4 million. The remaining increase was due to an increase in depreciation and amortization expense of $0.8 million, an increase in travel expenses of $0.2 million and $0.4 million of other miscellaneous expenses.

Cost of revenue increased $9.4 million, or 20%, in the nine months ended December 31, 2018 compared to the same period of 2017. The increase was primarily a result of an increase in personnel-related and hosting-related costs necessary to support our growth, and an increase in payment processing costs due to the increase in revenue. Personnel-related costs increased by $4.5 million, driven by higher headcount. Hosting-related costs and payment processing fees increased by $3.2 million. The remaining increase was due to an increase in depreciation and amortization expense of $1.2 million, an increase in travel expenses of $0.3 million and $0.2 million of other miscellaneous expenses.

Research and Development

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2018	2017	Amount	%	2018	2017	Amount	%
	(dollars in thousands)							
Research and development	$26,182	$18,154	$8,028	44%	$72,747	$54,686	$18,061	33%

Research and development expenses increased $8.0 million, or 44%, in the three months ended December 31, 2018 compared to the same period of 2017. The increase was primarily a result of an increase of $7.0 million in personnel-related costs, driven by higher headcount, a $0.3 million increase in travel expenses, a $0.3 million increase in software subscription expenses, and a $0.4 million increase of other miscellaneous expenses.

Research and development expenses increased $18.1 million, or 33%, in the nine months ended December 31, 2018 compared to the same period of 2017. The increase was primarily a result of an increase of $14.8 million in personnel-related costs, driven by higher headcount, a $1.1 million increase in software subscription expenses, an increase of $1.0 million in facilities and depreciation expense, an increase in travel expenses of $0.7 million and a $0.4 million increase of other miscellaneous expenses.

Sales and Marketing

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2018	2017	Amount	%	2018	2017	Amount	%
	(dollars in thousands)							
Sales and marketing	$66,461	$51,393	$15,068	29%	$185,091	$152,015	$33,076	22%

Sales and marketing expenses increased $15.1 million, or 29%, in the three months ended December 31, 2018 compared to the same period of 2017. The increase was primarily a result of an increase in personnel-related costs of $13.2 million, driven by higher headcount. The remaining increase was primarily due to an increase in travel expenses of $2.2 million, an increase in marketing programs of $1.4 million, a $1.2 million increase in facilities and depreciation expenses, and a $0.1 million increase in software subscription expenses. The overall increase was partially offset by a $3.0 million decrease in commission expense due to the adoption of ASC 606.

Sales and marketing expenses increased $33.1 million, or 22%, in the nine months ended December 31, 2018 compared to the same period of 2017. The increase was primarily a result of an increase in personnel-related costs of $32.1 million, driven by higher headcount. The remaining increase was due to a $4.7 million increase in travel expenses, and a $4.2 million increase in facilities and depreciation expense. The overall increase was partially offset by a decrease in commission expense of $7.9 million due to the adoption of ASC 606.

General and Administrative

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2018	2017	Amount	%	2018	2017	Amount	%
	(dollars in thousands)							
General and administrative	$19,702	$14,596	$5,106	35%	$51,293	$42,843	$8,450	20%

General and administrative expenses increased $5.1 million, or 35%, in the three months ended December 31, 2018 compared to the same period of 2017. The increase in general and administrative expenses was primarily a result of an increase in personnel-related costs of $4.3 million, driven by an increase in headcount. The remaining increases were due to $0.5 million increase in facilities and depreciation expenses, a $0.2 million increase in travel expenses, and a $0.1 million increase of other miscellaneous expenses.

General and administrative expenses increased $8.5 million, or 20%, in the nine months ended December 31, 2018 compared to the same period of 2017. The increase in general and administrative expenses was a result of an increase in personnel-related costs of $6.2 million, driven by an increase in headcount, a $1.6 million increase in facilities and depreciation expenses, a $1.1 million increase in software subscription expenses and a $0.4 million increase in travel expenses. The overall increase was partially offset by a $0.8 million decrease in consulting and professional service expense.

