UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2024

OR

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

For the transition period from ______ to ______

File Number: 001-41121

HashiCorp, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**32-0410665**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

101 Second Street, Suite 700
San Francisco, CA 94105

(Address of principal executives offices, including zip code)

(415) 301-3250

(Registrant's telephone number including area code)

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

(Title of each class)	Trading Symbol(s)	(Name of each exchange on which registered)
Class A Common Stock, par value $0.000015 per share	HCP	The Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of December 2, 2024, the number of registrant’s issued and outstanding shares of Class A common stock and Class B common stock was 161,635,636 and 42,811,733, respectively.

HashiCorp, Inc.

Form 10-Q

For the Quarterly Period Ended October 31, 2024

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HASHICORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	As of	
	October 31, 2024	January 31, 2024
Assets		
Current assets:		
Cash and cash equivalents	$ 923,627	$ 763,414
Short-term investments	422,774	515,163
Accounts receivable, net of allowance	129,352	182,614
Deferred contract acquisition costs	50,858	50,285
Prepaid expenses and other current assets	26,215	30,075
Total current assets	1,552,826	1,541,551
Deferred contract acquisition costs, non-current	71,392	80,055
Acquisition-related intangible assets, net	9,486	11,611
Goodwill	12,197	12,197
Other assets, non-current	47,016	46,533
Total assets	$ 1,692,917	$ 1,691,947
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 21,052	$ 9,081
Accrued expenses and other current liabilities	14,293	15,143
Accrued compensation and benefits	44,126	56,007
Deferred revenue	310,431	334,894
Customer deposits	20,217	25,627
Total current liabilities	410,119	440,752
Deferred revenue, non-current	16,580	26,659
Other liabilities, non-current	8,553	11,543
Total liabilities	435,252	478,954
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Class A common stock, par value of $0.000015 per share; 1,000,000 and 1,000,000 shares authorized as of October 31, 2024 and January 31, 2024, respectively; 161,387 and 125,333 shares issued and outstanding as of October 31, 2024 and January 31, 2024, respectively	2	1
Class B common stock, par value of $0.000015 per share; 200,000 and 200,000 shares authorized as of October 31, 2024 and January 31, 2024, respectively; 42,884 and 73,921 shares issued and outstanding as of October 31, 2024 and January 31, 2024, respectively	1	2
Additional paid-in capital	2,318,947	2,184,451
Accumulated other comprehensive income (loss)	379	(393)
Accumulated deficit	(1,061,664)	(971,068)
Total stockholders' equity	1,257,665	1,212,993
Total liabilities and stockholders' equity	$ 1,692,917	$ 1,691,947

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

HASHICORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Revenue:				
License	$ 21,202	$ 15,973	$ 54,039	$ 47,855
Support	117,656	106,098	347,455	312,008
Cloud-hosted services	28,962	19,863	80,086	54,779
Total subscription revenue	167,820	141,934	481,580	414,642
Professional services and other	5,569	4,191	17,527	12,712
Total revenue	173,389	146,125	499,107	427,354
Cost of revenue:				
Cost of license	525	293	1,532	1,376
Cost of support	14,748	13,356	44,764	44,503
Cost of cloud-hosted services	9,183	7,692	27,011	22,339
Total cost of subscription revenue	24,456	21,341	73,307	68,218
Cost of professional services and other	5,332	4,264	17,002	13,509
Total cost of revenue	29,788	25,605	90,309	81,727
Gross profit	143,601	120,520	408,798	345,627
Operating expenses:				
Sales and marketing	86,422	87,320	267,187	279,019
Research and development	53,365	54,349	167,181	168,504
General and administrative	33,696	34,424	115,321	104,083
Total operating expenses	173,483	176,093	549,689	551,606
Loss from operations	(29,882)	(55,573)	(140,891)	(205,979)
Interest income	17,387	16,765	52,339	48,045
Other income (expense), net	100	(407)	(121)	(632)
Loss before income taxes	(12,395)	(39,215)	(88,673)	(158,566)
Provision for income taxes	611	258	1,923	480
Net loss	$ (13,006)	$ (39,473)	$ (90,596)	$ (159,046)
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	$ (0.06)	$ (0.20)	$ (0.45)	$ (0.83)
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders, basic and diluted	203,526	194,600	201,836	192,693

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

HASHICORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Net loss	$ (13,006)	$ (39,473)	$ (90,596)	$ (159,046)
Other comprehensive loss, net of tax:				
Available-for-sale investments:				
Net unrealized gains (losses) on available-for-sale investments	534	38	774	(895)
Foreign currency forward contracts:				
Unrealized losses on foreign currency forward contracts	(138)	(226)	(3)	(321)
Other comprehensive income (loss), net of tax	396	(188)	771	(1,216)
Total comprehensive loss	$ (12,610)	$ (39,661)	$ (89,825)	$ (160,262)

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

HASHICORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 31, 2024	199,254	$ 3	$ 2,184,451	$ (393)	$ (971,068)	$ 1,212,993
Issuance of common stock upon exercise of stock options	464	—	1,681	—	—	1,681
Issuance of common stock upon settlement of restricted stock units	1,253	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	(1)	—	(31)	—	—	(31)
Stock-based compensation	—	—	49,707	—	—	49,707
Other comprehensive loss	—	—	—	(1,643)	—	(1,643)
Net loss	—	—	—	—	(51,128)	(51,128)
Balance as of April 30, 2024	200,970	$ 3	$ 2,235,808	$ (2,036)	$ (1,022,196)	$ 1,211,579
Issuance of common stock upon exercise of stock options	372	—	985	—	—	985
Issuance of common stock upon settlement of restricted stock units	1,169	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	(1)	—	(21)	—	—	(21)
Issuance of common stock under employee stock purchase plan	342	—	6,661	—	—	6,661
Stock-based compensation	—	—	39,171	—	—	39,171
Other comprehensive income	—	—	—	2,019	—	2,019
Net loss	—	—	—	—	(26,462)	(26,462)
Balance as of July 31, 2024	202,852	$ 3	$ 2,282,604	$ (17)	$ (1,048,658)	$ 1,233,932
Issuance of common stock upon exercise of stock options	165	—	1,151	—	—	1,151
Issuance of common stock upon settlement of restricted stock units	1,255	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	(1)	—	(27)	—	—	(27)
Stock-based compensation	—	—	35,219	—	—	35,219
Other comprehensive loss	—	—	—	396	—	396
Net loss	—	—	—	—	(13,006)	(13,006)
Balance as of October 31, 2024	204,271	$ 3	$ 2,318,947	$ 379	$ (1,061,664)	$ 1,257,665

	Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 31, 2023	189,968	$ 3	$ 1,985,747	$ —	$ (780,400)	$ 1,205,350
Issuance of common stock upon exercise of stock options	513	—	1,013	—	—	1,013
Issuance of common stock for restricted stock awards	1,071	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	—	—	(9)	—	—	(9)
Stock-based compensation	—	—	41,266	—	—	41,266
Other comprehensive loss	—	—	—	(66)	—	(66)
Net loss	—	—	—	—	(53,258)	(53,258)
Balance as of April 30, 2023	191,552	$ 3	$ 2,028,017	$ (66)	$ (833,658)	$ 1,194,296
Issuance of common stock upon exercise of stock options	366	—	442	—	—	442
Issuance of common stock upon settlement of restricted stock units	1,307	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	(5)	—	(215)	—	—	(215)
Issuance of common stock under employee stock purchase plan	426	—	10,195	—	—	10,195
Stock-based compensation	—	—	47,471	—	—	47,471
Other comprehensive loss	—	—	—	(962)	—	(962)
Net loss	—	—	—	—	(66,315)	(66,315)
Balance as of July 31, 2023	193,646	$ 3	$ 2,085,910	$ (1,028)	$ (899,973)	$ 1,184,912
Issuance of common stock upon exercise of stock options	407	—	1,488	—	—	1,488
Issuance of common stock upon settlement of restricted stock units	1,477	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	(2)	—	(12)	—	—	(12)
Stock-based compensation	—	—	44,996	—	—	44,996
Other comprehensive loss	—	—	—	(188)	—	(188)
Net loss	—	—	—	—	(39,473)	(39,473)
Balance as of October 31, 2023	195,528	$ 3	$ 2,132,382	$ (1,216)	$ (939,446)	$ 1,191,723

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

HASHICORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended October 31,	
	2024	**2023**
Cash flows from operating activities		
Net loss	$ (90,596)	$ (159,046)
Adjustments to reconcile net loss to cash from operating activities:		
Stock-based compensation expense, net of amounts capitalized	121,572	130,048
Depreciation and amortization expense	9,907	6,586
Non-cash operating lease cost	2,823	2,222
Accretion of discounts on marketable securities	(10,236)	(8,505)
Deferred income taxes	—	(482)
Other	101	67
Changes in operating assets and liabilities:		
Accounts receivable	53,155	54,116
Deferred contract acquisition costs	8,090	(1,086)
Prepaid expenses and other assets	3,987	(11,843)
Accounts payable	11,970	(6,589)
Accrued expenses and other liabilities	(1,197)	(3,403)
Accrued compensation and benefits	(11,881)	(6,654)
Deferred revenue	(34,542)	(12,042)
Customer deposits	(5,410)	(4,526)
Net cash provided by (used in) operating activities	57,743	(21,137)
Cash flows from investing activities		
Business combination, net of cash acquired	—	(20,860)
Purchases of property and equipment	(434)	(491)
Capitalized internal-use software	(7,394)	(8,536)
Purchases of short-term investments	(612,520)	(691,220)
Proceeds from sales of short-term investments	80,159	26,372
Proceeds from maturities of short-term investments	635,769	146,662
Net cash provided by (used in) investing activities	95,580	(548,073)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(79)	(236)
Payments related to acquisition holdback	(3,511)	—
Proceeds from issuance of common stock upon exercise of stock options	3,817	2,943
Proceeds from issuance of common stock under employee stock purchase plan	6,661	10,195
Net cash provided by financing activities	6,888	12,902
Net increase (decrease) in cash and cash equivalents	160,211	(556,308)
Cash and cash equivalents at beginning of period	763,414	1,286,134
Cash and cash equivalents at end of period	$ 923,625	$ 729,826
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net of refunds received	$ 2,046	$ 1,406
Cash paid for operating lease liabilities	$ 3,749	$ 2,912
Supplemental disclosure of noncash investing and financing activities		
Capitalized stock-based compensation expense	$ 2,525	$ 3,685
Unpaid acquisition holdback	$ 546	$ 4,100
Operating lease right-of-use assets obtained in exchange for new lease obligations	$ 608	$ —

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

HASHICORP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Description of Business

Description of Business

HashiCorp, Inc., ("HashiCorp" or the "Company") was incorporated in Delaware in May 2013. The Company is headquartered in San Francisco, California and has wholly owned subsidiaries around the world. The Company's foundational technologies solve the core infrastructure challenges of cloud adoption by enabling an operating model that unlocks the full potential of modern public and private clouds. The Company's cloud operating model provides consistent workflows and a standardized approach to automating the critical processes involved in delivering applications in the cloud: infrastructure provisioning, security, networking, and application deployment. The Company's primary commercial products are HashiCorp Terraform, Vault, Consul, and Nomad. The Company's software is predominantly self-managed by users and customers who deploy it across public, private, and hybrid cloud environments. The Company also offers a fully-managed cloud platform for multiple products that further accelerates enterprise cloud migration by addressing resource and skills gaps, improving operational efficiency, and speeding up deployment time for customers. Additionally, the Company provides premium support and services.

Proposed Transaction with IBM

On April 24, 2024, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with International Business Machines Corporation ("IBM") and McCloud Merger Sub, Inc., a wholly owned subsidiary of IBM ("Merger Sub"). The Merger Agreement provides that, subject to the terms and conditions of the Merger Agreement, Merger Sub will merge with and into HashiCorp (the "Merger"), with HashiCorp continuing as the surviving corporation of the Merger and as a wholly owned subsidiary of IBM. The Merger is expected to be completed in the first calendar quarter of 2025, subject to the satisfaction or waiver of the closing conditions in the Merger Agreement.

Pursuant to the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of the Company's Class A common stock and Class B common stock issued and outstanding immediately prior to the Effective Time (subject to certain customary exceptions specified in the Merger Agreement) will automatically be cancelled and converted into the right to receive $35.00 in cash, without interest and subject to applicable withholding taxes.

The Company's stockholders approved and adopted the Merger Agreement on July 15, 2024. Completion of the Merger is subject to customary conditions, including the satisfaction of certain domestic and foreign regulatory approvals; the absence of an order or law preventing or materially restraining the consummation of the Merger; and performance by the parties in all material respects of all their obligations under the Merger Agreement.

The Merger Agreement includes certain customary termination rights for the Company and IBM, including if the Effective Time has not occurred on or before October 24, 2025. Upon termination of the Merger Agreement in certain limited circumstances relating to an alternative transaction for the Company, the Company will be required to pay IBM a termination fee of $264.2 million.

The foregoing summary of the Merger Agreement and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Merger Agreement, which is filed as Exhibit 2.1 of the Company's Current Report on Form 8-K filed on April 25, 2024 and incorporated herein by reference.

Other than transaction expenses associated with the proposed Merger of $22.1 million recorded in general and administrative expense in the accompanying condensed consolidated statements of operations for the nine months ended October 31, 2024, the terms of the Merger Agreement did not impact the Company's condensed consolidated financial statements for the nine months ended October 31, 2024.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP"). Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the applicable rules and regulations of the Securities and Exchange Commission (the "SEC"). The unaudited condensed balance sheet data as of January 31, 2024 was derived from the Company's audited financial statements included in its Annual Report on Form 10-K for the fiscal year ended January 31, 2024 (the fiscal "2024 Form 10-K"), but does not include all disclosures required by U.S. GAAP. Therefore, these interim unaudited condensed consolidated financial statements and accompanying footnotes should be read in conjunction with the Company's annual consolidated financial statements and related footnotes included in the fiscal 2024 Form 10-K.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of the Company's results for the interim periods presented. The results of operations for the three and nine months ended October 31, 2024 shown in this report are not necessarily indicative of the results to be expected for the full year ending January 31, 2025 or any other period.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance 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 consolidated financial statements, and the reported amounts of income and expense during the reporting period. Such management estimates include, but are not limited to, the determination of standalone selling prices of the Company's performance obligations, the estimated period of benefit of deferred contract acquisition costs, the fair value of share-based awards, software development costs, discount rates used for operating leases, goodwill and acquisition-related intangible assets, and the valuation allowance on deferred tax assets and uncertain tax positions. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from those estimates.

Significant Accounting Policies

There have been no changes to the Company's significant accounting policies as described in the Annual Report for fiscal 2024 in Form 10-K.

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant expenses. The amendments will require public entities to disclose significant segment expenses that are regularly provided to the chief operating decision maker and included within segment profit and loss. The amendments are effective for the Company's annual periods beginning January 31, 2024, and interim periods beginning April 30, 2025, with early adoption permitted, and will be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the ASU to determine its impact on the Company's disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which includes amendments that further enhance income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdiction. The amendments are effective for the Company's annual periods beginning January 31, 2025, with early adoption permitted, and should be applied either prospectively or retrospectively. The Company is currently evaluating the ASU to determine its impact on the Company's disclosures.

In November 2024, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Topic 220-40): Disaggregation of Income Statement Expenses, which provides amendments to improve financial reporting by requiring the disclosure of additional information about specific expense categories. The amendments are effective for the Company's annual periods beginning January 31, 2027, and interim periods beginning April 30, 2028, with early adoption permitted, and should be applied either prospectively or retrospectively. The Company is currently evaluating the ASU to determine its impact on the Company's disclosures.

3. Revenue and Performance Obligations

Disaggregation of Revenue

The following table presents revenue by category (in thousands, except percentages):

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2024		2023		2024		2023	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
License	$ 21,202	12 %	$ 15,973	11 %	$ 54,039	11 %	$ 47,855	11 %
Support	117,656	68	106,098	72	347,455	70	312,008	73
Cloud-hosted services	28,962	17	19,863	14	80,086	16	54,779	13
Total subscription revenue	167,820	97	141,934	97	481,580	97	414,642	97
Professional services and other	5,569	3	4,191	3	17,527	3	12,712	3
Total revenue	$ 173,389	100 %	$ 146,125	100 %	$ 499,107	100 %	$ 427,354	100 %

The following table summarizes the revenue by region based on the billing address of customers who have contracted to use the Company's products and services (in thousands, except percentages):

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2024		2023		2024		2023	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
United States	$ 117,530	68 %	$ 102,365	70 %	$ 338,328	68 %	$ 300,979	70 %
Rest of the world	55,860	32 %	43,760	30 %	160,779	32	126,375	30
Total	$ 173,389	100 %	$ 146,125	100 %	$ 499,107	100 %	$ 427,354	100 %

No other country, outside of the United States, exceeded 10% of total revenue during the periods presented.

Contract Balances

Changes in deferred revenue and unbilled accounts receivable were as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Balance, beginning of period	$ 321,685	$ 293,441	$ 361,553	$ 302,244
Deferred revenue billings including reclassification to deferred revenue from customer deposits	178,372	142,390	463,315	415,646
Recognition of revenue, net of change in unbilled accounts receivable*	(173,046)	(145,629)	(497,857)	(427,688)
Balance, end of period	$ 327,011	$ 290,202	$ 327,011	$ 290,202
** Reconciliation to revenue reported per consolidated statements of operations:*				
Revenue billed as of the end of the period	$ 173,046	$ 145,629	$ 497,857	$ 427,688
Increase (decrease) in total unbilled accounts receivable	343	496	1,250	(334)
Revenue reported per consolidated statements of operations	$ 173,389	$ 146,125	$ 499,107	$ 427,354

Unbilled accounts receivable represents revenue recognized on contracts for which billings have not yet been presented to customers because the amounts were earned but not contractually billable as of the balance sheet date. The unbilled accounts receivable balance is due within one year. As of October 31, 2024 and January 31, 2024, unbilled accounts receivable of approximately $5.1 million and $3.8 million, respectively, were included in accounts receivable on the Company's condensed consolidated balance sheets.

Remaining Performance Obligations (RPOs)

The typical stated customer contract term is one year but can range up to three years. RPOs include both deferred revenue and non-cancelable contracted amounts that will be invoiced and recognized as revenue in future periods. As of October 31, 2024 and January 31, 2024, the Company had $775.4 million and $775.8 million, respectively, of remaining performance obligations, which is comprised of product and services revenue not yet delivered. As of October 31, 2024 and January 31, 2024, the Company expected to recognize approximately 62% and 59%, respectively, of its remaining performance obligations as revenue over the next 12 months and the remainder thereafter.

RPOs exclude customer deposits, which are refundable pre-paid amounts that are expected to be recognized as revenue in future periods. These balances are included in customer deposits in the condensed consolidated balance sheets and are classified as current because contractually customers can cancel these obligations with 30 days written notice. The customer deposit balance is amortized to revenue over the term of the underlying contract as the customer's right to cancel expires. If no contracts with customers are cancelled, the existing customer deposit balance will be recognized to revenue over the remaining stated term of the underlying contract which may be over the next 12 months or longer as follows (in thousands):

	As of	
	October 31, 2024	January 31, 2024
Within the next 12 months	$ 17,920	$ 22,882
After the next 12 months	2,297	2,745
Total	$ 20,217	$ 25,627

4. Investments and Fair Value Measurements

The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy on a recurring basis and indicates the fair value hierarchy of the valuation inputs used to determine such fair value (in thousands):

	Fair Value Measurement as of October 31, 2024				
	Fair Value Level	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Assets:					
Cash and cash equivalents:					
Money market funds	Level 1	$ 91,073	$ —	$ —	$ 91,073
U.S. treasury securities	Level 2	52,153	1	(6)	52,148
Corporate notes and bonds	Level 2	5,898	—	—	5,898
Commercial paper	Level 2	$ 4,979	$ —	$ —	$ 4,979
Total assets measured at fair value included in cash and cash equivalents		$ 154,103	$ 1	$ (6)	$ 154,098
Short-term Investments:					
U.S. treasury securities	Level 2	228,566	310	(6)	228,870
U.S. agency obligations	Level 2	13,811	14	—	13,824
Corporate notes and bonds	Level 2	148,823	584	(15)	149,392
Commercial paper	Level 2	25,433	—	—	25,433
Certificates of deposit	Level 2	5,254	—	—	5,254
Total short-term investments		$ 421,887	$ 908	$ (21)	$ 422,774
Derivative instruments:					
Foreign currency forward contracts	Level 2	—	276	—	276
Total assets measured at fair value		$ 575,990	$ 1,185	$ (27)	$ 577,148
Liabilities:					
Derivative instruments:					
Foreign currency forward contracts	Level 2	$ —	$ —	$ 778	$ 778
Total derivative instruments		—	—	778	778
Total liabilities measured at fair value		$ —	$ —	$ 778	$ 778

The following table summarizes the respective fair value and the classification by level within the fair value hierarchy (in thousands):

	Fair Value Measurement as of January 31, 2024				
	Fair Value Level	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Assets:					
Cash and cash equivalents:					
Money market funds	Level 1	$ 63,137	$ —	$ —	$ 63,137
U.S. treasury securities	Level 2	9,495	—	—	9,495
Commercial paper	Level 2	10,981	—	—	10,981
Total assets measured at fair value included in cash and cash equivalents		$ 83,613	$ —	$ —	$ 83,613
Short-term Investments:					
U.S. treasury securities	Level 2	$ 244,778	$ 150	$ (141)	$ 244,787
U.S. agency obligations	Level 2	79,693	50	(23)	79,720
Corporate notes and bonds	Level 2	103,552	141	(70)	103,623
Commercial paper	Level 2	46,523	—	—	46,523
Certificates of deposit	Level 2	40,510	—	—	40,510
Total short-term investments		$ 515,056	$ 341	$ (234)	$ 515,163
Derivative instruments:					
Foreign currency forward contracts	Level 2	—	—	18	18
Total assets measured at fair value		$ 598,669	$ 341	$ (216)	$ 598,794
Liabilities:					
Derivative instruments:					
Foreign currency forward contracts	Level 2	$ —	$ —	$ 518	$ 518
Total derivative instruments		—	—	518	518
Total liabilities measured at fair value		$ —	$ —	$ 518	$ 518

The Company classifies its highly liquid money market funds within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its corporate notes and bonds, U.S. treasury securities, U.S. agency obligations, commercial paper, certificate of deposits and foreign currency forward contracts within Level 2 of the fair value hierarchy because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security that may not be actively traded.