Other Income (Expense)

	Three Months Ended December 31,		Change		Nine Months Ended December 31,		Change	
	2018	2017	Amount	%	2018	2017	Amount	%
	(dollars in thousands)							
Other income (expense)	$(1,755)	$468	$(2,223)	475%	$(6,191)	$1,556	$(7,747)	498%

Other income (expense), net decreased by $2.2 million in the three months ended December 31, 2018 compared to the same period of 2017, and decreased by $7.7 million in the nine months ended December 31, 2018 compared to the same period of 2017.

The decrease was primarily due to $5.7 million in interest expense in the three months ended December 31, 2018, and $13.9 million in interest expense in the nine months ended December 31, 2018, incurred related to our 0.5% convertible senior notes due 2023 (the “Notes”), partially offset by $3.9 million in interest income in the three months ended December 31, 2018 and $9.0 million in interest income in the nine months ended December 31, 2018, earned on higher cash and short-term investment balances.

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 and non-GAAP net income (loss) attributable to New Relic. We define non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic as the respective GAAP balance, adjusted for, as applicable: (1) stock-based compensation expense, (2) amortization of stock-based compensation capitalized in software development costs, (3) the amortization of purchased intangibles, (4) employer payroll tax expense on equity incentive plans, as applicable, and (5) amortization of debt discount and issuance costs, and in certain periods (6) the transaction costs related to acquisition and (7) lawsuit litigation expense. We use non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic 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 these measures are useful to investors, as a supplement to GAAP measures, in evaluating our operational performance. We have provided below a reconciliation of GAAP loss from operations to non-GAAP income (loss) from operations and a reconciliation of GAAP net loss to non-GAAP net income (loss) attributable to New Relic.

We use non-GAAP financial measures, including non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic, 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. In addition, our bonus opportunity for eligible employees and executives is based in part on non-GAAP income (loss) from operations.

We believe non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic are 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.

Amortization of debt discount and issuance costs. In May 2018, New Relic issued $500.25 million of Notes, which bear interest at an annual fixed rate of 0.5%. The effective interest rate of the Notes was 5.74%. This is a result of the debt discount recorded for the conversion feature that is required to be separately accounted for as equity, and debt issuance costs, which reduce the carrying value of the convertible debt instrument. The debt discount is amortized as interest expense together with the issuance costs of the debt. The expense for the amortization of debt discount and debt issuance costs is a non-cash item, and we believe the exclusion of this interest expense will provide for a more useful comparison of our operational performance in different periods.

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 tables present our non-GAAP income (loss) from operations and our non-GAAP net income (loss) attributable to New Relic and reconcile our GAAP loss from operations to non-GAAP income (loss) from operations and our GAAP net loss attributable to New Relic to our non-GAAP net income (loss) attributable to New Relic for the three and nine months ended December 31, 2018 and the three and nine months ended December 31, 2017 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
GAAP loss from operations	$(8,540)	$(7,987)	(17,706)	$(39,276)
Plus: Stock-based compensation	14,764	9,933	39,624	29,778
Plus: Amortization of purchased intangibles	440	196	833	990
Plus: Transaction costs related to acquisition	476	—	806	—
Plus: Amortization of stock-based compensation capitalized in software development costs	192	228	555	702
Plus: Employer payroll tax on employee equity incentive plans	457	309	2,052	1,557
Non-GAAP income (loss) from operations	$7,789	$2,679	$26,164	$(6,249)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
GAAP net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Plus: Stock-based compensation	14,764	9,933	39,624	29,778
Plus: Amortization of purchased intangibles	440	196	833	990
Plus: Transaction costs related to acquisition	476	—	806	—
Plus: Amortization of stock-based compensation capitalized in software development costs	192	228	555	702
Plus: Employer payroll tax on employee equity incentive plans	457	309	2,052	1,557
Plus: Amortization of debt discount and issuance costs	5,021	—	12,312	—
Non-GAAP net income (loss) attributable to New Relic	$11,247	$2,937	$32,128	$(5,327)

Non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic 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, expenses as a percentage of revenue decreased significantly. As a result, we generated non-GAAP income from operations and non-GAAP net income attributable to New Relic in the third and fourth quarters of fiscal 2018 and the first, second and third quarters of fiscal 2019. We anticipate we will continue to generate non-GAAP income from operations and non-GAAP net income attributable to New Relic in future periods.

Liquidity and Capital Resources

	Nine Months Ended December 31,	
	2018	2017
	(in thousands)	
Cash provided by operating activities	$66,894	$24,093
Cash used in investing activities	(459,348)	(10,473)
Cash provided by financing activities	445,489	23,399
Net increase in cash, cash equivalents and restricted cash	$53,035	$37,019

To date, we have financed our operations primarily through the issuance of our convertible senior notes, 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. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, technologies and intellectual property rights. We may need to raise additional funds from equity or debt securities in order to meet those capital requirements. 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, 2018, cash provided by operating activities was $66.9 million as a result of a net loss of $24.3 million, adjusted by non-cash charges of $89.7 million and a change of $1.5 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of a $27.7 million increase in deferred contract acquisition costs and a $3.4 million increase in accounts receivable. This was offset by a $16.8 million increase in deferred revenue, a $7.8 million increase in accrued compensation and benefits and other liabilities, a $3.9 million increase in accounts payable, and a $3.3 million decrease in prepaid expenses and other current assets.

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.

Investing Activities

Cash used in investing activities during the nine months ended December 31, 2018 was $459.3 million, primarily as a result of purchases of short-term investments of $581.5 million, purchases of property and equipment of $29.7 million, cash paid for an acquisition of $5.6 million, and increases in capitalization of software development costs of $3.8 million. This was partially offset by proceeds from the maturity and sale of short-term investments of $161.2 million.

Cash used in investing activities during the nine months ended December 31, 2017 was $10.5 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.

Financing Activities

Cash provided by financing activities during the nine months ended December 31, 2018 was $445.5 million, which was the result of net proceeds from the issuance of convertible senior notes of $488.7 million, proceeds from the exercise of stock options of $11.5 million, proceeds from the purchase of shares of common stock pursuant to our employee stock purchase plan of $4.9 million, and proceeds from the investment from our redeemable non-controlling interest of $3.6 million. This was partially offset by purchases of the capped call of $63.2 million related to the Notes.

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.

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 9 — 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, 2018 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.

Except for updates to our accounting policies related to the adoption of ASC 606, there have been no significant changes in our critical accounting policies and estimates during the nine months ended December 31, 2018 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, 2018, or our Annual Report, as filed with the Securities and Exchange Commission, or SEC, on May 11, 2018.

Recent Accounting Pronouncements

Refer to Note 1-Description of Business and Summary of Significant Accounting Policies contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q.

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 and Japanese Yen. 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 $185.5 million as of December 31, 2018, 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 have an agreement to maintain cash balances at a financial institution of no less than $8.3 million as collateral for several 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 $536.8 million as of December 31, 2018, 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.

In March 2018, we issued $500.25 million aggregate principal amount of 0.5% convertible senior notes due 2023 (the "Notes"). The fair value of the Notes is subject to interest rate risk, market risk and other factors due to the conversion feature in the Notes. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines. The interest and market value changes affect the fair value of the Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the Notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

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, 2018, 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, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Effective April 1, 2018, we adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, as amended ("ASC 606"). During the nine months ended December 31, 2018, we implemented internal controls to ensure that we have adequately evaluated our contracts and properly assessed the impact of ASC Topic 606 on our financial statements. We do not expect significant changes to our internal control over financial reporting due to the adoption of ASC 606.