There were no transfers between fair value measurement levels during the nine months ended October 31, 2024 and 2023.

The Company does not hold any marketable securities that have been in a continuous unrealized loss position for over 12 months. As of October 31, 2024, the declines in the market value of the Company's short-term investment portfolio were not driven by credit related factors. As of October 31, 2024, the Company determined that it does not intend to sell any securities with a decline in market value, and it is more likely than not that the Company will be able to hold these securities until maturity or a recovery of the cost basis. Therefore no allowance for expected credit losses was recorded as of October 31, 2024. Realized gains (losses) were not material for the nine months ended October 31, 2024.

The following table summarizes the contractual maturities of the Company's short-term investments (in thousands):

	As of October 31, 2024	
	Amortized Cost	Fair Value
Due within one year	$ 360,364	$ 360,796
Due after one year through five years	61,523	61,978
Total	$ 421,887	$ 422,774

	As of January 31, 2024	
	Amortized Cost	Fair Value
Due within one year	$ 447,001	446,902
Due after one year through five years	68,055	68,261
Total	$ 515,056	$ 515,163

5. Derivative Instruments and Hedging

As of October 31, 2024 and January 31, 2024, the Company's foreign currency forward contracts had an aggregate notional amount of $61.0 million and $49.3 million, respectively.

The Company enters into collateral arrangements with its counterparty that require the parties to post cash collateral when certain contractual thresholds are met to reduce credit risk. As of October 31, 2024, the Company posted $0.5 million cash collateral and included it in cash and cash equivalents in the condensed consolidated balance sheets. The following table summarizes the fair value of the Company's derivative instruments in the condensed consolidated balance sheets (in thousands):

	Balance Sheet Location	Fair Value as of October 31, 2024	Fair Value as of January 31, 2024
Derivative Assets:			
Foreign currency forward contracts designated as hedging instruments	Prepaid expenses and other current assets	$ 276	$ 18
Total derivative assets		$ 276	$ 18
Derivative Liabilities:			
Foreign currency forward contracts designated as hedging instruments	Accrued expenses and other liabilities	$ 778	$ 518
Total derivative liabilities		$ 778	$ 518

The following table presents the activity of foreign currency forward contracts designated as hedging instruments and the impact of these derivatives on accumulated other comprehensive income ("AOCI") (in thousands):

	Nine Months Ended October 31, 2024
Beginning balance	$ (501)
Net gains (losses) recognized in other comprehensive income	(499)
Net (gains) losses reclassified from AOCI to earnings	497
Ending balance	$ (502)

As of October 31, 2024, net unrealized loss included in the balance of AOCI related to foreign currency forward contracts designated as hedging instruments was $0.5 million, all of which the Company expects to reclassify from AOCI into earnings over the next 12 months. The effect of foreign currency forward contracts was $0.5 million to the condensed consolidated financials for the nine months ended October 31, 2024.

6. Commitments and Contingencies

Letter of credit

The Company has a total of $1.8 million in letters of credit outstanding as security deposits for the Company's leased office spaces as of October 31, 2024.

Purchase Commitments

In the normal course of business, the Company enters into non-cancelable purchase commitments with various parties to purchase products and services such as software subscriptions and corporate events. In February 2024, the Company signed an agreement with a cloud service provider. Under that agreement the Company has minimum spend commitments of $18.5 million in the 12 months ending February 2025, and $20.0 million in the 12 months ending February 2026, $22.5 million in the 12 months ending February 2027, $24.0 million in the 12 months ending February 2028, and $25.0 million in the 12 months ending February 2029.

IBM Merger Contingencies

In connection with the proposed Merger with IBM, the Company expects to incur an additional liability of approximately $92 million, which primarily represents transaction fees that are contingent upon the consummation of the Merger.

Litigation

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.

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. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the Company's limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim.

Although the results of litigation and claims are inherently unpredictable, the Company believes that there was not a reasonable possibility that the Company had incurred a material loss with respect to such loss contingencies as of October 31, 2024.

7. Common Stock and Stockholders' Equity

Restricted Stock Units

The Company’s summary of restricted stock units ("RSUs") activity under the 2021 Plan is as follows (in thousands):

	Number of Awards	Weighted-Average Grant Date Fair Value
Outstanding and unvested at January 31, 2024	12,067	$ 35.48
RSUs granted	6,049	$ 29.99
RSUs released	(3,677)	$ 36.85
RSUs cancelled	(2,657)	$ 33.95
Outstanding and unvested at October 31, 2024	11,782	$ 32.52

Employee Stock Purchase Plan ("ESPP")

Pursuant to the terms of the Merger Agreement with IBM, the Company stopped providing any new offering periods under the ESPP subsequent to June 15, 2024 and has cancelled all future purchase periods of any existing offering periods. As a result of the cancellation of the future purchase periods, the Company accelerated $13.8 million of expense in addition to the $3.5 million of expense related to the ESPP recorded during the nine months ended October 31, 2024. During the nine months ended October 31, 2024, employees purchased 342,179 shares of common stock under the ESPP at a purchase price of $19.47 per share, resulting in total cash proceeds of $6.7 million.

Performance Stock Units ("PSUs")

In February 2024, the Company granted 335,159 shares of Class A common stock as PSUs, with a grant date fair value of approximately $8.7 million, or $26.03 per share to the executive team. The number of shares of the Company’s common stock that will vest based on the performance conditions can range from 0% to 200% of the target amount. The amount of PSUs that will ultimately vest is based on the level of achievement of certain financial performance metrics related to the Company's fiscal 2025 operating plan, and vest over a three-year period, with the first vest at the anniversary of the grant, after results have been finalized, and the remainder quarterly thereafter, subject to continuous service. Compensation expense for PSUs with performance conditions is measured using the fair value at the date of grant, and may be adjusted over the vesting period based on interim estimates of performance against the performance condition. Expense is recorded over the vesting period under the graded-vesting attribution method.

As of October 31, 2024, total unrecognized stock-based compensation cost related to PSUs was $4.6 million. This unrecognized stock-based compensation cost is expected to be recognized using the accelerated attribution method over a weighted-average period of approximately 1.2 years.

Stock-Based Compensation Expense

Total stock-based compensation expense recognized in the Company’s condensed consolidated statements of operations is as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Cost of support	$ 2,279	$ 2,411	$ 7,889	$ 7,511
Cost of cloud-hosted services	461	601	1,765	1,767
Cost of professional services and other	728	734	2,472	1,947
Sales and marketing	12,526	13,923	41,840	41,365
Research and development	11,187	12,674	38,294	37,347
General and administrative	7,274	13,423	29,312	40,111
Stock-based compensation expense, net of amounts capitalized	$ 34,455	$ 43,766	$ 121,572	$ 130,048
Capitalized stock-based compensation	763	1,230	2,525	3,685
Total stock-based compensation expense	$ 35,218	$ 44,996	$ 124,097	$ 133,733

8. Net Loss Per Share Attributable to Common Stockholders

For periods in which there were Class A and Class B shares outstanding, the rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock were identical, except with respect to voting, converting, and transfer rights. Class B common stock has ten votes per share, and Class A common stock has one vote per share. As the liquidation and dividend rights were identical for Class A and Class B common stock, the undistributed earnings would be allocated on a proportionate basis and the resulting net loss per share would, therefore, be the same for both Class A and Class B common stock on an individual or combined basis.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Numerator:				
Net loss	$ (13,006)	$ (39,473)	$ (90,596)	$ (159,046)
Denominator:				
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders, basic and diluted	203,526	194,600	201,836	192,693
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	$ (0.06)	$ (0.20)	$ (0.45)	$ (0.83)

The following outstanding potentially dilutive shares of common stock were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because the impact of including them would have been antidilutive (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Outstanding stock options and restricted stock units	17,433	21,502	17,433	21,502
Share purchase rights under the ESPP	—	1,205	—	1,077
Total	17,433	22,707	17,433	22,579

9. Income Taxes

The Company determines its income tax provision for interim periods using an estimate of its annual effective tax rate adjusted for discrete items occurring during the periods presented. The primary difference between the effective tax rate and the federal statutory rate is related to nonrecognition of tax benefits due to valuation allowance established for U.S. federal and state deferred tax assets. The Company recorded income tax expenses of $1.9 million and $0.5 million for the nine months ended October 31, 2024 and 2023, respectively.

The Company continues to maintain a valuation allowance for its U.S. Federal and state net deferred tax assets. The tax expense for the nine months ended October 31, 2024 was primarily due to foreign and US state income tax expense. The Company is subject to income tax in the United States, certain states, and various foreign countries. Due to the history of net operating losses, the Company is subject to United States federal, state, and local examinations by tax authorities for all years since incorporation.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties, some of which cannot be predicted or quantified. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding the Merger (as defined below), our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “hope,” “intend,” “may,” “might,” “objective,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” or “would” or the negative of these words or other similar terms or expressions. In particular, information appearing under the sections titled “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other portions of this Quarterly Report on Form 10-Q include forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- the proposed Merger and the Merger Agreement, including but not limited to the timing and completion of the Merger, costs and fees relating to both the Merger and the potential termination of the Merger, regulatory approvals relating to the Merger, the impact of litigation or other stockholder action related to the Merger, the receipt of necessary approvals to complete the Merger, the impact of the Merger on management and employees and the effects on us and our stockholders if the Merger is not complete;
- our future operating and financial performance, ability to generate positive cash flow and ability to achieve and sustain profitability;
- our ability to attract and retain customers to use our products;
- our ability to successfully anticipate and satisfy customer demands, including through the introduction of new features, products or services and the provision of professional services;
- our ability to increase usage of our platform and sell additional products to existing customers;
- future investments in our business, our anticipated capital expenditures, and our estimates regarding our capital requirements;
- the costs and success of our sales and marketing efforts, and our ability to promote our brand;
- the estimated addressable market opportunity for our products and growth rate of those markets;
- our reliance on key personnel and our ability to identify, recruit, and retain skilled personnel;
- our ability to continue to build and maintain credibility with the developer community;
- our ability to form new and expand existing strategic partnerships;
- our ability to maintain the security of our software and adequately address privacy concerns;
- our ability to accurately forecast our sales cycle and make changes to our pricing model;
- our ability to effectively manage our growth, including any international expansion;
- our ability to protect our intellectual property rights and any costs associated therewith;
- the future trading prices of shares of our Class A common stock;
- the effects of health epidemics;

- the effects of disruptions due to heightened risk of cybersecurity attacks, malware, ransomware, hacking, or similar breaches;
- our ability to compete effectively with existing competitors and new market entrants;
- market risks relevant to our operations in the United States and internationally;
- the future of our industry;
- the rate at which significant changes occur in our industry;
- the effects of any existing or future claims or litigation;
- the effects of inflation, including the volatility in the rate of inflation; and
- our ability to comply with modified or new laws and regulations applying to our business.

Actual events or results may differ from those expressed in forward-looking statements. Consequently, you should not rely on 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, results of operations, prospects, strategy, and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a highly 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. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. While we believe that such information provides a reasonable basis for these statements, such information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these 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, actual results, revised expectations, 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.

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 included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such difference include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included in Part I, Item IA of our Annual Report on Form 10-K filed with the SEC on March 21, 2024 and elsewhere in this Quarterly Report on Form 10-Q. You should carefully review the risks described in our Annual Report filed with the SEC on March 21, 2024, in this Quarterly Report on Form 10-Q, and in other documents we file from time to time with the SEC. You should review the risk factors for a more complete understanding of the risks associated with an investment in our securities. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Our fiscal year end is January 31, and our fiscal quarters end on April 30, July 31, October 31, and January 31. Our fiscal year ended January 31, 2024 is referred to as fiscal 2024, and our fiscal year ending January 31, 2025 is referred to as fiscal 2025.

Overview

Our foundational technologies solve the core infrastructure challenges of cloud adoption by enabling an operating model that unlocks the full potential of modern public and private clouds. Our cloud operating model provides consistent workflows and a standardized approach to automating the critical processes involved in delivering applications in the cloud: infrastructure provisioning, security, networking, and application deployment. With our solutions, companies of all sizes and in all industries can accelerate their time to market, reduce their cost of operations, and improve their security and governance of complex infrastructure deployments.

Organizations today are undergoing a digital transformation across every business function, driven by competition and ever-increasing consumer expectations. Underlying this digital transformation is a re-platforming of static on-premises infrastructure to dynamic and distributed cloud infrastructure. In this dynamic world, existing procedures are too inefficient to scale with distributed, multi-cloud infrastructure. Inconsistent, fragmented technologies and processes are time consuming and resource intensive to manage, exacerbated by inefficient, linear ticket-driven workflows that cannot facilitate scaled, real-time operations. This digital transformation demands a new cloud operating model for enterprise IT requiring automation to provision, secure, connect, and run infrastructure at scale and in real time. At HashiCorp, we build industry-leading products that enable this cloud operating model and accelerate cloud adoption. Our primary commercial products are Terraform, Vault, Consul, and Nomad.

Our products can be adopted individually and are also designed to work together as a stack in order to solve larger, more complex challenges. For instance, deploying Vault and Consul is the basis for a complete Zero Trust security architecture with identity-driven controls, offering a full range of authentication, authorization, and access management for human users or machines, like servers or applications. We continue to innovate and deliver additional emerging products to supplement these core capabilities and provide adjacent solutions.

On April 24, 2024, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with International Business Machines Corporation ("IBM") and McCloud Merger Sub, Inc., a wholly owned subsidiary of IBM ("Merger Sub"). The Merger Agreement provides that, subject to the terms and conditions of the Merger Agreement, Merger Sub will merge with and into HashiCorp (the "Merger"), with HashiCorp continuing as the surviving corporation of the Merger and as a wholly owned subsidiary of IBM. The Merger is expected to be completed in the first calendar quarter of 2025, subject to the satisfaction or waiver of the closing conditions in the Merger Agreement.

Pursuant to the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of the Company's Class A common stock and Class B common stock issued and outstanding immediately prior to the Effective Time (subject to certain customary exceptions specified in the Merger Agreement) will automatically be cancelled and converted into the right to receive $35.00 in cash, without interest and subject to applicable withholding taxes.

Our stockholders approved and adopted the Merger Agreement on July 15, 2024. Completion of the Merger is subject to customary conditions, including the satisfaction of certain domestic and foreign regulatory approvals; the absence of an order or law preventing or materially restraining the consummation of the Merger; and performance by the parties in all material respects of all their obligations under the Merger Agreement.

The Merger Agreement includes customary termination rights for the Company and IBM, including if the Effective Time has not occurred on or before October 24, 2025. Upon termination of the Merger Agreement in certain limited circumstances relating to an alternative transaction for us, we will be required to pay IBM a termination fee of $264.2 million.

The foregoing summary of the Merger Agreement and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Merger Agreement, which is filed as Exhibit 2.1 of the Company's Current Report on Form 8-K filed on April 25, 2024 and incorporated herein by reference.

Additionally, we have incurred transaction-related costs of approximately $22.1 million as of October 31, 2024.

Our Business Model

Our primary products are based on a combination of our free, source available community products and our proprietary software. We are committed to a model in which we maintain free community offerings while developing proprietary features for paid tiers of our software. These proprietary features include collaboration modules, governance and policy modules, enterprise use cases, and premium support and services. We provide our software under a licensing model that protects our intellectual property, grows our adoption, and supports our business.

We generate revenue primarily from sales of subscriptions to our software. We offer an enterprise-ready, self-managed software offering that can be deployed in our customers' public cloud, private cloud, and on-premises environments. HashiCorp Cloud Platform, or HCP, is our fully managed cloud platform. These two core offerings can be leveraged independently or together, spanning the various public cloud, private cloud, and on-premises environments in which our customers operate.

For our self-managed offerings, we offer various tiers that provide different levels of access to our proprietary products, modules, and support. Our licenses for self-managed deployments typically have terms of one to three years. We bill for one-year licenses upfront, and we primarily bill for multi-year term licenses annually in advance, with a multi-year payment schedule. The substantial majority of our revenue is recognized ratably over the subscription term. Each product is sold as a base module, with additional optional modules available that address needs like governance and policy, and a tiered pricing system that scales pricing with increased product usage. The unit of value for product usage varies by product, and generally scales with customer cloud adoption as workloads managed by our products move to cloud-based infrastructure.

HCP customers use our offering on a consumption-based model or purchase annual subscription contracts. Customers who are on consumption-based contracts are predominantly billed in advance for committed consumption and revenue from them is recognized based on actual consumption of resources. Customers with annual subscriptions are typically billed annually in advance for their subscriptions and we typically recognize revenue from such subscriptions ratably over the subscription term. Our pricing schedule lists the hourly rate when deploying HCP for our various products, and actual usage is metered and calculated on a per-hour basis for increased accuracy.

We sell to organizations of all sizes across a broad range of industries, with a particular focus on enterprises that are managing and moving an increasing number of business-critical processes, applications, and large volumes of data to the cloud. Ultimately, we believe all enterprises will need to transition to the cloud to reduce operational burden, improve scalability and elasticity, and increase agility. We plan to continue to invest in our direct sales force to grow our large enterprise base domestically and internationally.

Our sales and marketing strategy combines the best of customer self-service with our direct sales approach. Our source available model allows developers and individuals focused on operations, IT, and security, or practitioners, to engage with and evaluate our software in a frictionless manner, which we believe has contributed to our software's popularity. This leadership and the wider ecosystem around us, compels practitioners to adopt and implement our software in the enterprise. As organizations recognize the value of our products, our inside and field sales teams can nurture leads and develop direct relationships with key stakeholders across all segments. HCP has accelerated our self-service approach, as practitioners can now quickly deploy and experiment with our paid offering with a fully managed cloud solution and no minimum commitments.

As adoption grows, our marketing organization is focused on building our brand reputation and awareness, and engages with prospective customers through our user conferences, email marketing, digital advertising, and other public relations activities. This sales and marketing strategy allows us to not only acquire new customers, but also drive increased usage within existing customers.

We operate an adopt, land, expand, and extend motion. Our source available engagement and self-serve cloud motion help us identify and accelerate initial product adoption and use cases in an account. Our enterprise sales teams land these customers with subscription contracts for our software. Our expansion motion focuses on up-selling additional modules and increasing the footprint of usage of a given product, including across multiple buying centers within our customers' organizations. The multiple capabilities of our deep product portfolio allow us to extend by cross-selling additional integrated products to our customers. For example, a company may initially adopt a free community version use case of Terraform. After initial use of the source available product, we frequently land their first paid use of Terraform to add enterprise functionality and support mission-critical cloud workloads. As customers grow their cloud presence to support additional cloud-based workloads, they frequently expand the amount of Terraform they consume. In addition to this increased Terraform usage, customers also frequently extend into additional products such as Vault or Consul. This combination of adopt, land, expand, and extend affords us considerable growth opportunities within our customer base, and we focus our go-to-market strategy on developing and cultivating long-term customer relationships. The increased use of our platform by our customers is evidenced by our high net dollar retention rate. As of October 31, 2024 and 2023, our last four-quarter average net dollar retention rate was 109% and 119%, respectively.

Factors Affecting Our Performance

We believe that the growth and future success of our business depends on a number of key factors. While each of these factors presents significant opportunities for our business, they also pose important challenges that we must successfully address in order to sustain our growth and improve our results of operations.

Adoption of Our Products and Landing New Customers

We believe there is substantial opportunity to continue to grow our product adoption and our customer base. We intend to drive product adoption through our source distribution model and by continuing to cultivate our source community.

We intend to drive paid customer growth by continuing to invest significantly in sales and marketing and to increase brand awareness. HCP has also improved our self-service model, and we expect HCP to continue to support our sales model and drive paid adoption. As of October 31, 2024, we served over 4,800 customers spanning organizations of a broad range of sizes and industries, compared to over 4,300 as of October 31, 2023. We also intend to continue to grow our base of large enterprises around the world.

Our ability to attract new customers will depend on a number of factors, including the effectiveness and pricing of our products, development of new products and features, offerings of our competitors, engagement with the developer community, and effectiveness of our marketing and community-building efforts. As of October 31, 2024, 499 of the Forbes Global 2000 were our customers. We believe this demonstrates our products have been adopted by many of the largest enterprises, and that there is a substantial opportunity to further cultivate these large customers.

Expanding and Extending Within Existing Customer Base

Our large base of customers represents a significant opportunity for further sales growth. Our customers often expand the deployment of our products across larger teams and more broadly within the enterprise as they do more with existing use cases and realize new use cases. At the same time, we often see customers extend to multiple products across our wider product portfolio as they realize the potential of integrating more of our products to better solve use cases. We intend to continue to invest in enhancing awareness of our brand and developing more products, features, and functionality, which we believe are important factors in achieving widespread adoption of our offerings. Our ability to increase sales to existing customers will depend on a number of factors, including our customers' satisfaction with our products, the technical capabilities and security of our products, our customers' progress on their cloud journey, competition, pricing, and overall changes in our customers' spending levels.

Historically, we have experienced significant expansion after initial deployment of our products by our customers, with customers expanding usage as well as extending to additional products. We define ARR as the annualized value of all recurring subscription contracts with active entitlements as of the end of the applicable period, and in the case of our consumption-based customers the annualized value of their last three months spend. For our monthly customers, we calculate ARR according to the annualized value of their last months spend. In the fourth quarter of fiscal 2024 we changed the definition of ARR for consumption-based customers from the annualized value of their last month's spend to the annualized value of their last three months spend to better reflect longer term usage patterns. A further indication of the propensity of customer relationships to expand over time is our dollar-based net retention rate, which compares ARR from the same set of customers in one period relative to the prior year period. We define dollar-based net retention rate as the ARR at the end of a period for a base set of customers from which we generated ARR in the year prior to the date of calculation, divided by the ARR one year prior to the date of the calculation for that same set of customers. As of October 31, 2024 and 2023, our last four-quarter average net dollar retention rate was 109% and 119% respectively.

Increasing Adoption of HashiCorp Cloud Platform

We believe HCP represents a significant growth opportunity for our business. Since launching HCP in fiscal 2021, usage and sales of HCP have grown rapidly and have allowed us to better address the needs of potential customers looking for a fully managed offering. We believe that as organizations increasingly look for a fully managed cloud infrastructure platform, they will continue to adopt HCP. We expect HCP to continue to grow and represent an increasing percentage of our total revenue over time. For the three months ended October 31, 2024 and 2023, HCP subscription revenue was $29.0 million and $19.9 million, respectively. For the nine months ended October 31, 2024 and 2023, HCP subscription revenue was $80.1 million and $54.8 million, respectively.

Accelerating Technology Leadership and Product Expansion

Our success depends on our ability to sustain innovation and technology leadership and maintain our competitive advantage. We have built highly differentiated products that we believe can adapt and evolve with the support of our engineering expertise, our approach to innovation, our developer community, and our ecosystem of partners. HashiCorp is a critical part of the daily operations of practitioners and our free products make HashiCorp frictionless to adopt. We have proven initial success of our modular approach with multiple innovations and product launches, including the launch of HCP in fiscal 2021, launch of Boundary and Waypoint in September 2020, launch of HCP Boundary in June 2022, launch of HCP Consul in October, 2022, and launch of HCP Vault in June 2023. We see continued adoption from our customers in our new products and innovations and, as of October 31, 2024, 45% of our customers with $100,000 or greater ARR were licensing more than one product.

We intend to continue to invest in building additional products, features, and functionality to expand our products to new use cases. Our future success is dependent on our ability to successfully develop, market, and sell existing and new products to new and existing customers.

Expanding Internationally

We believe there is a significant opportunity to expand usage of our products outside of the United States as enterprises globally look to take advantage of cloud computing and look to adopt a cloud operating model across multiple clouds. For the three months ended October 31, 2024 and 2023, 32% and 30% of our revenue, respectively, was generated by customers outside of the United States. For the nine months ended October 31, 2024 and 2023, 32% and 30% of our revenue, respectively, was generated by customers outside of the United States. In addition, we have made and plan to continue to make investments in geographic expansion in Europe, the Middle East, Africa, and the Asia-Pacific region.

Key Business Metrics

We review a number of operating and financial metrics, including the following key metrics, to measure our performance, identify trends, formulate business plans, and make strategic decisions. The calculation of the key metrics discussed below may differ from other similarly titled metrics used by other companies, securities analysts, or investors.

	As of	
	October 31, 2024	January 31, 2024
	(dollars in millions)	
Total customers	4,856	4,423
Total customers with $100,000 or greater ARR	946	897
Subscription revenue from HCP	$ 80.1 [(1)]	$ 76.1 [(1)]
GAAP Remaining Performance Obligations (RPOs)	$ 775.4	$ 775.8
Non-GAAP RPOs[(2)]	$ 795.6	$ 801.4

(1) Represents subscription revenue for the nine months ended October 31, 2024 and for the twelve months ended January 31, 2024

(2) Non-GAAP RPOs is a non-GAAP financial measure. For more information regarding our use of this measure and a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP, see the subsection titled "Non-GAAP Remaining Performance Obligations" elsewhere in this section.

Total Customers

We define total customers as the number of customers we have at the end of each fiscal quarter. We define the number of customers we have at the end of each fiscal quarter as the number of accounts with a unique account identifier for which we have an active contract at the end of the period indicated. Users of our free products are not included in the total customers. A single organization with multiple divisions, segments, or subsidiaries is generally counted as a single customer, however, in some cases we may count separate divisions, segments, or subsidiaries as multiple customers in cases where they have separate billing terms. Our customer count may also fluctuate due to acquisitions, consolidations, spin-offs, and other market activity.

Total Customers with $100,000 or Greater ARR

We define ARR as the annualized value of all recurring subscription contracts with active entitlements as of the end of the applicable period, and in the case of our consumption-based customers, the annualized value of their last three months spend. For our monthly customers, we calculate ARR according to the annualized value of their last months spend. Relationships with large enterprise customers lead to scale and operating leverage in our business model, as large enterprise customers present a greater opportunity for us to sell additional usage and modules because they have larger budgets, a wider range of potential use cases, and greater potential for expanding to other products in our offering. As such, we count the number of customers contributing $100,000 or greater ARR as a measure of our ability to scale with our customers and attract large enterprise customers to our product offerings. For each applicable financial reporting period, we calculate revenue from customers with $100,000 or greater ARR by aggregating the quarterly revenue attributable to such customers within such period. For the three and nine months ended 2024 and 2023, customers with $100,000 or greater ARR represented 89% of revenue for the three months ended October 31, 2024 and 2023, respectively.

Quarterly Revenue from HCP

We believe that HCP represents an important growth opportunity for our business. As organizations continue their transition to the cloud, many will begin seeking fully managed platforms and will begin to adopt HCP. We will continue to track the revenue generated by HCP as a way of measuring the adoption of our platform.

Non-GAAP Remaining Performance Obligations

Remaining performance obligations ("RPOs"), represent the amount of contracted future revenue that has not yet been recognized, including both deferred revenue and non-cancelable contracted amounts that will be invoiced and recognized as revenue in future periods. RPOs exclude customer deposits, which are refundable amounts that are expected to be recognized as revenue in future periods. As of October 31, 2024 and January 31, 2024, our RPOs were $775.4 million, and $775.8 million, respectively. As of October 31, 2024, we expect to recognize approximately 62% of RPOs as revenue over the next 12 months, and the remainder thereafter. The portion of RPOs that is expected to be recognized as revenue over the next 12 months represents an estimated minimum level of revenue for the applicable period and is not necessarily indicative of future product revenue growth because it does not account for revenue from customer renewals or new customer contracts. Moreover, RPOs are influenced by a number of factors, including the timing of renewals, average contract terms, seasonality, and dollar amounts of customer contracts. Due to these factors, it is important to review RPOs in conjunction with revenue and other financial metrics disclosed elsewhere herein. For a further discussion of RPOs, see Note 3 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

We calculate non-GAAP RPOs as RPOs plus customer deposits, which are refundable pre-paid amounts, based on the timing of when these customer deposits are expected to be recognized as revenue in future periods. As of October 31, 2024 and January 31, 2024, non-GAAP RPOs were $795.6 million and $801.4 million, respectively. As of October 31, 2024, we expect to recognize 63% of our non-GAAP RPOs as revenue over the next 12 months, and the remainder thereafter.

We use non-GAAP RPOs in conjunction with RPOs as part of our overall assessment of our performance, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our business and financial performance. Our management believes that presenting non-GAAP RPOs is useful to investors because the portion of non-GAAP RPOs that is expected to be recognized as revenue over the next 12 months represents an estimated minimum level of revenue for the applicable period, including customer deposits that are expected to be recognized as revenue in future periods but are not included in GAAP RPOs. Our definitions of non-GAAP RPOs may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Non-GAAP RPOs should be considered in addition to, not as substitutes for, or in isolation from, RPOs prepared in accordance with GAAP. We compensate for the limitations in the use of non-GAAP RPOs by providing a reconciliation of non-GAAP RPOs to RPOs. We encourage investors and others to review our results of operations and financial information in its entirety, not to rely on any single financial measure, and to view non-GAAP RPOs with RPOs and revenue.

The following table presents a reconciliation of our GAAP RPOs to our Non-GAAP RPOs for the periods presented (in thousands):

	As of	
	October 31, 2024	**January 31, 2024**
GAAP RPOs		
GAAP short-term RPOs	$ 481,442	$ 460,170
GAAP long-term RPOs	293,941	315,580
Total GAAP RPOs	$ 775,383	$ 775,750
Add:		
Customer deposits		
Customer deposits expected to be recognized within the next 12 months	$ 17,920	$ 22,882
Customer deposits expected to be recognized after the next 12 months	2,297	2,745
Total customer deposits	$ 20,217	$ 25,627
Non-GAAP RPOs		
Non-GAAP short-term RPOs	$ 499,362	$ 483,052
Non-GAAP long-term RPOs	296,238	318,325
Total Non-GAAP RPOs	$ 795,600	$ 801,377

Free Cash Flow and Free Cash Flow Margin

Free cash flow is a non-GAAP financial measure that we define as net cash provided by (used in) operating activities less purchases of property and equipment and capitalized internal-use software costs. Free cash flow margin is calculated as free cash flow divided by total revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our core operations that, after the purchases of property and equipment, can be used for strategic initiatives, including investing in our business and selectively pursuing acquisitions and strategic investments. We further believe that historical and future trends in free cash flow and free cash flow margin, even if negative, provide useful information about the amount of net cash provided by (used in) operating activities that is available (or not available) to be used for strategic initiatives. For example, if free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. One limitation of free cash flow and free cash flow margin is that they do not reflect our future contractual commitments. Additionally, free cash flow does not represent the total increase or decrease in our cash balance for a given period.

The following table presents our cash flow for the periods presented and a reconciliation of free cash flow and free cash flow margin to net cash provided by (used in) operating activities, the most directly comparable financial measure calculated in accordance with GAAP (in thousands):

	Nine Months Ended October 31,	
	2024	**2023**
GAAP net cash provided by (used in) operating activities	$ 57,743	$ (21,137)
Add: purchases of property and equipment	(434)	(491)
Add: capitalized internal-use software	(7,394)	(8,536)
Free cash flow inflow (outflow)	$ 49,915	$ (30,164)
GAAP net cash provided by operating activities as a percentage of revenue	12%	(5)%
Free cash flow as a % of revenue	10%	(7)%

Key Components of Results of Operations

Revenue

We generate revenue primarily from software subscriptions and, to a lesser extent, professional services and other revenue. Our software subscriptions are currently predominantly self-managed by users and customers who deploy it across public, private, and hybrid cloud environments. We also offer the HCP, our fully managed cloud platform for multiple products.

Subscription revenue. We generate revenue primarily from subscriptions which include licenses of proprietary features, support and maintenance revenue, and cloud-hosted services.

Our contracts for self-managed software consist of term licenses that provide the customer with a right to use the software for a fixed term commencing upon delivery to the customer, bundled with support and maintenance for the term of the license period. Support and maintenance (collectively referred to as Support Revenue in the consolidated statements of operations) are not sold on a stand-alone basis. Our self-managed Subscription Revenue is disaggregated into License Revenue and Support Revenue in the consolidated statement of operations. The Company does not have observable standalone sales to determine the Standalone Selling Price, or SSP, for its licenses or its support as they are not sold separately. HashiCorp developed a model to estimate relative SSP for each performance obligation using an “expected cost-plus margin” approach. This model uses observable data points to develop the main assumptions including the estimated useful life of the intellectual property and appropriate margins.

Cloud-hosted services are provided on a subscription basis and give customers access to our cloud solutions, which include related customer support.

Subscription revenue on self-managed software includes both upfront revenue recognized when the license is delivered as well as revenue recognized ratably over the contract period for support and maintenance. The substantial majority of our revenue is recognized ratably over the subscription term. Revenue on committed cloud-hosted services is recognized ratably when we satisfy the performance obligation over the contract period, whereas revenue from non-committed, pay-as-you-go cloud-hosted services are recognized when usage occurs.

We generate subscription revenue from contracts with typical durations ranging from one to three years. We typically invoice our customers annually in advance and, to a lesser extent, multi-year in advance. Amounts that have been invoiced and are nonrefundable are recorded in deferred revenue, or they are recorded in revenue if the revenue recognition criteria have been met. Our current and non-current deferred revenue represents contracts that are invoiced annually in advance or multi-year in advance. Customer payments that are contractually refundable are recorded as customer deposits.

Professional services and other revenue. Professional services and other revenue consist of revenue from professional services, training services, which are predominantly sold on a fixed-fee basis and any other services provided to our customers. Revenue for professional services, training services, and other is recognized as these services are delivered. Professional services are services utilized by some of our self-managed customers to accelerate the deployment of our products.

Support and maintenance revenue and cloud-hosted services make up the majority of our revenue and are typically recognized ratably over the terms of our subscription contracts. Therefore, a substantial portion of the revenue that we report in each period is attributable to the recognition of deferred revenue relating to agreements that we entered into during previous periods. Consequently, increases or decreases in new sales or renewals in any one period may not be immediately reflected as revenue for that period. Any downturn in sales, however, may negatively affect our revenue in future periods. Accordingly, the effect of downturns in sales and market acceptance of our products, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods.

Cost of Revenue

Cost of Subscription Revenue. Cost of subscription revenue primarily includes personnel-related costs, such as salaries, bonuses and benefits, and stock-based compensation for employees associated with customer support and maintenance, third-party cloud infrastructure costs, amortization of internal-use software, amortization of acquired developed technology, and allocated overhead. We expect our cost of subscription revenue to increase as our subscription revenue increases.

Cost of Professional Services and other. Cost of professional services and other revenue primarily includes personnel-related costs, such as salaries, bonuses and benefits, and stock-based compensation for employees associated with our professional services, costs of third-party contractors, and allocated overhead. We expect our cost of professional services and other revenue to increase as our professional services and other revenue increases.

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 average sales price of our subscriptions and professional services and other, changes in our revenue mix, the timing and extent of our investments in our global customer support personnel, hosting-related costs, and the amortization of internal-use software. We expect our gross margin to fluctuate over time depending on the factors described above. We expect our revenue from cloud-hosted services to increase as a percentage of total revenue, which we expect to lead to an increase in associated hosting and managing costs, which, in turn, would be expected to adversely impact our gross margin.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs, which consist of salaries, bonuses, benefits, 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 software and subscription services and an allocation of our general overhead costs for facilities, IT, and depreciation expenses.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel-related costs, such as salaries, sales commissions that are recognized as expenses over the period of benefit, bonuses, benefits, stock-based compensation, costs related to marketing programs, travel-related costs, software and subscription services, and allocated overhead. Marketing programs consist of advertising, events, corporate communications, brand-building, and developer-community activities. We expect our sales and marketing expenses will increase over time and continue to be our largest operating expense for the foreseeable future as we expand our sales force, increase our marketing efforts, and expand into new markets. While we expect our sales and marketing expenses to decrease as a percentage of revenue over the long term due to business growth, our sales and marketing expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

Research and Development

Research and development expenses consist primarily of personnel-related costs, such as salaries, bonuses, benefits, and stock-based compensation, net of capitalized amounts, contractor and professional services fees, software and subscription services dedicated for use by our research and development organization and allocated overhead. We continue to focus our research and development efforts on the addition of new features and products and enhancing the functionality and ease of use of our existing products. We expect our research and development expenses will continue to increase as our business grows and we continue to invest in our offering. While we expect our research and development expenses to decrease as a percentage of revenue over the long term due to this business growth, our research and development expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

General and Administrative

General and administrative expenses for administrative functions including finance, legal, and human resources, consist primarily of personnel-related costs, such as salaries, bonuses, benefits, and stock-based compensation, as well as software and subscription services, and legal and other professional fees. We incur additional general and administrative expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations, and increased expenses for investor relations and professional services. We expect that our general and administrative expenses will increase as our business grows. However, we expect our general and administrative expenses to decrease as a percentage of revenue over the long term due to this business growth, our general and administrative expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

Interest Income

Interest income consists of interest earned on our cash, cash equivalents and short-term investments, and amortization of premiums and accretion of discounts on short-term investments.

Other Income (Expense), Net

Other income (expense), net, consists primarily of gains and losses from foreign currency transactions, and realized gains and losses on short-term investments.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business, as well as state income taxes in the United States. We have recorded deferred tax assets and we provide a full valuation allowance on our U.S., Canada, and United Kingdom deferred tax assets. We expect to maintain this full valuation allowance on our U.S. deferred tax assets for the foreseeable future as it is more likely than not that some or all of those deferred tax assets may not be realized based on our history of losses.

Results of Operations

The following tables summarize our consolidated statements of operations data for the periods presented and as a percentage of revenue. The period-to-period comparison of results is not necessarily indicative of results for future periods (in thousands, except for percentages).

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2024		2023		2024		2023	
Revenue:								
License	$ 21,202	12 %	$ 15,973	11 %	$ 54,039	11 %	$ 47,855	11 %
Support	117,656	68	106,098	72	347,455	70	312,008	74
Cloud-hosted services	28,962	17	19,863	14	80,086	16	54,779	13
Total subscription revenue	167,820	97	141,934	97	481,580	97	414,642	98
Professional services and other	5,569	3	4,191	3	17,527	3	12,712	2
Total revenue	173,389	100	146,125	100	499,107	100	427,354	100
Cost of revenue:								
Cost of license	525	—	293	—	1,532	—	1,376	—
Cost of support	14,748	9	13,356	10	44,764	9	44,503	11
Cost of cloud-hosted services	9,183	5	7,692	5	27,011	5	22,339	5
Total cost of subscription revenue	24,456	14	21,341	15	73,307	14	68,218	16
Cost of professional services and other	5,332	3	4,264	3	17,002	3	13,509	3
Total cost of revenue	29,788	17	25,605	18	90,309	17	81,727	19
Gross profit	143,601	83	120,520	82	408,798	83	345,627	81
Operating expenses:								
Sales and marketing	86,422	50	87,320	60	267,187	54	279,019	65
Research and development	53,365	31	54,349	37	167,181	33	168,504	39
General and administrative	33,696	19	34,424	24	115,321	23	104,083	24
Total operating expenses	173,483	100	176,093	121	549,689	110	551,606	130
Loss from operations	(29,882)	(17)	(55,573)	(38)	(140,891)	(28)	(205,979)	(49)
Interest income	17,387	9	16,765	12	52,339	10	48,045	12
Other income (expense), net	100	—	(407)	—	(121)	—	(632)	—
Loss before income taxes	(12,395)	(8)	(39,215)	(27)	(88,673)	(18)	(158,566)	(37)
Provision for income taxes	611	—	258	—	1,923	—	480	—
Net loss	$ (13,006)	(8)%	$ (39,473)	(27)%	$ (90,596)	(18)%	$ (159,046)	(37)%

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Cost of revenue:				
Cost of support	$ 2,279	$ 2,411	$ 7,889	$ 7,511
Cost of cloud-hosted services	461	601	1,765	1,767
Total cost of subscription revenue	2,740	3,012	9,654	9,278
Cost of professional services and other	728	734	2,472	1,947
Total cost of revenue	3,468	3,746	12,126	11,225
Sales and marketing	12,526	13,923	41,840	41,365
Research and development	11,187	12,674	38,294	37,347
General and administrative	7,274	13,423	29,312	40,111
Total stock-based compensation expense, net of amounts capitalized	$ 34,455	$ 43,766	$ 121,572	$ 130,048

Comparison of Three Months Ended October 31, 2024 and 2023

Revenue

The following table presents revenue by type (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
Revenue:				
License	$ 21,202	$ 15,973	$ 5,229	33 %
Support	117,656	106,098	11,558	11 %
Cloud-hosted services	28,962	19,863	9,099	46 %
Total subscription revenue	167,820	141,934	25,886	18 %
Professional services and other	5,569	4,191	1,378	33 %
Total revenue	$ 173,389	$ 146,125	$ 27,264	19 %

Subscription revenue increased by $25.9 million, or 18%, for the three months ended October 31, 2024 compared to the same period of the prior year. This increase is attributable to the addition of new customers, which contributed $11.6 million for the three months ended October 31, 2024, as we increased our customer base by 12% from October 31, 2023, to October 31, 2024. The remaining $14.3 million of this increase in revenue is attributable to expanded product adoption among existing customers, as reflected by our average net dollar retention rate of 109% for the trailing four quarters ended October 31, 2024.

Professional services revenue increased by $1.4 million, or 33%, for the three months ended October 31, 2024 compared to the same period of the prior year. The increase is attributable to delivery of professional services.

Cost of Revenue and Gross Margin

The following tables presents cost of revenue and gross margin (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
Cost of revenue:				
Cost of license	$ 525	$ 293	$ 232	79 %
Cost of support	14,748	13,356	1,392	10 %
Cost of cloud-hosted services	9,183	7,692	1,491	19 %
Total cost of subscription revenue	24,456	21,341	3,115	15 %
Cost of professional services and other	5,332	4,264	1,068	25 %
Total cost of revenue	$ 29,788	$ 25,605	$ 4,183	16 %

	Three Months Ended October 31,	
	2024	2023
Gross margin		
License	98 %	98 %
Support	87 %	87 %
Cloud-hosted services	68 %	61 %
Total subscription margin	85 %	85 %
Professional services and other	4 %	(2)%
Total gross margin	83 %	82 %

Cost of subscription revenue increased by $3.1 million, or 15%, for the three months ended October 31, 2024 compared to the same period of the prior year. The increase in cost of subscription revenue was driven by a increase in employee-related expenses of $1.3 million in our support organization, an increase of $0.7 million in amortization of internal-use software, and a $0.7 million increase in software costs in our cloud organization.

Cost of professional services increased by $1.1 million, or 25%, for the three months ended October 31, 2024 compared to the same period of the prior year. The increase in cost of professional services was mainly driven by a $1.0 million increase in employee-related expenses and a $0.1 million increase in professional services.