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 decline over time. 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 loss attributable to New Relic of $24.1 million and $38.4 million in the nine months ended December 31, 2018 and 2017, respectively. At December 31, 2018, we had an accumulated deficit of $288.7 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 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, and in recent fiscal years we have secured an increased percentage of longer duration commitments as we have sold more to larger organizations. 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, 2018, sales and marketing expenses represented 54% 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 large 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. While we have developed systems and processes to protect the integrity, confidentiality and security of our customers’ data, our security measures or those of our third-party service providers could fail and result in unauthorized access to or disclosure, modification, misuse, loss or destruction of such data. Any security breaches, computer malware, and computer hacking attacks, experienced by us or our third-party services providers, could expose us to a risk of loss of confidential or proprietary 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. Moreover, if a high-profile security breach occurs with respect to another cloud platform provider, our customers and potential customers may lose trust in the security of cloud platforms generally, which could adversely impact our ability to retain existing customers or attract new ones.
If we are not able to detect and indicate activity on our platform that might be nefarious in nature or design processes or systems to reduce the impact of similar activity at a third-party service provider, 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 went into effect on May 25, 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 introduced numerous privacy-related changes for companies operating in the EU, including greater control for data subjects (e.g., the "right to be forgotten"), increased

data portability for EU consumers, data breach notification requirements, and increased fines. In particular, under the GDPR, fines of up to 20 million euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater, could be imposed for violations of certain of the GDPR's requirements. The GDPR requirements apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information.

In addition to the GDPR, the European Commission also has another draft regulation in the approval process that focuses on a person's right to conducting a private life (in contrast to GDPR, which focuses on protection of personal data). The proposed legislation, known as the Regulation on Privacy and Electronic Communications, or ePrivacy Regulation, would replace the current ePrivacy Directive. Originally planned to be adopted and implemented at the same time as the GDPR, the ePrivacy Regulation will likely be enacted sometime in 2019. While the new legislation contains protections for those using communications services (for example, protections against online tracking technologies), the timing of its proposed enactment following the GDPR means that additional time and effort may need to be spent addressing differences between the ePrivacy Regulation and the GDPR. New rules related to the ePrivacy Regulation are likely to include enhanced consent requirements in order to use communications content and communications metadata, which may negatively impact our product offerings and our relationships with our customers.

Complying with the GDPR and the ePrivacy Regulation (when it becomes effective) 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 and ePrivacy Regulation, we may not be successful in our efforts to achieve compliance 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 or protect a person’s privacy, 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 all 50 states require businesses to provide notice to customers whose personally identifiable information has been disclosed as a result of a data breach, including Alabama, the last state to enact a data breach notification law, which went into effect in June 2018. The laws are not consistent, and compliance in the event of a widespread data breach is costly. States are also constantly amending existing laws, requiring attention to frequently changing regulatory requirements. Further, California recently enacted the California Consumer Privacy Act (“CCPA”), which is expected to take effect on January 1, 2020. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States, which could increase our potential liability and adversely affect our business.

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. (a subsidiary of Broadcom, Inc.); and
- companies offering analytics products competing with our New Relic Insights product, including Amazon Web Services, Inc. and Google LLC.

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. and, in November 2018, Broadcom Inc. completed its acquisition of CA, 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. Further, the way in which we recognize this revenue has been 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, through our European Region in Germany and a combination of cloud hosting providers. The continuous availability of our products and platform capabilities depends on the operations of our data center 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 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 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 the launch of a new European Region in Germany in October 2018, 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. *

During the nine months ended December 31, 2018, we derived approximately 32% of our total revenue from customers outside the United States. 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;
- economic and political uncertainty around the world, including uncertainty regarding U.S. foreign and domestic policies;
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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;

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- 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.

We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate these controls. *

Our products are subject to U.S. export controls, and we incorporate encryption technology into certain of our products. Governmental regulation of encryption technology and regulation of imports or exports of encryption products, or our failure to obtain required import or export authorization for our products, when applicable, could harm our international sales and adversely affect our revenues. Compliance may also create delays in the introduction of our product releases in international markets, prevent our customers with international operations from deploying our products or, in some cases, prevent the export of our products to some countries altogether. If we fail to comply, we could be subject to both civil and criminal penalties, including substantial fines, possible incarceration for employees and managers for willful violations, and the possible loss of export or import privileges. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, financial condition and results of operations.

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 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 our 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, 2018, we had two issued patents, thirteen patent applications pending, two trademark registrations and two trademark applications for “New Relic” in the United States, as well as six issued patents, twelve patent applications pending, including five Patent Cooperation Treaty applications, and four trademark registrations and eighteen trademark applications for “New Relic” outside of the United States. Despite our issued patents and pending patent applications, we may be unable to maintain or obtain patent protection for our technology. In addition, our existing patents 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, additional licenses from third parties may be required or we may be forced to reengineer or discontinue our products and platform capabilities or incur additional costs. In addition, open source licensors generally do not provide warranties, support, indemnity, or assurance of title or controls on origin of the software which may lead to greater risks. Likewise, some open source projects have known security and other vulnerabilities and architectural instabilities and are provided on an “as-is” basis which, if not properly addressed, could negatively affect the performance of our product. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we may be unable to prevent our competitors or others from using such contributed software source code. While we have established processes to help alleviate these risks, we cannot assure that these measures will reduce or completely shield from these risks. Moreover, 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 the terms of the applicable license or our policies and procedures.

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 the market for 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 operate our business and 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, protect our intellectual property, pursue possible acquisitions of complementary businesses and technologies, respond to a decline in the level of subscriptions for our products, or other 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, and could require us to use a portion of our cash flows to make debt service payments, which could place us at a competitive disadvantage relative to our less leveraged peers. 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, including registration rights. 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 have incurred substantial indebtedness that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur substantially more debt, which may adversely affect our operations and financial results. *

As of December 31, 2018, we had $500.25 million (undiscounted) principal amount of indebtedness under our 0.50% convertible senior notes due 2023 (the "Notes"). Our indebtedness may:

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

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

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

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

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

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

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. In addition, even if holders of Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

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

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

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

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

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

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

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

Provisions in the indenture for the Notes may deter or prevent a business combination that may be favorable to our stockholders. *

If a fundamental change occurs prior to the maturity date of the Notes, holders of the Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes. In addition, if a "make-whole fundamental change" (as defined in the indenture) occurs prior to the maturity date, we will in some cases be required to increase the conversion rate of the Notes for a holder that elects to convert its Notes in connection with such make-whole fundamental change.

Furthermore, the indenture will prohibit us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to our stockholders.

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

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

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 recovery 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. The U.S. Supreme Court's recent decision in South Dakota v. Wayfair, Inc. may increase that risk by increasing states' ability to assert taxing jurisdiction on out-of-state retailers. 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 ("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, pursuant to the new revenue recognition rules under Accounting Standard Update 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASC 606"), effective for us as of April 1, 2018, rather than recording commissions as sales and marketing expenses as incurred, we capitalize incremental commissions related to initial contracts over the expected period of benefit, which we have determined to be three years. As a result of adopting ASC 606, we recorded a net reduction to the opening balance of accumulated deficit of $40.8 million as of April 1, 2018, primarily related to the deferral of incremental commission costs of obtaining subscription contracts. 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 any new standard that may be adopted 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, 2018, we had U.S. federal and state net operating losses of approximately $406.0 million and $211.0 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 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 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 initial public offering in December 2014 at a price of $23.00 per share, the reported high and low sales prices of our common stock have ranged from $114.78 to $20.39 through December 31, 2018. 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;

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- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- 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;
- cybersecurity attacks or incidents;
- 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;
- announced or completed equity or debt transactions involving our securities;
- 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. Further, the Notes may become in the future convertible at the option of their holders prior to their scheduled terms under certain circumstances. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. 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

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	
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 7, 2019		
	By:	/s/ Mark Sachleben
		Mark Sachleben
		Chief Financial Officer
		(Principal Financial and Accounting Officer and Duly Authorized Signatory)