Operating Expenses

Sales and Marketing

The following table presents sales and marketing expenses (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
Sales and marketing	$ 86,422	$ 87,320	$ (898)	(1)%

Sales and marketing expenses decreased by $0.9 million, or 1%, for the three months ended October 31, 2024 compared to the same period of the prior year. The decrease was driven by a net $0.9 million decrease in employee-related costs, which includes a $1.4 million decrease in stock-based compensation expense, primarily due to higher forfeitures, lower overall headcount and the termination of the ESPP, offset by a $0.5 million increase in payroll and benefits due to higher commissions and recognition of deferred contract costs. In addition, there was a decrease of $0.4 million in internal and external conferences and events and a $0.5 million decrease in professional services, offset by a $0.5 million increase in marketing expense and a $0.4 million increase in travel expense.

Research and Development

The following table presents research and development expenses (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
Research and development	$ 53,365	$ 54,349	$ (984)	(2)%

Research and development expenses decreased by $1.0 million, or 2%, for the three months ended October 31, 2024 compared to the same period of the prior year. This decrease was primarily driven by a $1.3 million decrease in payroll and benefits due to a 2% decrease in headcount from the prior year, which includes a $1.5 million decrease in net stock-based compensation expense from higher forfeitures, lower overall headcount, and termination of ESPP, slightly offset by a $0.1 million increase in payroll and benefits. This overall decrease was offset by $0.2 million increase in software costs and a $0.2 million increase in facility expense.

General and Administrative

The following table presents general and administrative expenses (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
General and administrative	$ 33,696	$ 34,424	$ (728)	(2)%

General and administrative expenses decreased by $0.7 million, or 2%, for the three months ended October 31, 2024 compared to the same period of the prior year. The decrease was primarily driven by a $5.6 million decrease in employee-related costs, which includes a $6.1 million decrease in stock-based compensation primarily due to differences in vesting terms and higher forfeitures. The overall decrease included a $0.5 million decrease in facility expense, offset by a $5.2 million increase in professional services, which includes transaction costs incurred related to the pending acquisition by IBM, and a $0.2 million increase in software costs.

Interest Income

The following table presents interest income (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
Interest income	$ 17,387	$ 16,765	$ 622	4 %

Interest income increased by $0.6 million, or 4%, for the three months ended October 31, 2024 compared to the same period of the prior year. The increase was attributable to the interest income earned from cash equivalents and available-for-sale investments, and increases in the yields resulting from higher interest rates.

Other Income (Expense), Net

The following table presents other income (expense), net (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
Other income (expense), net	$ 100	$ (407)	$ 507	(125)%

Other income (expense), net, changed by $0.5 million, or 125%, for the three months ended October 31, 2024 compared to the same period of the prior year. The changes were primarily due to changes in foreign currency gains and losses on our cash balances in foreign jurisdictions due to changes in the US dollar against other currencies.

Provision for Income Taxes

The following table presents provision for income taxes (in thousands, except percentages):

	Three Months Ended October 31,		Change	
	2024	2023	$	%
Provision for income taxes	$ 611	$ 258	$ 353	137 %

Provision for income taxes increased by $0.4 million, or 137%, for the three months ended October 31, 2024 compared to the same period of the prior year, primarily due to income in foreign and US federal and state tax jurisdictions. We maintain a full valuation allowance on our U.S. deferred tax assets, and the significant components of the tax expense recorded are current cash tax expenses in various jurisdictions. Current cash tax expenses are impacted by each jurisdiction's individual tax rates, laws on the timing of recognition of income and deductions, and availability of net operating losses and tax credits. Our effective tax rate may fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

Comparison of Nine Months Ended October 31, 2024 and 2023

Revenue

The following table presents revenue by type (in thousands, except percentages):

	Nine Months Ended October 31,		Change	
	2024	2023	$	%
Revenue:				
License	$ 54,039	$ 47,855	$ 6,184	13 %
Support	347,455	312,008	35,447	11 %
Cloud-hosted services	80,086	54,779	25,307	46 %
Total subscription revenue	481,580	414,642	66,938	16 %
Professional services and other	17,527	12,712	4,815	38 %
Total revenue	$ 499,107	$ 427,354	$ 71,753	17 %

Subscription revenue increased by $66.9 million, or 16%, for the nine months ended October 31, 2024 compared to the same period of the prior year. This increase is attributable to the addition of new customers, which contributed $35.7 million for the nine months ended October 31, 2024, as we increased our customer base by 12% from October 31, 2023, to October 31, 2024. The remaining $31.2 million of this increase in revenue is attributable to expanded product adoption among existing customers, as reflected by our average net dollar retention rate of 109% for the trailing four quarters ended October 31, 2024.

Professional services revenue increased by $4.8 million, or 38%, for the nine months ended October 31, 2024 compared to the same period of the prior year. This was primarily attributable to delivery of professional services and the completion of certain professional services projects.

Cost of Revenue and Gross Margin

The following tables presents cost of revenue and gross margin (in thousands, except percentages):

	Nine Months Ended October 31,		Change	
	2024	2023	$	%
Cost of revenue:				
Cost of license	$ 1,532	$ 1,376	$ 156	11 %
Cost of support	44,764	44,503	261	1 %
Cost of cloud-hosted services	27,011	22,339	4,672	21 %
Total cost of subscription revenue	73,307	68,218	5,089	7 %
Cost of professional services and other	17,002	13,509	3,493	26 %
Total cost of revenue	$ 90,309	$ 81,727	$ 8,582	11 %

	Nine Months Ended October 31,	
	2024	2023
Gross margin		
License	97 %	97 %
Support	87 %	86 %
Cloud-hosted services	66 %	59 %
Total subscription margin	85 %	84 %
Professional services and other	3 %	(6)%
Total gross margin	82 %	81 %

Cost of subscription revenue increased by $5.1 million, or 7%, for the nine months ended October 31, 2024 compared to the same period of the prior year. The increase in cost of subscription revenue was driven a $2.3 million increase in amortization of internal-use software, a $0.8 million increase in amortization of acquired developed technology, an increase in employee-related expenses of $1.2 million, and a $0.7 million increase in spending on software and external services.

Cost of professional services increased by $3.5 million, or 26%, for the nine months ended October 31, 2024 compared to the same period of the prior year. The increase in cost of professional services was driven by a $3.2 million in employee-related expenses due to higher headcount and a $0.3 million increase in professional services.

Operating Expenses

Sales and Marketing

The following table presents sales and marketing expenses (in thousands, except percentages):

	Nine Months Ended October 31,		Change	
	2024	2023	$	%
Sales and marketing	$ 267,187	$ 279,019	(11,832)	(4)%

Sales and marketing expenses decreased by $11.8 million, or 4%, for the nine months ended October 31, 2024 compared to the same period of the prior year. The decrease was primarily driven by a $11.9 million net decrease in employee-related costs, which includes a $12.6 million decrease in payroll and benefits due to a 3% decrease in headcount from the prior year, offset by a $0.5 million increase in stock-based compensation from the acceleration of ESPP expense due to the cancellation of the future purchase periods under the program. In addition, there was a $2.0 million decrease in professional services and a $0.2 million decrease in software costs, with the overall decrease offset by a $0.3 million increase in travel expense, a $0.9 million increase in marketing expense, a $0.6 million increase in internal and external conferences and events, and a $0.5 million increase in facility expense.

Research and Development

The following table presents research and development expenses (in thousands, except percentages):

	Nine Months Ended October 31,		Change	
	2024	2023	$	%
Research and development	$ 167,181	$ 168,504	(1,323)	(1)%

Research and development expenses decreased by $1.3 million, or 1%, for the nine months ended October 31, 2024 compared to the same period of the prior year. This decrease was primarily driven by a net $1.3 million decrease in employee-related costs, which included a decrease in salary and benefits of $2.4 million due to lower headcount, partially offset by a $0.9 million increase in stock-based compensation from the acceleration of ESPP expense due to the cancellation of the future purchase periods under the program. The overall decrease also included a $0.8 million decrease in internal and external conferences and events, offset by a $1.1 million increase in software costs.

General and Administrative

The following table presents general and administrative expenses (in thousands, except percentages):

	Nine Months Ended October 31,		Change	
	2024	2023	$	%
General and administrative	$ 115,321	$ 104,083	11,238	11 %

General and administrative expenses increased by $11.2 million, or 11%, for the nine months ended October 31, 2024 compared to the same period of the prior year. The increase was primarily driven by a $21.9 million increase in professional services, which includes transaction costs incurred related to the pending acquisition by IBM. This was offset by a $10.5 million decrease in employee-related costs, which includes a $10.8 million decrease in stock-based compensation due to a decrease of stock-based compensation from higher forfeitures and differences in vesting terms, a $0.1 million decrease in internal and external conferences and events, and a $0.1 million decrease in company events.

Interest Income

The following table presents interest income (in thousands, except percentages):

	Nine Months Ended October 31, 2024		Change	
	2024	2023	$	%
Interest income	$ 52,339	$ 48,045	4,294	9 %

Interest income increased by $4.3 million, or 9% for the nine months ended October 31, 2024 compared to the same period of the prior year. The increase was primarily attributable to the interest income earned from cash equivalents and available-for-sale investments, and increases in the yields resulting from the Federal Reserve's interest rate increases.

Other Income (Expense), Net

The following table presents other income (expense), net (in thousands, except percentages):

	Nine Months Ended October 31,		Change	
	2024	2023	$	%
Other income (expense), net	$ (121)	$ (632)	511	(81)%

Other income (expense), net increased by $0.5 million, or 81% for the nine months ended October 31, 2024 compared to the same period of the prior year. The changes were primarily due to foreign currency gains on our cash balances in foreign jurisdictions due to movements of the US dollar against other currencies.

Provision for Income Taxes

The following table presents provision for income taxes (in thousands, except percentages):

	Nine Months Ended October 31,		Change	
	2024	2023	$	%
Provision for income taxes	$ 1,923	$ 480	1,443	301 %

Provision for income taxes increased by $1.4 million, or 301%, for the nine months ended October 31, 2024 compared to the same period of the prior year, primarily due to income in foreign and US federal and state tax jurisdictions. In addition, a $0.5 million tax benefit resulted from the acquisition of BluBracket, Inc for the nine months ended October 31, 2023. We continue to maintain a full valuation allowance on our U.S. deferred tax assets, and the significant components of the tax expense recorded are current cash tax expenses in various jurisdictions. Current cash tax expenses are impacted by each jurisdiction’s individual tax rates, laws on the timing of recognition of income and deductions, and availability of net operating losses and tax credits. Our effective tax rate may fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

Liquidity and Capital Resources

As of October 31, 2024, we had cash, cash equivalents, and short-term investments of $1,346.4 million. Our cash and cash equivalents primarily consist of cash on hand, highly liquid investments in money market funds, and available-for-sale investments with an original maturity date of three months or less. Our short-term investments consist of U.S. treasury securities, corporate notes and bonds, U.S. agency obligations, commercial paper, and certificates of deposit. We have generated significant operating losses from our operations as reflected in our accumulated deficit of $1,061.7 million as of October 31, 2024. While we expect to continue to incur operating losses in the foreseeable future, we have generated positive cash flows from operations in recent quarters. We may continue to have positive cash flows in the future, or we may require additional capital resources to execute strategic initiatives to grow our business.

We believe that our existing cash and cash equivalents will be sufficient to fund our operating and capital needs for at least the next 12 months. Our assessment of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties. Our future capital requirements, both near-term and long-term, will depend on many factors, including our growth rate, the timing and extent of spending to support our research and development efforts, the expansion of sales and marketing and international operating activities, the timing of new introductions of solutions or features, and the continuing market acceptance of our services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, operating results, and financial condition would be adversely affected.

On April 24, 2024, we entered into the Merger Agreement with IBM. We have agreed to various covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the effective date of the Merger. Outside of certain limited exceptions, we may not take, authorize, commit, resolve, or agree to do certain actions without IBM's consent, including:

- acquiring businesses above specified thresholds and disposing of significant assets;
- incurring capital expenditures above specified thresholds; or
- repurchasing shares of our outstanding common stock.

We do not believe these restrictions will prevent us from meeting our ongoing costs of operations, working capital needs, or capital expenditure requirements.

The following table summarizes our cash flows for the periods presented (in thousands):

	Nine Months Ended October 31,	
	2024	2023
Net cash provided by (used in) operating activities	$ 57,743	$ (21,137)
Net cash provided by (used in) investing activities	$ 95,580	$ (548,073)
Net cash provided by financing activities	$ 6,888	$ 12,902

Operating Activities

We typically invoice our customers annually in advance and to a lesser extent, multi-years in advance. Therefore, a substantial source of our cash is from such prepayments, which are included on our consolidated balance sheets in deferred revenue and customer deposits. We generally experience seasonality in terms of when we enter into agreements with our customers, particularly in our fourth fiscal quarter due to increased buying patterns of our enterprise customers and in our second fiscal quarter due to the summer vacation slowdown that impacts many of our customers. Given the seasonality in our business as discussed above, the operating cash flow benefit from increased collections from our customers generally occurs in the subsequent one to two quarters after billing. We expect seasonality, timing of billings, and collections from our customers to have a material impact on our cash flow from operating activities from period to period. Our primary uses of cash from operating activities are for personnel-related expenses, software and subscription expenses, sales and marketing expenses, third-party cloud infrastructure costs, professional services expenses, and overhead expenses.

Net cash provided by operating activities during the nine months ended October 31, 2024 was $57.7 million, which resulted from a net loss of $90.6 million, adjusted for non-cash charges of $124.2 million and net cash inflow of $24.2 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $121.6 million for stock-based compensation expense, $9.9 million for depreciation and amortization expense, and $2.8 million for non-cash operating lease costs, offset by $10.2 million for accretion of discounts on investments. The net cash inflow from changes in operating assets and liabilities was primarily the result of a $53.2 million decrease in accounts receivable due to lower billings and timing of collections from our customers, a $8.1 million decrease in deferred contract acquisition costs, a $4.0 million decrease in prepaid expenses and other assets due to decrease of software subscription, a $12.0 million increase in accounts payable due to timing of payments to our vendors. The cash inflow is offset by a $1.2 million decrease in accrued expenses and other liabilities due to timing of payment of accrued liabilities, a $34.5 million decrease in deferred revenue due to higher recognition of revenue and lower billings, a $11.9 million decrease in accrued compensation and benefits primarily due to payment of accrued payroll taxes and lower accrued sales commissions, and a $5.4 million decrease in customer deposits.

Net cash used in operating activities during the nine months ended October 31, 2023 was $21.1 million, which resulted from a net loss of $159.0 million, adjusted for non-cash charges of $129.9 million and net cash inflow of $8.0 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $130.0 million for stock-based compensation expense, $6.6 million for depreciation and amortization expense, and $2.2 million for non-cash operating lease costs, offset by $8.5 million for accretion of discount and amortization of premiums on investments and

$0.5 million for deferred income taxes. The net cash inflow from changes in operating assets and liabilities was primarily the result of a $54.1 million decrease in accounts receivable due to lower billings and timing of collections from our customers. The cash inflow was offset by a $1.1 million increase in deferred contract acquisition costs, and a $6.6 million decrease in accounts payable due to timing of payments to our vendors, a $12.0 million decrease in deferred revenue due to higher recognition of revenue due to higher recognition of revenue and lower billings, a $11.8 million increase in prepaid expenses and other assets due to more spending in software subscriptions and insurance and the interest receivable from investments, a $6.7 million decrease in accrued compensation and benefits primarily due to payment of accrued payroll taxes and lower accrued sales commissions, a $4.5 million decrease in customer deposits, and a $3.4 million decrease in accrued expenses and other liabilities due to payment of accrued liabilities and franchise tax.

Investing Activities

Net cash provided by investing activities during the nine months ended October 31, 2024 of $95.6 million was due to a $612.5 million cash outflow in purchases of short-term investments and a $7.4 million outflow in capitalized internal-use software for our cloud platform, offset by a $635.8 million and $80.2 million cash inflows from maturities and sales of investments, respectively.

Net cash used in investing activities during the nine months ended October 31, 2023 of $548.1 million was due to a $691.2 million cash outflow in purchases of short-term investments, a $20.9 million cash outflow in a business combination, and a $8.5 million outflow in capitalized internal-use software for our cloud platform, offset by a $146.7 million and $26.4 million cash inflows from maturities and sales of investments, respectively.

Financing Activities

Net cash provided by financing activities of $6.9 million during the nine months ended October 31, 2024 was due to $3.8 million proceeds from the exercise of stock options, $6.7 million proceeds from stocks purchased by employees under the employee stock purchase plan, offset by $0.1 million outflow for payment of tax related to net share settlement, and $3.5 million outflow for payment of the BluBracket acquisition holdback.

Net cash provided by financing activities of $12.9 million during the nine months ended October 31, 2023 was due to $10.2 million proceeds from stocks purchased by employees under the employee stock purchase plan, and $2.9 million proceeds from the exercise of stock options, offset by $0.2 million outflow for payment of tax related to net share settlement.

Contractual Obligations and Commitments

In February 2024, the Company signed an agreement with a cloud service provider. Under that agreement the Company has minimum spend commitments of $18.5 million in the 12 months ending February 2025, and $20.0 million in the 12 months ending February 2026, $22.5 million in the 12 months ending February 2027, $24.0 million in the 12 months ending February 2028, and $25.0 million in the 12 months ending February 2029.

In connection with the proposed Merger with IBM, the Company expects to incur an additional liability of approximately $92 million, which primarily represents transaction fees that are contingent upon the consummation of the Merger.

There have been no other material changes to the Company's contractual obligations and commitments as disclosed in the Annual Report for fiscal 2024 in Form 10-K.

Critical Accounting Estimates

Critical accounting estimates are those estimates that are both most important to the portrayal of our net assets and results of operations and require the most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates are developed based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Critical accounting estimates are accounting estimates where the nature of the estimates is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and the impact of the estimates on financial condition or operating performance is material.

There have been no material changes to our critical accounting estimates as compared to the critical accounting estimates described in our Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in our fiscal 2024 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have operations in the United States and internationally, and we are exposed to market risk in the ordinary course of our business. There have been no material changes in our market risk exposures for the nine months ended October 31, 2024 as compared to those discussed in our fiscal 2024 Form 10-K.

Interest Rate Risk

Our cash equivalents and short-term investments are subject to market risk, primarily interest rate and credit risk. Our investments are managed by outside professional managers within investment guidelines set by management and approved by the Audit Committee of the Board of Directors. Such guidelines include security type, credit quality, and maturity and are intended to limit market risk by restricting our investments to high quality debt instruments with relatively short-term maturities. Based on our investment positions as of October 31, 2024, we do not believe a hypothetical 10% relative increase or decrease in interest rates would have resulted a material impact to our operating results.

Any losses resulting from such interest rate changes would only be realized if we sold the investments prior to maturity. We do not use derivative financial instruments in our investment portfolio.

Foreign Currency Risk

All of our sales contracts are denominated in U.S. dollars. A portion of our operating expenses are incurred outside of the United States, denominated in foreign currencies, and subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound, Euro, Canadian Dollar, and Australian Dollar. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our consolidated statements of operations. If the U.S. dollar weakened by 10%, our operating expense could increase by approximately 2%.

During the second quarter of fiscal 2024, we implemented a foreign currency risk management program and entered into foreign currency forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses. These foreign currency derivative contracts have a maturity up to 12 months or less and are designated as cash flow hedges to protect our earnings subjected to foreign currency risk. We also use foreign currency forward contracts to mitigate variability in gains and losses generated from the remeasurement of certain monetary assets and liabilities denominated in foreign currencies. We expect that the effect of a hypothetical 10% relative change in foreign exchange rates, after considering our hedging program, would not have a material impact on our financial condition, results of operations, or cash flows for the periods presented. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign exchange rates.

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

We maintain “disclosure controls and procedures,” as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our 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

Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of October 31, 2024, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was (a) reported within the same periods specified by SEC rules and regulations and (b) communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding any required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes 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 period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II - Other Information

Item 1. Legal Proceedings

The information called for by this Item is incorporated herein by reference to Part II, Item 8, "Financial Statements and Supplementary Data" of the fiscal 2023 Form 10-K and Note 6. Commitments and Contingencies in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

RISK FACTORS

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled “Management’s Discussion and Analysis of Financial Condition and Result of Operations” and our consolidated financial statements and the related notes thereto. Our business, results of operations, financial condition, or prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. If any of the risks actually occur, our business, results of operations, financial condition, and prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose all or part of your investment.

Risk Factors Summary

This risk factors summary contains a high-level summary of risks associated with our business. It does not contain all the information that may be important to you, and you should read this risk factors summary together with the more detailed discussion of risks and uncertainties set forth following this summary. A summary of our risks includes, but is not limited to, the following:

- The pendency of the Merger, or the failure to complete the Merger in a timely manner or at all, could adversely affect our business, financial condition, results of operations and stock price.
- While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could cause certain of our customers and other business partners to decide not to do business with us, decrease the amounts they spend on our products or services, or harm our business relationships, financial condition and results of operations.
- Litigation may arise in connection with the Merger, which could be costly, prevent the consummation of the Merger, divert management's attention and otherwise harm our business.
- As a result of the Merger, our current and prospective employees could experience uncertainty about their future with us or the surviving corporation, and as a result, key employees may depart.
- If we are unable to increase sales of subscriptions to our products to new customers, sell additional subscriptions to our products to our existing customers, or expand the value of our existing customers' subscriptions to our products, our future revenue and results of operations will be harmed.
- If our existing customers stop using our products and renewing their subscriptions, our business and results of operations could suffer materially.
- Our business and operations have experienced periods of rapid growth and fluctuations, and if we do not appropriately manage future growth or change, if any, or are unable to improve our systems and processes, our business, financial condition, results of operations, and prospects will be adversely affected.
- We have a history of net losses and may not be able to achieve or sustain profitability or positive cash flows in the future, which could harm our business, financial condition, and results of operations.
- Our limited operating history makes it difficult to evaluate our current business and prospects, and may increase the risk that we will not be successful.
- Our future quarterly results of operations may fluctuate significantly, and our recent results of operations may not be a good indication of our future performance.
- We rely significantly on revenue from subscriptions and, because we recognize a significant portion of the revenue from subscriptions over the term of the relevant subscription period, downturns or upturns in sales are not immediately reflected in full in our results of operations.
- Permissive rights under our legacy open-source licenses makes it possible for third parties to offer and build upon older open-source versions of our products. Those competing versions could make it relatively easy for competitors to compete with us.
- If our paid products are not sufficiently compelling relative to our free community versions, our ability to sell paid subscriptions and retain customers may be limited and our business will suffer.
- We expect our revenue mix to vary over time, which could harm our gross margin and operating results.
- Our ability to increase sales of our products is highly dependent on the quality of our customer support, and our failure to offer high-quality support would have an adverse effect on our business, reputation, and results of operations.
- If we do not effectively focus our product development efforts, our business, results of operations, and financial condition could be adversely affected.
- We have limited experience with respect to determining the optimal prices for our products.
- We target enterprise customers, and sales to these customers involve risks that differ from risks associated with sales to smaller entities.

- Selling our HCP cloud offerings into large enterprises and regulated industries will require an ever-increasing level of features and compliance capabilities to satisfy customer requirements, and we may be unable to meet those requirements, which could limit the revenue growth we achieve from our cloud offerings.
- The length of our sales cycles can be unpredictable, and our sales efforts may require considerable time and expense.
- Our revenue growth depends in part on the success of our strategic relationships with our ecosystem of partners and the continued performance and engagement of these partners.
- We may not be capable of meeting the demand for professional services necessary to make our customers successful with our products.
- The estimates of market opportunity and forecasts of market growth included in our public disclosures 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.
- The markets for some of our products are new, unproven, and evolving, and our future success depends on the growth of these markets and our ability to adapt and respond effectively to evolving markets.
- We face competition that we expect to become more intense over time, and which could adversely affect our business, financial condition, and results of operations.
- Problems with our internal systems, networks, or data, including actual or perceived breaches or failures by us or our partners, could cause our products to be perceived as insecure, underperforming, or unreliable, our reputation to be damaged, and our financial results to be negatively impacted.
- If our products do not meet our customers’ performance or support expectations or if we fail to meet service-level availability commitments made to our cloud platform customers, we could face subscription terminations, service-level penalty payments, and a reduction in renewals, which could significantly affect our current and future revenue.
- Failure of our products to satisfy customer demands or to achieve increased market acceptance could adversely affect our business, results of operations, financial condition, and growth prospects.
- Unfavorable conditions in our industry or the global economy or reductions in spending for products like ours could limit our ability to grow our business and negatively affect our results of operations.
- Changes to arrangements with our public cloud operators may significantly harm our customer retention, new customer acquisition, and product extension or expansion, or restrict our ability to maintain our platform through these clouds and would adversely impact our business.
- Interruptions or performance problems associated with our technology and infrastructure, and our reliance on technologies from third parties, may adversely affect our business operations and financial results.

Risks Related to our Proposed Transaction with IBM

The pendency of the Merger, or the failure to complete the Merger in a timely manner or at all, could adversely affect our business, financial condition, results of operations and stock price.

On April 24, 2024, we entered into the Merger Agreement. Completion of the Merger is subject to the satisfaction of certain conditions set forth in the Merger Agreement, including, but not limited to: (i) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the obtainment, termination or expiration, as applicable, of any approval or waiting period under the competition or foreign investment laws in certain foreign jurisdiction; (ii) the absence of an order or law preventing or materially restraining the consummation of the Merger; (iii) the accuracy of the representations and warranties of the parties made in the Merger Agreement; (iv) the performance by each party of its covenants and agreements set forth in the Merger Agreement in all material respects; and (v) no Material Adverse Effect (as defined in the Merger Agreement) having occurred with respect to the Company. There is no assurance that these conditions to closing the Merger will be satisfied before the Termination Date (as defined in the Merger Agreement) or at all, or that the Merger will be completed on the proposed terms, within the expected timeframe, or at all.

Additionally, the Merger may be delayed, and may ultimately not be completed, due to a number of factors, including failure to obtain any of the approvals, clearances or other conditions described in (i)-(v) above.

If the Merger does not close, we may suffer other consequences that could adversely affect our business, financial condition, results of operations and stock price, and our stockholders could be exposed to additional risks, including:

- to the extent the current market price of our Class A common stock reflects the assumption that the Merger will be completed, the market price of our Class A common stock could decrease if the Merger is not completed;
- investor confidence in us could decline, relationships with existing and prospective customers, suppliers, investors, lenders and other business partners may be adversely impacted and we may be unable to retain key personnel if the Merger is not completed;
- the attention of our management or employees may continue to be diverted in connection with the termination of the Merger or the Merger Agreement; and
- we will be required to pay IBM a termination fee under certain limited circumstances relating to an alternative transaction for us that give rise to the termination of the Merger Agreement.

Even if successfully completed, there are certain risks to our stockholders from the Merger, including:

- the amount of cash to be paid under the Merger Agreement is fixed and will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or operating results or in the event of any change in the market price of, analyst estimates of, or projections related to, our Class A common stock;
- receipt of the all-cash merger consideration under the Merger Agreement is taxable for U.S. federal income tax purposes and may be taxable for state, local and non-U.S. income tax purposes; and
- if the Merger is completed, our stockholders will forego the opportunity to realize the potential long-term value of the successful execution of our strategy as an independent company before the Merger.

While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could harm our business relationships, financial condition and results of operations.

During the period prior to the closing of the Merger and pursuant to the terms of the Merger Agreement, our business is exposed to certain inherent risks and contractual restrictions that could harm our business relationships, financial condition, results of operations, and business, including:

- potential uncertainty in the market for our products and services, which could lead current and prospective customers to purchase products and services from other providers or delay purchasing from us;
- difficulties maintaining existing and establishing new business relationships with customers, suppliers and other business partners;
- disruption to our business and operations, including diversion of management attention and resources;

- the inability to attract and retain key personnel and recruit prospective employees, and the possibility that our current employees could be distracted, and their productivity decline as a result, due to uncertainty regarding the Merger;
- the inability to pursue alternative business opportunities or make changes to our business pending the completion of the Merger and other restrictions on our ability to conduct our business;
- our inability to freely issue securities, incur certain indebtedness, declare or authorize dividends or distributions or make certain material capital expenditures without IBM's approval;
- our inability to solicit other acquisition proposals during the pendency of the Merger under the terms of the Merger Agreement;
- the costs, fees, expenses and charges related to the Merger Agreement and the Merger, including but not limited to the cost of professional services, insurance, regulatory compliance and litigation; and
- other developments beyond our control, including, but not limited to, pandemics, natural disasters and changes in domestic or global economic conditions that may affect the timing or success of the Merger.

If any of these effects were to occur, it could adversely impact our business, cash flow, results of operations or financial condition, as well as the market price of our Class A common stock and our perceived value, regardless of whether the Merger is completed.

Any litigation may arise in connection with the Merger, which could be costly, prevent the consummation of the Merger, divert management's attention and otherwise harm our business.

Litigation in connection with the acquisition of public companies such as the Merger is common, and prior to the stockholder approval of the Merger, two complaints were filed in New York courts making various claims regarding the disclosure related to the proxy statement used to seek stockholder approval of the Merger and the Merger itself, as previously disclosed in the amendment, dated July 9, 2024, to our definitive proxy statement, dated June 13, 2024. Regardless of the outcome of any potential litigation related to the Merger, such litigation may be time-consuming and expensive and may distract our management team from running the day-to-day operations of our business. The litigation costs and diversion of management's attention and resources to address the claims and counterclaims in any litigation related to the Merger may adversely affect our business, results of operations, prospects and financial condition. Additionally, if the Merger is not consummated for any reason, litigation could be filed in connection with the failure to consummate the Merger. Any litigation related to the Merger may result in negative publicity or an unfavorable impression of us, which could adversely affect the price of our Class A common stock, impair our ability to recruit or retain employees, damage our relationships with our customers, suppliers and other business partners, or otherwise harm our business and financial condition.

As a result of the Merger, our current and prospective employees could experience uncertainty about their future with us or the surviving corporation, and as a result, key employees may depart.

As a result of the Merger, our current and prospective employees could experience uncertainty about their future with us or the surviving corporation, or decide that they do not want to continue their employment with the surviving corporation or IBM following the completion of the Merger. As a result, key employees may depart. Losses of officers or employees could materially harm our business, results of operations and financial condition. Such adverse effects could also be exacerbated by a delay in the completion of the Merger for any reason, including delays associated with obtaining requisite regulatory approvals. On the other hand, we may experience challenges in hiring and retaining new employees because of uncertainty or other conditions associated with the pendency or termination of the Merger, which could materially harm our business, results of operations and financial condition.

As a result of the pending Merger, certain of our customers and other business partners may decide not to do business with us or to decrease the amounts they spend on our products and services.

As a result of the pending Merger, certain of our customers may decide to discontinue purchasing our products and services or reduce the amount they spend or commit to spend on our products and services due to uncertainties related to the Merger, such as unpredictability as to if and when the closing of the Merger will occur and perceived uncertainty as to the impact of the Merger on their relationship with us. Additionally, our relationships with suppliers and other business partners could be affected and such partners could seek changes to their existing business relationships with us. These decisions by our customers could materially harm our business, results of operations and financial condition.

Risks Related to Our Business and Operations

If we are unable to increase sales of subscriptions to our products to new customers, sell additional subscriptions to our products to our existing customers, or expand the value of our existing customers' subscriptions to our products, our future revenue and results of operations will be harmed.

We offer certain features of our products as free community versions of our software with no payment required. Customers purchase subscriptions to our products in order to gain access to additional functionality and support. Our future success depends on our ability to sell our subscriptions to new customers and to extend the deployment of our products with existing customers by selling paid subscriptions to our existing users and expanding the value and number of existing customers' subscriptions. Our ability to sell new subscriptions depends on a number of factors, including the prices of our products, prices offered by our competitors, and the budgets of our customers, as well as their desire and ability to create new features and perform their own support relying on our public source available software products. We also face competition from public cloud operators, who may use our source available software products to provide and support hosted offerings that compete with our own. We rely in large part on our customers to identify new use cases for our products and new products to meet a broader set of their needs in order to expand such deployments and grow our business. If our customers do not recognize the potential of our products, our business would be materially and adversely affected. If our efforts to sell subscriptions to new customers and to expand deployments at existing customers are not successful, our total revenue and revenue growth rate may decline and our business will suffer.

If our existing customers do not continue using our products and renewing their subscriptions, our business and results of operations will suffer.

We expect to derive a significant portion of our revenue from renewals of existing subscriptions for our products. As a result, achieving a high renewal rate of our subscriptions will be critical to our business. Our customers have no contractual obligation to renew their subscriptions after the completion of their subscription term. Terms of our subscriptions typically range from one to three years.

Our customers' usage of our products and renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction with our products and our customer support, our products' ability to integrate with new and changing technologies, the frequency and severity of product outages, our product uptime or latency, the pricing of our products and that of our competitors, and our customers' own budget priorities and fluctuations in spending. Even if our customers renew their subscriptions, they may renew for shorter subscription terms or on other terms that are less economically beneficial to us. We have limited historical data with respect to rates of customer renewals, so we may not accurately predict future renewal trends. If our customers do not renew their subscriptions, or renew on less favorable terms, our revenue may grow slower than expected or decline and our net expansion rate may decline.

If our paid products are not sufficiently compelling relative to our free community versions, our ability to sell paid subscriptions and retain customers may be limited and our business will suffer.

Historically, we have offered free community versions of our products in order to gain market acceptance and loyalty among software developers. We also offer paid subscriptions to the enterprise versions of our products, which offer features and capabilities we view as appropriate for scalable business use that are not included in our free versions. Our ability to sell paid subscriptions and retain customers largely depends on business purchasers finding sufficient value in the enterprise versions of our products. If we are unable to make our paid products sufficiently compelling to business customers as compared to our free community versions, we may have limited success selling paid subscriptions and retaining our enterprise customers.

Our business and operations have experienced periods of rapid growth and fluctuation, and if we do not appropriately manage future growth or change, if any, or are unable to improve our systems and processes, our business, financial condition, results of operations, and prospects will be adversely affected.

We have experienced periods of rapid growth and increased demand for our offerings. Our total revenues for the three months ended October 31, 2024 and 2023 were $173.4 million and $146.1 million, respectively, representing an annual growth rate of 19% from third quarter of fiscal 2024 to fiscal 2025. In addition, we have experienced fluctuation in our growth rates over time. You should not rely on the revenue growth of any prior quarterly or annual period or combined periods as an indication of our future performance. Even if our revenue continues to increase, we expect our revenue growth rate to decline in future periods. We expect to continue growing our headcount in the future. The growth and expansion of our business and products place a continuous significant strain on our management, operational, and financial resources. In addition, as customers use more of our products for an increasing number of use cases, we have had to support more complex commercial relationships. We must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems, our relationships with various partners and other third parties, and our ability to manage headcount and processes in an efficient manner to manage any future growth effectively.

We may not be able to sustain the diversity and pace of improvements to our products or implement systems, processes, and controls in an efficient or timely manner or in a manner that does not negatively affect our results of operations. Our failure to improve our systems, processes, and controls, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to forecast our revenue, expenses, and earnings accurately, or to prevent losses.

In addition, our growth and the complexity of our multi-product business may make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. We have encountered in the past, and may encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, our business will be harmed. Moreover, if the assumptions we use to plan our business are incorrect or change in reaction to changes in our market or business, or we are unable to maintain consistent revenue or revenue growth, our share price could be volatile, and it may be difficult to achieve and maintain profitability.

We have a history of net losses and may not be able to achieve or sustain profitability or positive cash flows in the future, or as quickly as we expect. If we cannot achieve or sustain profitability or positive cash flows, or are slow to do so, our business, financial condition, and results of operations may suffer.

We incurred a net loss of $13.0 million, and $39.5 million for the three months ended October 31, 2024 and 2023, respectively. We had an accumulated deficit of $1,061.7 million as of October 31, 2024 and $971.1 million as of January 31, 2024. We anticipate that our operating expenses will increase in the foreseeable future as we continue to enhance our products, grow our relationships with existing customers, broaden our customer base, expand our sales and marketing activities, expand our operations, hire additional employees, and continue to develop our technology. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently, or at all, to offset these higher expenses. Because the markets for our products are rapidly evolving, it is difficult for us to predict our future results of operations. Revenue growth may slow or revenue may decline for a number of possible reasons, including slowing demand for our products or increasing competition. Any failure to increase our revenue as we grow our business could prevent us from achieving consistent profitability or positive cash flow at all, or in the time frame we expect, which could cause our business, financial condition, and results of operations to suffer.

Our limited operating history makes it difficult to evaluate our current business and prospects, and may increase the risk that we will not be successful.

We were incorporated in Delaware in 2013, but only began commercializing our software in 2016. Consequently, much of our growth has occurred in recent years. Our limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by rapidly growing companies in evolving industries. If we do not address these risks successfully, our business and results of operations will be adversely affected.

Further, we operate in a rapidly evolving market. Any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market. We have a limited history with our products and pricing model and if, in the future, we are forced to change our pricing model or reduce prices for our products, our revenue and results of operations may be harmed.

As the market for our products evolves, or as new competitors enter our markets with new products or services, we may be unable to attract new customers or convert community users to paying customers on terms or based on pricing models that we have used historically. In the future, we may be required to reduce our prices or be unable to increase our prices, or it may be necessary for us to provide more products without additional revenue to remain competitive, all of which could harm our results of operations and financial condition.

Our future quarterly results of operations may fluctuate significantly, and our recent results of operations may not be a good indication of our future performance.

Our results of operations, including our revenue, cost of revenue, gross margin, operating expenses, cash flow, and deferred revenue have fluctuated from quarter-to-quarter in the past and may continue to vary significantly in the future so that period-to-period comparisons of our results of operations may not be meaningful. Accordingly, our financial results in any one quarter should not be relied upon as indicative of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control, may be difficult to predict, and may or may not fully reflect the underlying performance of our business. Factors that may cause fluctuations in our quarterly financial results include:

- our ability to attract new customers;
- the loss of existing customers;
- fluctuations in customer renewal rates;
- our ability to successfully expand our business in the United States and internationally;
- our ability to foster an ecosystem of developers and users to maintain and expand the use cases of our products;
- our ability to sufficiently differentiate our paid offerings from our free community versions;
- our ability to gain new partners and retain existing partners;
- fluctuations in our number of customers, including those with $100,000 or greater in ARR;
- fluctuations in the mix of our revenue, which may impact our gross margins and operating income;
- the amount and timing of operating expenses related to the maintenance and expansion of our business and operations, including investments in sales and marketing, research and development, and general and administrative resources;
- network outages or performance degradation of our products;
- breaches of, or failures relating to, security, privacy, or data protection;
- general economic, industry, and market conditions;
- increases or decreases in the number of elements of our subscriptions or pricing changes upon any renewals of customer agreements;
- changes in our pricing policies or those of our competitors;
- the budgeting cycles and purchasing practices of customers;
- decisions by potential customers to purchase alternative solutions;
- decisions by potential customers to develop in-house solutions as alternatives to our products;
- insolvency or credit difficulties confronting our customers, which could adversely affect their ability to purchase or pay for our products;
- our ability to process all of the orders we receive late in our quarters before the quarters expire;
- our ability to collect timely on invoices or receivables;
- the cost and potential outcomes of future litigation or other disputes;
- future accounting pronouncements or changes in our accounting policies;
- short- and long-term interest rates;
- foreign exchange rate fluctuations;

- our overall effective tax rate, including impacts caused by any reorganization in our corporate tax structure and any new legislation or regulatory developments;
- fluctuations in stock-based compensation expense;
- the timing and success of new products introduced by us or our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers, or partners;
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies; and
- other risk factors described in this Quarterly Report on Form 10-Q.

The impact of one or more of the foregoing or other factors may cause our operating results to vary significantly. Such fluctuations could cause us to fail to meet the expectations of investors.

We rely significantly on revenue from subscriptions and, because we recognize a significant portion of the revenue from subscriptions over the term of the relevant subscription period, downturns or upturns in sales are not immediately reflected in full in our results of operations.

Subscription revenue accounts for the substantial majority of our revenue. We recognize a significant portion of our subscription revenue monthly over the term of the relevant time period. As a result, much of the subscription revenue we report each fiscal quarter is the recognition of deferred revenue from subscription contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscriptions in any one fiscal quarter will not be fully or immediately reflected in revenue in that fiscal quarter and will negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of our subscriptions will not be reflected in full in our results of operations until future periods.

The new license for our free community edition products places certain limits on competitive use, but the permissive rights under our open-source licenses prior to the change makes it possible for third parties to offer and build upon open-source versions of our products as they existed before the license change. Those competing versions could make it relatively easy for competitors, including public cloud operators, to enter our markets and compete with us.

Prior to August 2023, we licensed our free community products under the Mozilla Public License, which allows anyone, subject to compliance with the conditions of the applicable license, to redistribute our software and share certain source code components in modified or unmodified form and use it to build products that compete in our markets. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies, due to the rights granted to licensees of open-source and source available software. Under our historical Mozilla Public License, it is possible for competitors and new entrants to develop their own software, including software based on open-source or our products, and for public cloud operators to expand their offerings to compete directly with ours, potentially reducing the demand for our products and putting pricing pressure on our subscriptions. For example, a new or existing competitor may dedicate its developers to building competing offerings based on open-source and source available software provided by us or third parties, and such offerings may reduce the demand for our offerings.

In August 2023, we changed the license for future versions of our free community software to the Business Source License, which is a source available license that also includes certain restrictions on using the community products to compete with our commercial offerings. However, that change does not prevent others from building competitive products using the versions that were released before the license change, and it does not restrict all forms of competition. We cannot guarantee we will compete successfully against current and future competitors that use the source available nature of our products to develop competitive offerings, or that we will be able to effectively enforce licensing restrictions on the competitive use of our community versions, or that competitive pressure or the availability of new software will not result in price reductions, reduced operating margins, or loss of market share, any of which would harm our business, financial condition, results of operations, and cash flows.

We expect our revenue mix to vary over time, which could harm our gross margin and operating results.

We expect our revenue mix to vary over time due to several factors, including the mix of our subscriptions for different products and our professional services and other revenue. For example, while Terraform and Vault are our most established products with commercial offerings at scale and make up the majority of our revenues, generating collectively over 89% of our revenues for the three months ended October 31, 2024 and 2023, respectively, we believe that our emerging products represent a significant growth opportunity. We also believe that HCP, our fully managed cloud platform, represents a significant growth opportunity for our business, particularly as an increasing number of our customers look for a fully managed offering. Shifts in our business mix from quarter to quarter could produce substantial variation in the revenue we recognize. Further, our gross margins and operating results could be harmed by changes in revenue composition and costs as we shift further managed offerings, together with numerous other factors, including entry into new markets or growth in lower margin markets; entry into markets with different pricing and cost structures; pricing discounts; and increased price competition. Any one of these factors or the cumulative effects of certain of these factors may result in significant fluctuations in our gross margin and operating results. This variability and unpredictability could result in our failure to meet internal expectations or those of investors for a particular period.

Our ability to increase sales of our products is highly dependent on the quality of our customer support, and our failure to offer high-quality support would have an adverse effect on our business, reputation, and results of operations.

Our customers depend on our technical support services to resolve issues relating to our products. If we do not succeed in helping our customers quickly resolve post-deployment issues or provide effective ongoing support and education on our products, our existing customers may not renew their subscriptions, our ability to sell additional subscriptions to existing customers or expand the value of existing customers' subscriptions would be adversely affected, and our reputation with potential customers could be damaged. Many larger enterprise and government entity customers have more complex IT environments and require higher levels of support than smaller customers. If we fail to meet the requirements of these large enterprise customers, it may be more difficult to retain them or expand our relationship with them.

Additionally, it can take several months to recruit, hire, and train qualified technical support employees. We may not be able to hire such resources fast enough to keep up with demand, particularly if the sales of our products exceed our internal forecasts. To the extent we are unsuccessful in hiring, training, and retaining adequate support resources, our ability to provide adequate and timely support to our customers, and our customers' satisfaction with our products, will be adversely affected. Our failure to provide and maintain high-quality support services would have an adverse effect on our business, financial condition, and results of operations.

If we do not effectively focus our product development efforts, our business, results of operations, and financial condition could be adversely affected.

We are a multi-product company. Our primary commercial products are Terraform, Vault, Consul, and Nomad, and our significant investments in research and development have resulted in a strong product pipeline. Our ability to attract new customers and increase revenue from existing customers depends in part on our ability to enhance and improve our existing products, increase adoption and usage of our products, and introduce new products. The success of any enhancements or new products depends on several factors, including timely completion, adequate quality testing, actual performance quality, market-accepted pricing levels, and overall market acceptance. Continuously enhancing our multiple products and advancing our new product pipeline may overextend our workforce and negatively affect product quality and development schedules. Enhancements and new products that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects, may require reworking features and capabilities, may have interoperability difficulties with our platform or other products, or may not achieve the broad market acceptance necessary to generate significant revenue. Some new products we develop may fail commercially, and we may incorrectly prioritize the development of products that do not become commercially successful over products which may have had a better chance of attaining commercial success. Workforce productivity spent on unsuccessful product development efforts may not be recovered. Furthermore, our ability to increase usage of our products depends, in part, on the development of new use cases for our products, which is typically driven by our developer community and may be outside of our control. In addition, adoption of new products or enhancements may put additional strain on our customer support team, which could shift the team's resources away from supporting our current products or require us to make additional expenditures related to further hiring and training. If we are unable to timely and successfully enhance our existing products to meet evolving customer requirements, increase adoption and usage of our products, develop new products, or if our efforts do not render the outcomes we expect, then our business, results of operations, and financial condition will be adversely affected.

We have limited experience with respect to determining the optimal prices for our products.

We charge our customers subscription fees for use of our products. We expect that we may need to change our pricing from time to time. For example, we may need to adjust our fees based on customer usage of our products or resistance to our pricing models. In the past, we have sometimes reduced our prices either for individual customers in connection with long-term agreements or for a particular product. We may also face increasing costs which we may be unable or unwilling to pass through to our customers given pricing pressure, which could adversely impact our business, results of operations, and financial condition.

Further, as competitors introduce new products or services that compete with ours or reduce their prices, we may be unable to attract new customers or retain existing customers based on our historical pricing. As we expand internationally, we also must determine the appropriate price to enable us to compete effectively in different locations. Moreover, enterprises, which are a primary focus for our direct sales efforts, may demand substantial price concessions. In addition, if the mix of our product sold changes, then we may need to, or choose to, revise our pricing. As a result, in the future we may be required or choose to reduce our prices or change our pricing models, which could materially harm our business, results of operations, and financial condition.

We target enterprise customers, and sales to these customers involve risks that differ from risks associated with sales to smaller entities.

We generally target large enterprise customers. Sales to large enterprise customers carry risks that may not be present or exceed those associated with smaller entities, such as longer sales cycles, more complex and demanding customer requirements and contract negotiations, substantial upfront sales costs, and less predictability in completing sales. For example, enterprise customers may require considerable time to evaluate and test our solutions and those of our competitors before making a purchase decision and placing an order. Multiple factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our solutions, economic pressure or uncertainty that prompts customers to seek cost savings on software purchases, 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 integration services and pricing negotiations, with no guarantee they will deploy our products widely across their organization.

Selling our HCP cloud offerings into large enterprises and regulated industries will require an ever-increasing level of features and compliance capabilities to satisfy customer requirements. Our inability to meet those requirements could limit the revenue growth we achieve from our cloud offerings.

Expanding market share for our cloud platform is a high priority for our long-term revenue growth. We continue to make substantial investments in our HCP cloud platform to provide the full range of features, capabilities, and certifications that large enterprises and heavily regulated businesses often require of cloud vendors. Our ability to sell our HCP offerings into those enterprises will depend on their comfort levels with the features and compliance capabilities of our cloud platform. If we are unable to meet those requirements or keep up with new ones, we may not achieve our growth plans for our cloud offerings, which would have a negative impact on our cloud revenue and, ultimately, our long-term growth rates.

The length of our sales cycles can be unpredictable, and our sales efforts may require considerable time and expense.

Our results of operations may fluctuate, in part, because of the length and variability of the sales cycle of our subscriptions to our products and the difficulty in making short-term adjustments to our operating expenses. Our results of operations depend in part on sales to large subscription customers and increasing sales to existing customers. The length of our sales cycle, from initial contact with our sales team to contractually committing to our subscriptions can vary substantially from customer to customer based on deal complexity. It is difficult to predict exactly when, or even if, we will make a sale to a potential customer or if we can increase sales to an existing customer. As a result, large individual sales have, in some cases, occurred in later quarters than we expected, or have not occurred at all. The loss or delay of one or more large transactions in a quarter could affect our cash flows and results of operations for that quarter and for future quarters. Customers often view a subscription to our products as a strategic decision and significant investment and, as a result, frequently require considerable time to evaluate, test, and qualify our products before purchasing or expanding a subscription. During the sales cycle, we expend significant time and money on sales and marketing and contract negotiation activities which may not result in a sale. Because a substantial proportion of our expenses are relatively fixed in the short term, our results of operations may suffer if revenue falls below our expectations in a particular quarter due to extended sales cycles.

Our revenue growth depends in part on the success of our strategic relationships with our ecosystem of partners and the continued engagement and performance of these partners.

We maintain partnership relationships with a variety of partners, including public cloud providers, systems integrators, independent software vendors, channel partners, referral partners, and technology partners to jointly deliver offerings to our end customers and complement our broad community of users. Our partner agreements are generally non-exclusive, meaning our partners may offer customers the offerings of several different companies, including offerings that compete with ours, or may themselves be or become competitors. If our partners do not effectively market and sell our offerings, choose to use greater efforts to market and sell their own offerings or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our offerings may be harmed. Our partners may cease marketing our offerings with limited or no notice and with little or no penalty. The loss of a substantial number of our partners, our possible inability to replace them, or the failure to recruit additional partners could harm our results of operations. Likewise, because the success of our products depends on integrations with partners' technologies, if partners decide to no longer implement or support such integrations, or if they partner with our competitors and devote greater resources to implement and support the products of competitors, our business may be harmed.

We may not be capable of meeting the demand for professional services necessary to make our customers successful with our products.

Our customers often lack the expertise or resources to implement our products without assistance from our professional services team or those of our partners. This lack of skills and resources poses a severe risk of customers purchasing our products but not deploying them successfully, or in some cases, not deploying them at all. This constraint may even prevent potential customers from moving forward with a purchase. Consequently, our ability to acquire and retain customers depends heavily on our ability to offer effective professional services to customers, and our effectiveness in cultivating a sufficient network of partners to provide high quality professional services for our products. At times we have had trouble meeting customer demand for professional services. If we are unable to build and maintain enough professional services capacity to meet customer demand, either directly or through our partners, we will be at risk of increased customer attrition, slowing sales, and reputational damage from failed implementations, all of which could materially damage our business and our financial results.

Our estimates of market opportunity and forecasts of market growth included in our public disclosures may prove 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 included in our public disclosure, including those we have generated ourselves, and those provided by third parties, such as the 650 Group, Gartner, or IDC, are subject to significant uncertainty and are based on assumptions and estimates that may prove inaccurate, including the risks described herein. Even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that estimates of addressable users or companies covered by our market opportunity will correspond to actual sales of our products or revenue. For example, negative conditions in the general economy both in the United States and abroad, including conditions resulting from uncertain interest rates, inflation, and geopolitical tensions, could diminish growth expectations in the U.S. economy and our market opportunity estimates. Any expansion in our market depends on multiple factors, including the cost, performance, and perceived value associated with our products and the products provided by our competitors. Even if the market in which we compete meets the size estimates and growth forecasts included in our public disclosures, our business could fail to grow at similar rates. Our growth is subject to many variables, including our success in implementing our business strategy, which carries many assumptions, risks and uncertainties. Accordingly, forecasts of market growth included in our public disclosures may not be indicative of our future growth.

The markets for some of our products are new, unproven, and evolving, and our future success depends on the growth and expansion of these markets and our ability to adapt and respond effectively to them.

The markets for certain of our products are relatively new, rapidly evolving, and unproven. Accordingly, it is difficult to predict customer demand, adoption and renewals for these products, the size, growth rate, expansion, and longevity of these markets, the entry of competitive products, or the success of existing competitive products. Our ability to penetrate new and evolving markets depends on a number of factors, including the cost, performance, and perceived value associated with our products. If these markets do not continue to grow as expected, or if we are unable to anticipate or react to changes in these markets, our competitive position would weaken, which would adversely affect our business and results of operations.

We face competition that we expect to intensify over time, which could adversely affect our business, financial condition, and results of operations.

The market for our products is developing and we expect competition to increase over time. Our business is impacted by rapid changes in technology, customer needs, frequent introductions of new offerings, and improvements to existing offerings, all of which may increase the competitive pressures that we face. We provide offerings to address the needs of a wide variety of prospective customers that compete with other approaches and solutions. For example, internal IT teams sometimes attempt to “do it themselves” using source available software. While individuals and small teams can sometimes use our community products to solve their technical problems, larger enterprises face more complex needs that require our commercial products. For select companies adopting a single-cloud solution, we compete with the well-established public cloud providers such as Amazon Web Services, or AWS, and their in-house offerings. We also compete with similar in-house offerings from Microsoft Azure, Google Cloud Platform, and other cloud providers; legacy providers with point products such as CyberArk, VMware, and IBM; and alternative open-source projects, such as Google Istio.

As the market for our products develops, the principal competitive factors in our market may include: product capabilities, including flexibility, scalability, performance, and security; ease of use; breadth of use cases; ability to integrate with existing IT infrastructure, cloud platforms, and on-premises environments; consistency of offerings across clouds; ability to implement multi-cloud provisioning, security, networking, and application deployment; speed of implementation and time to achieving value; ability to scale up and down dynamically on demand; robustness of professional services and customer support; price and total cost of ownership; adherence to certifications; size of customer base and level of user adoption; strength of sales and marketing efforts; scope of vendor ecosystem integrated with the products; ability to create new products and expanding the existing platform; ability to innovate around a cloud-delivered architecture; brand awareness, recognition, and reputation, particularly within the developer community; and ability to engage the community of users and partners. If we fail to innovate and improve our products and professional services to address these factors, we may become vulnerable to increased competition and therefore fail to attract new customers or lose or fail to renew existing customers, which would harm our business and results of operations.

Some of our actual and potential competitors, especially more established companies, may expand their offerings to compete with ours. These companies may have advantages over us, such as longer operating histories, more established relationships with current and potential customers and commercial partners, significantly greater financial, technical, marketing, or other resources, stronger brand recognition, larger intellectual property portfolios, and broader global distribution and presence. In addition, our business model largely assumes our customers are committed to a multi-cloud strategy and will not bundle their cloud services with a single provider. However, if this assumption inaccurately reflects the decisions of our customers, our business will suffer. Some of our larger potential competitors and other cloud providers have substantially greater resources than we do and therefore may afford to bundle competitively priced related products and services, which may allow them to leverage existing commercial relationships, incorporate functionality into existing products, sell products with which we compete at zero or negative margins, offer fee waivers and reductions or other economic and non-economic concessions, maintain closed technology platforms, or render our products unable to interoperate with such platforms. Our actual or potential customers may prefer to bundle their cloud services with one of our potential competitors even if such competitors’ individual products have more limited functionality compared to our software. These larger potential competitors are also often in a better position to withstand any significant reduction in technology spending and will therefore not be as susceptible to competition or economic downturns. Our potential competitors may also be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. In addition, some potential competitors may offer products or services that address one or a limited number of functions at lower prices, with greater depth than our products or in geographies where we do not operate. With the introduction of new technologies and new market entrants, we expect competition to grow in the future.

Furthermore, our actual and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and offerings in the markets we address. In addition, third parties with greater available resources may acquire current or potential competitors. As a result of such relationships and acquisitions, our actual or potential competitors might be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products, initiate or withstand substantial price competition, take advantage of other opportunities more readily, or develop and expand their offerings more quickly than we do. For all these reasons, we may not be able to compete successfully against our current or potential competitors.

Problems with our internal systems, networks, or data, including actual or perceived breaches or failures by us or our partners, could cause our products to be perceived as insecure, underperforming, or unreliable, which would damage our reputation, and our financial results.

Our offerings involve the transmission and processing of data, which can include personal information and highly sensitive, proprietary, and confidential information we receive from our customers, our employees, and other third parties. In addition to threats from traditional attackers and insider threats, we also face security threats from malicious third parties, including individual hackers, sophisticated criminal groups, nation states, and state-sponsored organizations, that could disrupt or interrupt, or introduce ransomware, viruses, or other malicious code into our products, services, systems, or networks, obtain unauthorized access to our internal systems, networks, and data, as well as systems of organizations using our cloud products and services, and the information they store and process. Users and organizations using our services may also disclose or leak their passwords, API keys, or secrets that could lead to unauthorized access to their accounts and data within our products. Such incidents have become more prevalent in our industry, particularly against cloud services, and may in the future result in unauthorized, unlawful, or inappropriate access to, inability to access, disclosure of, or loss or other unauthorized processing of the sensitive, proprietary, and confidential information that we own, process, or control, such as customer information and proprietary data and information, including source code and trade secrets. In addition, the risk of data security failures has increased significantly based upon the growing number of new data protection laws throughout the world and intensive scrutiny from regulatory bodies. It is virtually impossible for us to entirely mitigate the risk of these security threats. While we have implemented security measures internally and have integrated security measures into our products, these measures may not function as expected and may not detect or prevent all unauthorized activity, prevent all security breaches and incidents, mitigate all security breaches or incidents, or protect against all attacks or incidents. Moreover, our products incorporate a variety of third-party components (including source available software components) which may expose us to additional security threats, and vulnerabilities in those components may be difficult or impossible to detect, control, and manage. We may also experience security breaches and other incidents that may remain undetected for an extended period and, therefore, may have a greater impact on our products, the networks and systems used in our business, and the proprietary and other confidential data contained on such networks and systems. We expect to incur significant costs in our efforts to detect and prevent security breaches and other security-related incidents, and we may face increased costs in the event of an actual or perceived security breach or other security-related incident. These cybersecurity risks pose a particularly significant risk to a business like ours that is focused on providing highly secure products to customers. Additionally, as a hybrid remote company, much of our workforce functions in a remote work environment that requires remote access to our corporate network, which in turn imposes additional risks to our business, including increased risk of industrial espionage, theft of assets, phishing, and other cybersecurity attacks, and inadvertent or unauthorized access to or dissemination of sensitive, proprietary, or confidential information.

We also engage third-party vendors and service providers to store and otherwise process some of our and our customers' data, including sensitive and personal information. Our vendors and service providers may also be the targets of cyberattacks, malicious software, phishing schemes, fraud, and may face other cybersecurity threats and may suffer cybersecurity breaches and incidents from these and other causes. For example, in January 2023, one of our vendors, CircleCI, was compromised by an unauthorized third party, exposing certain environment variables, tokens and encryption keys of their customers, including HashiCorp, causing the vendor to have to rotate all customers' GitHub OAuth tokens.

Our ability to monitor these parties' data security is limited. There can be no assurance that any security measures that we or our third-party service providers, including third-party providers of cloud infrastructure services, have implemented will be effective against current or future security threats, and we cannot guarantee that our systems and networks or those of our third-party service providers have not been breached or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our products. While we maintain measures designed to protect the integrity, confidentiality, and security of our data and other data we maintain or otherwise process, our security measures or those of our third-party service providers could fail and result in unauthorized access to or disclosure, unavailability, modification, misuse, loss, destruction, or other processing of such data. Geopolitical events, including the ongoing hostility between Russia and Ukraine and the conflict in Israel and Gaza, may cause us and our vendors, contractors, and other third parties we work with to be vulnerable to a heightened risk of cybersecurity attacks, phishing attacks, viruses, malware, ransomware, hacking, or similar breaches and incidents from nation-state and affiliated actors, including attacks that could materially disrupt our supply chain and our systems, operations, and platform. Unauthorized access to, other security breaches of, or security incidents affecting, systems, networks, and data of our vendors, contractors, or those with which we have strategic relationships, even if not resulting in an actual or perceived breach of our customers' networks, systems, or data, could result in the loss, compromise, unavailability, corruption, or other unauthorized processing of data, loss of business, 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, significant costs for remediation, and other liabilities.

We also have incorporated artificial intelligence, or AI, features into certain of our offerings, and may continue to incorporate additional AI features into our offerings in the future. The use of AI may result in security incidents and our integration of AI and the use of AI features by our customers, and the use of AI solutions and offerings by our personnel, may create additional cybersecurity risks or increase cybersecurity risks, including risks of security breaches and incidents. Further, AI technologies may be used in connection with certain cybersecurity attacks, resulting in heightened risks of security breaches and incidents. In addition, our products may experience errors, failures, vulnerabilities, or bugs that cause our products not to perform as intended. Any such errors, failures, vulnerabilities, or bugs may not be found until after they are deployed to our customers and may create the perception that our platform and products are insecure, underperforming, or unreliable. We also provide frequent updates and fundamental enhancements to our platform and products, which increase the possibility of errors. Our quality assurance procedures and efforts to report, track, and monitor issues with our products may not be sufficient to ensure we detect any such defects in a timely manner. There can be no assurance that our software code is or will remain free from actual or perceived errors, failures, vulnerabilities, or bugs.

Many of our customers may use our software for controlling their infrastructure and processing, transmitting, and protecting their sensitive and proprietary information, including business strategies, financial and operational data, personal or identifying information, and other related data. Our Vault product is specifically designed to assist our customers with management of their private and sensitive information. Actual or perceived breaches or other security incidents from actual or perceived errors, failures, vulnerabilities, or bugs in our products or other causes could lead to claims and litigation, indemnity obligations, regulatory audits, proceedings, investigations and significant legal fees, significant costs for remediation, the expenditure of significant financial resources in efforts to analyze, correct, eliminate, remediate, or work around errors or defects, to address and eliminate vulnerabilities, and to address any applicable legal or contractual obligations relating to any actual or perceived security breach or incident. They could damage our relationships with our existing customers and have a negative impact on our ability to attract and retain new customers. Because our business is focused in part on providing security to our customers with Vault and our other products, we believe that such products could be targets for hackers and others, and that an actual or perceived breach of, or security incident affecting, our security products and customers, could be particularly detrimental to our reputation, customer confidence in our security products, and our business. The potential for an attack is compounded now that our Vault product is offered as a cloud service. Additionally, our products are designed to operate with little or no downtime. If a breach or security incident were to impact the availability of our products, our business, results of operations, and financial condition, as well as our reputation, could be adversely affected.

While we have taken steps designed to protect the confidentiality, integrity, and availability of our systems and the sensitive, proprietary, and confidential information that we own, process, or control, our security measures or those of third parties who we work with have been, and could from time to time in the future be, breached or otherwise not effective against security threats or preventing inadvertent or unauthorized access to or dissemination of sensitive, proprietary, or confidential information.

These risks are likely to increase as we continue to grow and process, control, store, and transmit increasing amounts of data.

If our offerings do not meet our customers' performance or support expectations or if we fail to meet service-level availability commitments made to our cloud platform customers, we could face subscription terminations and a reduction in renewals, which could significantly affect our current and future revenue.

If we fail to meet the performance or support expectations that our customers have for our products, or the service-level availability commitments we have made to our cloud platform customers, then we may not retain our customers or renew them expected rates. With respect to service-level availability commitments, we may be obligated to pay monetary penalties to the impacted cloud customers. Additionally, we may be contractually obligated to provide cloud customers with additional capacity and reputationally obligated to provide self-managed customers with additional support, each of which could significantly affect our revenue.

Our reliance on public cloud providers may impact our ability to meet service-level targets or performance targets, as any interruption in all or any portion of the public cloud could result in negative impacts to the service we are able to provide. In some cases, we may not have a contractual right with our public cloud providers that compensates us for any losses due to interruptions, or we may have limited rights that fall short of the compensation obligations we have to our customers.

Further, the failure to meet our service-level commitments or performance targets on a chronic basis could result in damage to our reputation and we could face loss of revenue from reduced subscription levels from existing and prospective customers. Any service-level or performance failures could adversely affect our business, financial condition, and results of operations and, if made public, could harm our brand.

If we are unable to keep pace with technological and competitive developments or fail to integrate our products with a variety of technologies that are developed by others, our products may become less marketable, less competitive, or obsolete, and our results of operations may be adversely affected.

The success of our new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product releases, the effective management of development and other spending in connection with anticipated demand for new products, and the availability of newly developed products. As with many software companies, we have in the past experienced bugs, errors, or other defects or deficiencies in new products and product updates and delays in releasing new products, deployment options, and product enhancements and may have similar experiences in the future. As a result, some of our customers may either defer purchasing our products until we release new enhancements or switch to a competitor if we are not able to keep up with technological developments. If we are unable to successfully enhance our existing products to meet evolving customer requirements, increase adoption and use cases of our products, develop new products, quickly resolve security vulnerabilities, or if our efforts to increase the use cases of our products are more expensive than we expect, then our business, results of operations, and financial condition would be adversely affected.

In addition, our success depends on our ability to integrate our products with a variety of third-party technologies across any public or private platform or on-premises technology. Our technology partnership ecosystem powers significant extensibility of our products and offers our customers the ability to use external tools of their choice with our products and to deploy our products in their preferred environments and successfully support new package technologies as they arise. Further, our products must be compatible with the major cloud service providers in order to support local hosting of our products in geographies chosen by our customers. We also benefit from access to public and private vulnerability databases.

Changes in our relationship with any provider, the instability or vulnerability of any third-party technology, or the inability of our products to successfully integrate with third-party technology may adversely affect our business and results of operations. Any losses or shifts in the market position of these providers in general, in relation to one another or to new competitors or new technologies, could lead to losses in our relationships or customers, or to our need to identify and develop integrations with new third-party technologies. Such changes could consume substantial resources and may not be effective. Further, any expansion into new geographies may require us to integrate our products with new third-party technology and invest in developing new relationships with providers. If we are unable to respond to changes in a cost-effective manner, our products may become less marketable, less competitive, or obsolete and our results of operations may be negatively impacted.

Failure of our products to satisfy customer demands or to achieve increased market acceptance could adversely affect our business, results of operations, financial condition, and growth prospects.

We derive and expect to continue to derive substantially all of our revenue from our products. As a result, market acceptance of our products is critical to our continued success. Demand for our products is affected by numerous factors beyond our control, including continued market acceptance, the timing of development and release of new products by our competitors, technological change, any developments or disagreements with the developer community, and growth or contraction in our market or the overall economy. We expect the growth and proliferation of data to lead to an increase in the data analyses demands of our customers and we may not be able to scale and perform to meet those demands or may not be chosen by users for those needs. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our products, our business operations, financial results, and growth prospects will be materially and adversely affected.

Unfavorable conditions in our industry or the global economy or reductions in spending for products like ours could limit our ability to grow our business and negatively affect our results of operations.

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers. Current or future economic uncertainties or downturns could adversely affect our business and results of operations. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, uncertain interest rates, inflationary pressures, interest rate increases, recessionary economic cycles, political turmoil, natural catastrophes, warfare, and terrorist attacks on the United States, Europe, the Asia-Pacific region, or elsewhere, could cause a decrease in business investments by our customers and potential customers, including spending on information technology, and negatively affect the growth of our business. For example, rising interest rates and high levels of inflation have affected businesses across many industries, which has significantly constrained and may continue to constrain the budgets of our customers and prospective customers. To the extent our offerings are perceived by customers and potential customers as discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, customers may choose to develop in-house software as an alternative to using our products. Moreover, competitors may respond to market conditions by lowering prices. We cannot predict the timing, strength, or duration of any economic slowdown, instability, or recovery, generally or within any particular industry. If the economic conditions of the general economy or markets in which we operate do not improve, or worsen from present levels, our business, results of operations, and financial condition could be adversely affected.

If we are not able to maintain and enhance our brand, especially among practitioners, our business and operating results may be adversely affected.

We believe that developing and maintaining widespread awareness of our brand, especially with practitioners, is critical to achieving widespread acceptance of our products and attracting new users and customers. Brand promotion activities may not generate user or customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. Expenditures intended to maintain and enhance our brand may not be cost-effective or effective at all. Changes to our business practices may cause our brand to be viewed negatively by the practitioner community. For example, in August 2023, we announced that we changed our source code license to Business Source License v1.1 on all future releases of our core products, which may be viewed less favorably by practitioners. If we do not successfully maintain and enhance our brand, including any unauthorized misuse of our brand, we may have reduced pricing power relative to our competitors, we could lose users and customers, or we could fail to attract potential new customers or expand sales to our existing customers, all of which could materially and adversely affect our business, results of operations, and financial condition.

Our international operations expose us to significant risks, and failure to manage those risks could materially and adversely impact our business.

Our customers and employees are located worldwide, and our strategy is to continue to expand internationally. Our future results of operations depend, in part, on our ability to sustain and expand our penetration of the international markets in which we currently operate and to expand into additional international markets. We generated 32% and 30% of our revenue outside of the United States for the three months ended October 31, 2024, and 2023, respectively. Our ability to expand internationally involves various risks, including the need to invest significant resources in such expansion, and the possibility that returns on such investments will not be achieved in the near future or at all in these less familiar competitive environments. We may also choose to conduct our international business through partnerships. If we are unable to identify partners or negotiate favorable terms, our international growth may be limited. In addition, we have incurred and may continue to incur significant expenses in advance of generating material revenue as we attempt to establish our presence in particular international markets. Additional risks associated with our international operations include:

- geopolitical conflicts, including military conflicts, that could damage the global economy;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties, or other trade restrictions;
- different labor regulations, especially in the European Union, 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;
- exposure to many stringent and potentially inconsistent laws and regulations relating to privacy, data protection, and data security, particularly in the European Union;
- changes in a specific country's or region's political or economic conditions, including, but not limited to, inflationary pressures, recessionary economic cycles, and resulting governmental responses;
- challenges inherent to efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs;
- severe fluctuations in currency exchange rates;
- risks relating to the implementation of exchange controls and trade protection regulations and measures in the United States or in other jurisdictions;
- risks relating to enforcement of U.S. export control laws and regulations including the Export Administration Regulations, or EAR, and trade and economic sanctions, including restrictions promulgated by the Office of Foreign Assets Control, or OFAC, and other similar trade protection regulations and measures in the United States or in other jurisdictions;
- greater difficulty in enforcing contracts and accounts receivable collection, and longer collection periods;
- limitations on our ability to reinvest earnings from operations derived from one country to fund the capital needs of our operations in other countries;
- limited or unfavorable intellectual property protection; and
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, and similar applicable laws and regulations in other jurisdictions.

The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks could limit the future growth of our business. If we are unable to address these difficulties and challenges or other problems encountered in connection with our international operations and expansion, we might incur unanticipated liabilities or we might otherwise suffer harm to our business generally.

Incorrect implementation or use of, or our customers' failure to update, our products could result in customer dissatisfaction and negatively affect our business, operations, financial results, and growth prospects.

Our products are often operated in large scale, complex IT environments. Our customers and some partners require training and experience in the proper use of and the benefits that can be derived from our products to maximize their potential. If our customers do not implement, update or use our products correctly or as intended, inadequate performance, and/or security vulnerabilities may result. Because our customers rely on our software to manage a wide range of operations, the incorrect implementation, use of, or our customers' failure to update, our software or our failure to train customers on how to use our software productively may result in customer dissatisfaction, negative publicity and may adversely affect our reputation and brand. Our failure to effectively provide training and implementation services to our customers could result in lost opportunities for follow-on sales to these customers and decrease subscriptions by new customers, and adversely affect our business and growth prospects.

We depend on cooperation with public cloud operators. Changes to arrangements with such operators may significantly harm our customer retention, new customer acquisition, and product extension or expansion, or require us to change our business models, operations, practices, or advertising activities, which could restrict our ability to maintain our platform through these clouds and would adversely impact our business.

We depend upon the public cloud operators, primarily AWS, Google Cloud, and Microsoft Azure, to offer products to our customers. Because of the significant use of our platform on public clouds, our solutions must remain interoperable with them. Further, we are subject to the standard agreements, policies, and terms of service of these public clouds, as well as agreements, policies, and terms of service of the various application stores that make our solutions available to our developers, creators, customers, and users. These agreements, policies, and terms of service govern the availability, promotion, distribution, content, and operation generally of applications and experiences on such public clouds. As a result, we may not successfully cultivate relationships with key industry participants or develop products that operate effectively with these technologies, systems, networks, regulations, or standards. If it becomes more difficult for our customers or users to access and engage with our platform on the public clouds they are already using, if our customers choose not to access or use our platform application on their cloud accounts, or if our customers or users choose to use public clouds that do not offer or discontinue access to our platform, our business and customer retention, new customer acquisition, and product extension or expansion could be significantly harmed.

The owners and operators of these public clouds each have approval authority over our platform's deployment on their systems and offer products that compete with ours. We have no control over these public clouds, and any changes to these clouds that degrade our platform's functionality, or give preferential treatment to competitive products, could significantly harm our platform. Those companies have no obligation to test the interoperability of their clouds with our platform. If any of these companies introduced modifications to their clouds that purposefully or inadvertently made them incompatible with or not optimal for use of our platform, such disruption to our platform would harm our business. Additionally, such operators could make our platform, or certain features of our platform, inaccessible on their public clouds for a potentially significant period of time. An operator could also limit or discontinue our access to its public cloud if it establishes more favorable relationships with one or more of our competitors, launches a competing product itself, or it otherwise determines that it is in its business interests to do so. Such operators could display their competitive offerings more prominently than ours. We plan to continue to introduce new technologies on our platform regularly and it can take significant time to adjust such technologies to function with these public clouds, impacting the adoption of our new technologies and features, and we expect this trend to continue.

Each public cloud operator has broad discretion to change and interpret its agreements, terms of service, and policies with respect to our platform, and those changes may be unfavorable to us and our customers' use of our platform. If we were to violate, or a public cloud operator believes that we have violated, its agreements, terms of service, or policies, that public cloud operator could limit or discontinue our access to its cloud. In some cases, these requirements may not be clear or our interpretation of the requirements may not align with the interpretation of the public cloud operator, which could lead to inconsistent enforcement of these agreements, terms of service, or policies against us, and could also result in the public cloud operator's limiting or discontinuing access to its cloud. Any limitation on or discontinuation of our access to any public cloud could adversely affect our business, financial condition or results of operations.

We rely upon public cloud operators to operate our platform and any disruption of or interference with our use of these operators' services would adversely affect our business, results of operations, and financial condition.

We outsource substantially all of our cloud infrastructure to public cloud operators that host our products and platform, and our dependence will increase as we introduce new cloud products. Customers of our products need access to our platform at any time, without interruption or degradation of performance. Public cloud operators run their own platforms that we access, and we are, therefore, vulnerable to service interruptions of these platforms. We have experienced, and expect that in the future we may experience interruptions, delays, and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions, and capacity constraints. Capacity constraints could be due to a number of potential causes including technical failures, natural disasters, fraud, or security attacks. In addition, if our security, or that of public cloud operators, is or is perceived to have been compromised, our products or platform are unavailable or our users are unable to use our products within a reasonable amount of time or at all, then our business, results of operations, and financial condition could be adversely affected. In some instances, we may not be able to identify the cause or causes of these performance problems within a period of time acceptable to our customers. It may become increasingly difficult to maintain and improve our platform performance, especially during peak usage times, as our products become more complex and the usage of our products increases. To the extent that we do not effectively address capacity constraints through our public cloud operators, our business, results of operations, and financial condition may be adversely affected. In addition, any changes in service levels from our public cloud operators may adversely affect our ability to meet our customers' requirements.

The substantial majority of the services for which we use cloud service providers are server capacity and, to a lesser extent, storage and other optimization offerings. Public cloud operators allow us to order and reserve server capacity in varying amounts and sizes distributed across multiple regions. We access public cloud operator infrastructure through standard IP connectivity. Public cloud operators provide us with computing and storage capacity under agreements that continue until terminated by either party. Public cloud operators may terminate the agreements by providing a set amount of prior written notice and in some cases may terminate the agreements immediately for cause upon notice. Although we expect that we could receive similar services from other third parties, if any of our arrangements with public cloud operators are terminated, we could experience interruptions on our platform and in our ability to make our products available to customers, as well as delays and additional expenses in arranging alternative cloud infrastructure services.

Any of the above circumstances or events may harm our reputation, cause customers to stop using our products, impair our ability to increase revenue from existing customers, impair our ability to grow our customer base, subject us to financial penalties and liabilities under our service-level agreements, and otherwise harm our business, results of operations, and financial condition.

Interruptions or performance problems associated with our technology and infrastructure, and our reliance on technologies from third parties, may adversely affect our business operations and financial results.

Our website and internal technology infrastructure may experience performance issues due to a variety of factors, including infrastructure changes, human or software errors, website or third-party hosting disruptions, capacity constraints, technical failures, natural disasters, or fraud or security attacks. Our use and distribution of third-party source available software and reliance on other third-party services may increase this risk. For example, we depend on our relationship with a third-party processor for installation and packaging solutions in one of our products. If our website is unavailable or our users are unable to download our products or order subscriptions or services within a reasonable amount of time or at all, our business could be harmed. We expect to continue to make significant investments to maintain and improve website performance and to enable rapid releases of new features and applications for our products. To the extent that we do not effectively upgrade our systems as needed and continually develop our technology to accommodate actual and anticipated changes in technology, our business and results of operations may be harmed.

If we experience an interruption in service for any reason, our cloud offerings may be similarly interrupted. An interruption in our services to our customers could cause our customers' internal and consumer-facing applications to fail to function properly, which could have a material adverse effect on our business, operations, financial results, customer relationships, and reputation. In addition, we rely on cloud technologies from third parties in order to operate critical functions of our business, including financial management services, customer relationship management services, and lead generation management services. Accordingly, if these services become unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices, our expenses could increase, our ability to manage our finances could be interrupted, our processes for managing sales of our products and supporting our customers could be impaired, and our ability to generate and manage sales leads could be weakened until equivalent services, if available, are identified, obtained, and implemented, all of which could harm our business and results of operations.

A real or perceived defect, security vulnerability, error, or performance failure in our products could cause us to lose revenue, damage our reputation, and expose us to liability.

Our products are inherently complex and, like all software, despite extensive testing and quality control, have in the past and may in the future contain defects or errors, especially when first introduced, or not perform as contemplated. These defects, security vulnerabilities, errors, or performance failures could cause damage to our reputation, loss of customers or revenue, product returns, order cancellations, service terminations, or lack of market acceptance of our software, which could expose us to liability. Because our products involve sensitive, secure and/or mission-critical uses by our customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our software fail to perform as contemplated in such deployments. We have in the past and may in the future need to issue corrective releases of our software to fix these defects, errors, or performance failures, which could require us to allocate significant research and development and customer support resources to address these problems.

Techniques used to sabotage or obtain unauthorized access to systems or networks are constantly evolving and, in some instances, are not identified until launched against a target. We and our service providers may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventative measures.

Further, there can be no assurance that any limitations of liability provisions in our customer and user agreements, contracts with third-party vendors and service providers, or other contracts would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim relating to a security breach or other security-related matter. Any cybersecurity insurance we carry may be insufficient to cover all liabilities we incur in connection with any privacy or cybersecurity incidents or may not cover the kinds of incidents for which we submit claims. For example, insurers may consider cyberattacks by a nation-state as an “act of war” and any associated damages as uninsured. We also cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will accept 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, results of operations, and financial condition, as well as our reputation.

The use of AI in our offerings and in our business may result in reputational harm or liability.

We have incorporated and may continue to incorporate additional AI features into our offerings, including those based on large language models, and these features may become more important to our operations or to our future growth over time. We expect to rely on AI features to help drive future growth in our business, but there can be no assurance that we will realize the desired or anticipated benefits from AI or at all. We may also fail to properly implement or market our AI features. Our competitors or other third parties may incorporate AI into their offerings and solutions more quickly or more successfully than us, which could impair our ability to compete effectively and adversely affect our results of operations. Additionally, our use of AI may expose us to additional claims, demands, and proceedings by private parties and regulatory authorities and subject us to legal liability as well as brand and reputational harm. For example, if the content, analyses or recommendations that AI features assist in producing are or are alleged to be deficient, inaccurate or biased, or for such content, analyses, recommendations, or for such solutions or features or their development or deployment, including the collection, use, or other processing of data used to train or create such AI features, to infringe upon or to have misappropriated third-party intellectual property rights or to violate applicable laws, regulations, or other actual or asserted legal obligations to which we are or may become subject, then our reputation may be harmed and our business, financial condition, and results of operations may be adversely affected. The legal, regulatory, and policy environments around AI are evolving rapidly, and we may become subject to new and evolving legal and other obligations. These and other developments may require us to make significant changes to our use of AI, including by limiting or restricting our use of AI, and which may require us to make significant changes to our policies and practices, which may necessitate expenditure of significant time, expense, and other resources. AI also presents emerging ethical issues, and if our use of AI becomes controversial, we may experience brand or reputational harm.

We depend on our senior management and other key employees, and the loss of one or more of these employees or an inability to attract, train, and retain highly skilled employees could harm our business.

Our future success is substantially dependent on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel, or delays in hiring required personnel, particularly in engineering and sales, may seriously harm our business, financial condition, and results of operations. We are also substantially dependent on the continued service of our existing engineering personnel because of the complexity of our products. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. The loss of one or more of our executive officers or key employees could seriously harm our business.

Our future performance also depends on the continued services and continuing contributions of our senior management to execute on our business plans and to identify and pursue new opportunities and product innovations. The loss of services of senior management could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and results of operations.

Our industry is generally characterized by significant competition for skilled personnel as well as high employee attrition. Additionally, many of the companies with which we compete for experienced personnel have greater resources than we have and may provide higher levels of compensation. We have from time to time experienced, and we expect to continue experiencing, difficulty in hiring and retaining employees with appropriate qualifications. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product.

In addition, newly hired employees require significant training and may take significant time to achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business.

Additionally, the growth of our direct sales force leads to increasing difficulty and complexity in its organization, management, and leadership, which we may not manage successfully. If we are unable to hire and train a sufficient number of effective sales personnel, we are ineffective at overseeing a growing sales force, or the sales personnel we hire are otherwise unsuccessful in obtaining new customers or increasing sales to our existing customer base, our business will be adversely affected.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity, and entrepreneurial spirit we have worked to foster, which could harm our business.

We believe our culture has been and will continue to be a key contributor to our success. If we do not continue to maintain our corporate culture as we grow, we may be unable to foster the innovation, creativity, and entrepreneurial spirit we believe we need to support our growth. Any failure to preserve our culture also could further harm our ability to retain and recruit personnel, innovate and create new products, operate effectively, and execute on our business strategy.

Operating as a hybrid remote company may make it difficult for us to preserve our corporate culture, have a negative impact on workforce morale and productivity, and harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively, and execute on our business strategy.

We have largely been a hybrid remote company since incorporation. This subjects us to heightened operational risks. For example, technologies in our employees' and service providers' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees and service providers to be more limited or less reliable than in our offices. Further, because the security systems in place at our employees' and service providers' homes may be less secure than those used in our offices, we may be subject to increased cybersecurity risk, which could expose us to risks of data or financial loss and disrupt our business operations.

There is no guarantee that our data security and privacy safeguards will be completely effective or that we will not encounter risks associated with employees and service providers accessing company data and systems remotely.

Operating a hybrid work environment may make it more difficult for us to preserve our corporate culture, and our employees may have decreased opportunities to collaborate in meaningful ways. Further, we cannot guarantee that having a large percentage of remote employees will not damage workforce morale and productivity. Any failure to preserve our corporate culture and foster collaboration could harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively, and execute on our business strategy.

Additionally, working in a hybrid remote company allows employees to move freely while undertaking their work responsibilities. On occasion, employees have and may continue to fail to inform us of changes to their work location in a timely manner. Conducting business in certain geographies may expose use to risks associated with that location, including compliance with local laws and regulations or exposure to compromised internet infrastructure. If employees fail to inform us of changes in their work location, we may be exposed to various risks without our knowledge. For example, if employees create intellectual property on our behalf while residing in a jurisdiction with weak or uncertain intellectual property laws, our ownership of such intellectual property may be questioned. Similarly, if employees access our resources through unsecured internet infrastructure, they may expose us to a heightened risk of data theft or cyberattack.

Our business is affected by seasonal demands, and our quarterly operations results fluctuate as a result.

Historically our business has been highly seasonal, with the highest percentage of our sales occurring in our fiscal fourth quarter due to increased buying patterns of our enterprise customers prior to the end of the year and a lower percentage of our sales occurring in our second fiscal quarter due to the summer vacation slowdown that impacts many of our customers. We expect these seasonal trends to continue. We may also experience fluctuations due to factors that may be outside of our control that affect customer engagement with our platform. Additionally, activity levels may remain unpredictable due to the macroeconomic environment, including impacts of global military conflicts, inflationary pressures, or recessionary economic cycles. Episodic experiences may also contribute to fluctuations in our quarterly results of operations. As our business matures, other seasonal trends may develop, or existing seasonal trends may become more extreme.

A portion of our self-managed product revenue is recognized at the time we sell and deliver our software rather than on a ratable basis, and the amount we recognize can differ by product and contract length, which adds variability to our forecasting and could have a material negative impact on our revenue results.

More specifically, a portion of our self-managed license revenue is recognized upfront upon delivery of our software, particularly for multi-year agreements that are paid by customers on an annual basis. Generally, our multi-year self-managed contracts tend to have license revenue recognized upfront, while one-year self-managed contracts tend to have license revenue recognized ratably in one-month increments. In addition, the amount of revenue we recognize varies by product based on the allocation of value—from an accounting standpoint—between the license and support components of our product offerings.

We believe the benefit of securing multi-year customer commitments for our self-managed offerings far outweighs the resulting variability in forecasting revenue. Accordingly, we sell multi-year agreements whenever possible, but we also sell one-year agreements when our customers require them. The result is that in any given quarter, we can have a mix of one-year and multi-year agreements for our self-managed offerings, and that mix of contract lengths impacts the amount of revenue we recognize upfront versus over time. This variability is compounded by the fact that the amount of revenue we recognize at delivery also differs by product. We face challenges forecasting the percentage of customers who will choose multi-year agreements versus single-year subscriptions, as well as the final mix of products we will sell in each quarter. Any failure to make those forecasts with reasonable accuracy could cause us to miss our revenue forecasts and result in a decline in our stock price.

A high percentage of our sales often occur near the end of each quarter, which can create a processing backlog and negatively impact our revenue recognition and, consequently, our quarterly results.

Like many software companies, we transact many of our sales late in each quarter. For our self-managed offerings, this timing can affect our revenue recognition because delivery of the software is a prerequisite to recognizing revenue under applicable software accounting rules. If we are unable to deliver our software to a new customer before the quarter ends, we cannot recognize any revenue from the sale during the quarter in which the customer placed its order. Instead, we must wait until the quarter in which we actually delivered the software to begin recognizing revenue. In quarters where we have a high volume of late-quarter sales, we may be unable to sign or process a significant number of the orders we receive or deliver the purchased software before the quarter ends. As a result, we may need to prioritize some orders over others and wait until the following quarter to recognize revenue for those orders we are unable to complete on time. In such cases, we will not be able to recognize as much revenue for the quarter as we otherwise would have if we had processed and delivered software for all orders we received before the quarter ended, which may lower our revenue results for the quarter. This in turn may harm our business by consistently underreporting our quarterly revenues to investors.

Sales to government entities are subject to a number of challenges and risks.

We sell to U.S. federal governmental agency customers. Sales to such entities currently constitute a small portion of our revenue. Selling to such entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate meaningful sales. Government certification or other requirements for products like ours may change, thereby restricting our ability to sell into the government sector until we have attained or updated the necessary certifications or satisfy other applicable requirements. Government demand and payment for our products may be affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products. Additionally, any actual or perceived privacy, data protection, or data security incident, or even any perceived defect regarding our practices or measures in these areas, may negatively impact public sector demand for our products.

Government contracting requirements may change and could restrict our ability to sell into the government sector until we have met government-mandated requirements, which may require significant upfront cost, time, and resources. If we do not achieve and maintain government requirements, it may harm our competitive position against larger enterprises whose competitive offerings meet these requirements. We also can provide no assurance we will secure commitments or contracts with government entities even if we meet government requirements, which could harm our margins, business, financial condition, and results of operations. Further, government demand and payment for our offerings are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our offering.

Additionally, we rely on certain partners to provide technical support services to certain of our government entity customers to resolve any issues relating to our products. If our partners do not effectively assist our government entity customers in deploying our products, succeed in helping our government entity customers quickly resolve post-deployment issues, or provide effective ongoing support, our ability to sell additional products to new and existing government entity customers would be adversely affected and our reputation could be damaged.

Further, governmental entities may demand contract terms that differ from our standard arrangements and are less favorable than terms agreed with private sector customers. Such entities may have statutory, contractual or other legal rights to terminate contracts with us or our partners for convenience or for other reasons. Any such termination may adversely affect our ability to contract with other government customers as well as our reputation, business, financial condition, and results of operations. Governments routinely investigate and audit government contractors’ administrative processes, and any unfavorable audit could result in the government refusing to continue buying our subscriptions, a reduction of revenue, or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely affect our results of operations and reputation.

Risks Related to Our Intellectual Property

Some of our technology incorporates third-party open-source software, which could negatively affect our ability to sell our products, and subject us to possible litigation.

Our source available and proprietary technologies incorporate third-party open-source software, and we expect to continue using third-party open-source software in our products in the future, which may require using new and upgraded versions of these software applications. There can be no assurance that new versions of the third-party open-source projects we currently use will continue to be licensed under open-source licenses, or that new versions will not contain different open-source licenses that carry unacceptable limitations on distribution. In addition, where buying proprietary licenses is they only way to avoid onerous open-source distribution limitations, we may not succeed in obtaining those proprietary licenses on acceptable terms. Our inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, could result in delays in product releases until equivalent technology can be identified, licensed, developed, and integrated into our products, which may have a material adverse effect on our business, results of operations, and financial condition. In addition, third parties may allege that additional licenses are required for our use of their software or intellectual property, and we may be unable to obtain such licenses on commercially reasonable terms or at all.

In addition, few of the licenses applicable to open-source software have been interpreted by courts, and there is a risk these licenses could be construed in a manner that adversely impact our interests and the interests of our customers, both with respect to our use of third-party open-source as well as our distribution of our own software under source available licenses, including by imposing unanticipated conditions or restrictions on our ability to commercialize our products, or limiting our ability to enforce our rights in the manner we had anticipated. Moreover, we cannot ensure our software does not include open-source software that we are unaware of, or that we have not incorporated additional open-source software in our software in a manner that is inconsistent with the terms of the applicable license or our current policies and procedures, including requiring us to make some or all of our software available under an open-source license that is unacceptable to us or to our customers. If we incorporate third-party open-source software into our software products, then in certain circumstances, we and our customers may be subject to certain requirements, including requirements that we offer our solutions that incorporate such third-party open-source software under license terms that are inconsistent with our intended license, such as requiring portions of our products we create based upon, derived from, incorporating, or using such open-source software (and in turn, portions of our customers' products that they create which are based upon, derived from, incorporating, or using our products) be made available for no cost and for the purpose of making and redistributing such software (including in source code form) and derivatives thereof. If an author or other third party that distributes such open-source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our products that contained the open-source software, and required to comply with onerous conditions or restrictions on these products, which could disrupt the distribution and sale of these products.

Moreover, there have been claims challenging the ownership rights in open-source software against companies that incorporate open-source software into their products, and the licensors of such open-source software provide no warranties or indemnities with respect to such claims. In the event such a claim is made with respect to a third-party open-source component included in our products, we and our customers could be required to seek licenses from third parties in order to continue offering our products, and to re-engineer our respective products or discontinue the sale of our respective products in the event re-engineering cannot be accomplished on a timely basis. We and our customers may also be subject to suits by parties claiming infringement, misappropriation or violation due to the reliance by our solutions on certain open-source software, and such litigation could be costly for us to defend or subject us to certain types of equitable remedies, such as an injunction. Some open-source projects have known 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. Any of the foregoing could require us to devote additional research and development resources to re-engineer our solutions, provide an advantage to our competitors or other entrants to the market, create new security vulnerabilities, or highlight existing security vulnerabilities in products, result in customer dissatisfaction, and may adversely affect our business, results of operations, and financial condition. We cannot ensure that our processes for identifying and controlling our use of open-source software in our platform and products will be effective.

We develop our products in a source available software environment, which could negatively affect our ability to sell our offerings, or make it easier for competitors, some of whom may have greater resources than we have, to enter our markets and compete with us.

Unlike traditional proprietary software, the core of all of our products has its source code available, allowing our partners and third parties to give feedback directly, report issues, contribute features, and fix bugs, which we may accept and integrate into our products. Our partners are able to integrate their technology solutions and validate their integrations with continuous development. We plan to continue to develop our products in this source available environment, and enabling third-party contributions, and the integration of software from third parties into our codebase. While these software licenses state that any work of authorship licensed under it may be reproduced and distributed provided that certain conditions are met, we may nevertheless be subject to suits by parties claiming ownership rights in what we believe to be permissively licensed open-source software or claiming non-compliance with the applicable open-source licensing terms.

In addition, the use of third-party open-source software may expose us to greater risks than the use of third-party commercial software because open-source licensors generally do not provide warranties or controls on the functionality or origin of the software. Use of open-source software may also present additional security risks because the public availability of such software may publicize vulnerabilities or otherwise make it easier for hackers and other third parties to determine how to compromise our platform. Any of the foregoing could be harmful to our business, results of operations, financial condition, and cash flows and could help our competitors develop products that are similar to or better than ours.

Failure to obtain, maintain, protect, and enforce our proprietary technology and intellectual property rights could harm our business and results of operations.

Our success depends to a significant degree on our ability to obtain, maintain, protect, and enforce our intellectual property rights, including proprietary technology, methodologies, know-how, and brand. We rely on a combination of patents, trademarks, copyrights, service marks, trade secret laws, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to obtain, maintain, protect, and enforce our intellectual property rights may be inadequate. Our intellectual property rights may not protect our competitive position if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property rights, or if others are successful in designing around the protections our intellectual property rights afford. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our proprietary technology, develop and commercialize substantially identical products, services, or technologies, 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 have or may obtain may be challenged or circumvented by others or held unenforceable or invalidated through administrative process, including re-examination *inter partes* review, interference and derivation proceedings, and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings), or litigation. There can be no assurance that our patent applications will result in issued patents. Even if we continue to seek patent protection in the future, we may be unable to obtain further patent protection for our technology. In addition, any patents issued in the future may not provide us with competitive advantages or may be successfully challenged by third parties. There may be issued patents of which we are not aware, held by third parties that, if found to be valid and enforceable, could be alleged to be infringed by our current or future technologies or offerings. There also may be pending patent applications of which we are not aware that may result in issued patents, which could be alleged to be infringed by our current or future technologies or offerings.

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 use information that we regard as proprietary to create offerings 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 are available. We may be unable to prevent third parties from acquiring domain names or trademarks that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, litigation or other actions may be necessary to protect or enforce our trademarks and other intellectual property rights. Furthermore, third parties may assert intellectual property claims against us, and we may be subject to liability, required to enter into costly license agreements, or required to rebrand our offering or prevented from selling our offering if third parties successfully oppose or challenge our trademarks or successfully claim that we infringe, misappropriate or otherwise violate their trademarks or other intellectual property rights. The laws of some 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 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. We cannot assure 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. These agreements may be breached, and we may not have adequate remedies for any such breach.

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 and if such defenses, counterclaims, or countersuits are successful, we could lose valuable 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, impair the functionality of our products, delay introductions of new products, result in our substituting inferior or more costly technologies into our products, or injure our reputation.

We could incur substantial costs as a result of any claim of infringement, misappropriation, or violation of another party's intellectual property rights.

In recent years, there has been significant litigation involving patents and other intellectual property rights in the software industry. Companies providing software are increasingly bringing and becoming subject to suits alleging infringement, misappropriation, or violation of proprietary rights, particularly patent rights, and to the extent we gain greater market visibility, we face a higher risk of being the subject of intellectual property infringement, misappropriation, or violation claims. Further, the software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets, and other intellectual and proprietary rights. Companies in the software industry are often required to defend against litigation claims based on allegations of infringement, misappropriation, or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims against their use. In addition, many companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them.

We cannot predict the outcome of lawsuits and cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition, or results of operations. Accordingly, we could incur substantial costs in prosecuting or defending any current or future intellectual property litigation. Any such intellectual property litigation could be expensive and could divert our management resources possibly leading to delays in development or commercialization of our products.

Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease selling or using products that incorporate the intellectual property rights that we allegedly infringe, misappropriate, or violate;
- make substantial payments for legal fees, settlement payments, license fees, royalties, or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign the allegedly infringing products to avoid infringement, misappropriation, or violation, which could be costly, time-consuming, or impossible.

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 results of operations. We expect that the occurrence of infringement claims is likely to grow as the market for our platform for data in motion and our offering grows. Accordingly, our exposure to damages resulting from infringement claims could increase, which could strain our financial and management resources.

If we are required to make substantial payments or undertake any of the other actions noted above due to intellectual property infringement, misappropriation, or violation claims against us or any obligation to indemnify our customers for such claims, such payments or actions could harm our business.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement, misappropriation, violation, and other losses.

Our agreements with customers and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, misappropriation, or violation, damages caused by us to property or persons, or other liabilities relating to or arising from our software, services, or other contractual obligations. Large indemnity obligations and payments could disrupt and harm our business, results of operations, and financial condition. Although we generally attempt to contractually limit our liability with respect to such indemnity obligations, our efforts may not always be successful, and we may still incur substantial liability related to them even when subject to limitations. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other existing customers and new customers and harm our business and results of operations.

Risks Related to our Regulatory, Legal, Tax, and Accounting Environment

In connection with the operation of our business, we may collect, store, transfer, and otherwise process certain personal data and personally identifiable information, and our products help our customers do so as well. As a result, our business is subject to a variety of government and industry regulations, as well as other obligations, related to privacy, data protection, and data security.

Privacy, data protection, and data security have become significant issues in various jurisdictions where we offer our products and increasingly so as we sell more cloud offerings. We process certain personal data as part of our business operations, and our Vault product is specifically designed to assist our customers with management of their private and sensitive information. As we develop our cloud offerings and are able to process more data in the cloud, these issues become more significant. The regulatory frameworks for privacy, data protection, and data security issues worldwide are rapidly evolving and are likely to remain uncertain for the foreseeable future, particularly for data processed in the cloud. Federal, state, and non-U.S. government bodies or agencies have in the past adopted, and may in the future adopt, new laws and regulations or may make amendments to existing laws and regulations affecting data protection, data privacy, and/or data security and/or regulating the use of the internet as a commercial medium. Industry organizations also regularly adopt and advocate for new standards in these areas, and we are bound by certain contractual obligations relating to our use, storage, security, and other processing of personal data and other personally identifiable information. We also post privacy policies and have made, and may make, other representations regarding our privacy and data security practices. If we fail to comply with any of these laws, regulations, standards, or other obligations, or such public representations, or are alleged to have done so, we may be subject to investigations, enforcement actions, civil litigation, fines, and other penalties, all of which may generate negative publicity and have a negative impact on our business.

In the United States, we may be subject to investigation and/or enforcement actions brought by federal agencies and state attorneys general and consumer protection agencies. We publicly post policies and other documentation regarding our practices concerning the processing, use, and disclosure of personally identifiable information. Although we endeavor to comply with our published policies and documentation, we may at times fail to do so or be alleged to have failed to do so. The publication of our privacy policy and other documentation that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive, unfair, or misrepresentative of our actual practices.

Many states have enacted privacy and data security laws. For example, the California Consumer Privacy Act, or CCPA, which took effect on January 1, 2020, 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. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. California has already amended and expanded the CCPA with a new law, the California Privacy Rights Act of 2020, or CPRA, which came into effect as of January 1, 2023. Additionally, other U.S. states continue to propose, and in certain cases adopt, privacy-focused legislation. For example, Virginia, Colorado, Utah, and Connecticut have enacted comprehensive privacy legislation that went into effect in 2023; Florida, Montana, Oregon, and Texas have enacted similar legislation that went into effect in 2024; Delaware Iowa, Maryland, Minnesota, Nebraska, New Hampshire, New Jersey, and Tennessee have enacted similar legislation that will go into effect in 2025; and Indiana, Kentucky, and Rhode Island have enacted similar legislation that will go into effect in 2026. Some states also have proposed, and in certain cases adopted, sector-specific privacy legislation, such as Washington's My Health, My Data Act. Aspects of these state laws remain unclear, resulting in further uncertainty and potentially requiring us to modify our data practices and policies and to incur substantial additional costs and expenses in an effort to comply. A patchwork of differing state privacy and data security requirements will increase the cost and complexity of operating our business and increase our exposure to liability. Similarly, regulatory bodies such as the US Securities and Exchange Commission have issued disclosure rules and signaled a more aggressive posture regarding data security failures.

Internationally, we or our customers must comply with the data security, privacy, and data protection requirements of each of the jurisdictions we operate in. Within the European Union, the European General Data Protection Regulation, or the GDPR, became fully effective on May 25, 2018, and applies to the processing (which includes the collection and use) of certain personal data. The GDPR imposes substantial obligations and risk upon our business. Administrative fines under the GDPR can amount up to 20 million Euros or four percent of the group's annual global turnover, whichever is highest. We may be required to incur substantial expense and to make significant changes to our business operations in an effort to comply with the obligations imposed by the GDPR, all of which may adversely affect our revenue and our business overall. Additionally, because the GDPR lacks a long enforcement history, we are unable to predict fully how the GDPR may be applied to us. Despite our efforts to attempt to comply with the GDPR, a regulator may determine that we have not done so and subject us to fines and public censure, which could harm our company.

European privacy, data security, and data protection laws, including the GDPR, regulate and generally restrict the transfer of the personal data subject from Europe, including the European Economic Area, or EEA, the United Kingdom, and Switzerland, to third countries that have not been found to provide adequate protection to such personal data, including the United States unless the parties to the transfer have implemented specific safeguards to protect the transferred personal data. The safeguard on which we have primarily relied for such transfers has been implementation of the European Commission's Standard Contractual Clauses, or SCCs, in our relevant data transfer agreements. We have undertaken certain efforts to conform transfers of personal data from the European Economic Area, or the EEA, to the United States and other jurisdictions based on our understanding of current regulatory obligations and the guidance of data protection authorities. The EU-U.S. Privacy Shield program administered by the U.S. Department of Commerce was invalidated by the Court of Justice of the European Union, or CJEU, on July 16, 2020. The Swiss Federal Data Protection and Information Commissioner invalidated the Swiss-U.S. Privacy Shield on similar grounds. In its July 16, 2020 opinion, the CJEU imposed additional obligations on companies when relying on SCCs to transfer personal data. The European Commission has published revised SCCs that are required to be implemented. The United Kingdom has adopted new standard contractual clauses, or the UK SCCs, that became effective as of March 21, 2022, and which are required to be implemented. The United States and European Union have replaced the EU-U.S. Privacy Shield transfer framework with the EU-U.S. Data Privacy Framework, or EU-U.S. DPF. On July 10, 2023, the European Commission adopted an adequacy decision in relation to the EU-U.S. DPF, allowing the EU-U.S. DPF to be utilized as a means of legitimizing EU-U.S. personal data transfers for participating entities, including us. We also have self-certified under a UK Extension to the EU-U.S. DPF and the Swiss-U.S. Data Privacy Framework, or the Swiss-U.S. DPF. The EU-U.S. DPF already has faced legal challenges, and the CJEU's Schrems II decision, the revised SCCs and UK SCCs, guidance and opinions of regulators, and other developments relating to cross-border data transfer, including the EU-U.S. DPF, the UK Extension to the EU-U.S. DPF, and the Swiss-U.S. DPF may be subject to challenges, future reviews, suspension, amendment, repeal, or limitations, and may require us to implement additional contractual and technical safeguards for any personal data transferred out of Europe, which may increase compliance costs, lead to increased regulatory scrutiny or liability, and which may adversely impact our business, financial condition and operating results.

We may also experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our products, or by current or potential new customers to consider or adopt our fully managed HCP cloud offerings, due to the potential risk exposure to such customers as a result of shifting business sentiment in Europe regarding international data transfers and the data protection obligations imposed on them. We may find it necessary to establish systems to maintain personal data originating from Europe in Europe, which may involve substantial expense and may cause us to need to divert resources from other aspects of our business, all of which may adversely affect our business. We may be unsuccessful in maintaining the conforming means of transferring personal data from Europe to other jurisdictions. We, and our customers, may face a risk of enforcement actions taken by European data protection authorities relating to cross-border personal data transfers.

We also expect laws, regulations, industry standards and other obligations worldwide relating to privacy, data protection, and cybersecurity to continue to evolve, and that there will continue to be new, modified, and re-interpreted laws, regulations, standards, and other obligations in these areas. For example, the Network and Information Security Directive II, or NIS2, adopted in 2023, aims to enhance cybersecurity across critical infrastructure and essential services in the EU. It expands the scope of the 2016 NIS Directive to include additional sectors while enforcing stricter governance and accountability requirements. NIS2 requires all 27 EU member states to issue implementing legislation by October 2024; however, several EU member states have not finalized their respective legislation and guidance. Additionally, the Digital Operational Resiliency Act, or DORA, will become effective in January 2025, and will aim to establish a universal framework for managing and mitigating information and communication technology risk that will apply to entities in the financial sector and their third-party cloud service providers. The European Commission also has a draft regulation in the approval process that focuses on a person's right to conduct a private life. The proposed legislation, known as the Regulation of Privacy and Electronic Communications, or the 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 is still being negotiated. If adopted, this regulation could have broad potential impacts on the use of internet-based services and tracking technologies, such as cookies.

Further, the United Kingdom has enacted a Data Protection Act, and has implemented legislation referred to as the "UK GDPR," that substantially implements the GDPR in the United Kingdom following Brexit and the transition period that ended on December 31, 2020. This legislation provides for substantial penalties for noncompliance of up to the greater of £17.5 million or four percent of worldwide revenues. While the EU has deemed the United Kingdom an "adequate country" to which personal data could be exported from the EEA, this decision is required to be renewed after four years of being in effect and may be modified, revoked, or challenged in the interim, creating uncertainty regarding transfers of personal data to the United Kingdom from the EEA. Some countries also are considering or have passed legislation requiring local storage and processing of data, or similar requirements, which could increase the cost and complexity of delivering our products.

Finally, we publish privacy policies and other documentation regarding our collection, use, disclosure, and other processing of personal information. Although we endeavor to adhere to these policies and documentation, we and the third parties on which we rely may at times fail to do so or may be perceived to have failed to do so. Such failures could subject us to regulatory enforcement action as well as costly legal claims by affected individuals or our customers.

Because the interpretation and application of many laws and regulations relating to privacy, data protection, and data security, along with industry standards, are uncertain, particularly as they relate to our cloud offerings, it is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our products, and we could face fines, lawsuits, regulatory investigations, and other claims and penalties, and we could be required to fundamentally change our products or our business practices, which could have an adverse effect on our business. Any inability to adequately address privacy, data protection, and data security concerns, even if unfounded, or any actual or perceived failure to comply with applicable privacy, data protection, and data security laws, regulations, and other obligations, 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, data protection, and data security concerns, whether valid or not valid, may inhibit market adoption of our products, particularly in certain industries and countries outside of the United States. If we are not able to adjust to changing laws, regulations, and standards related to the internet, our business may be harmed.

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 and services may be subject to U.S. export control laws and regulations including the Export Administration Regulations, or EAR, and trade and economic sanctions maintained by the Office of Foreign Assets Control, or OFAC. As such, an export license may be required to export or re-export our products and services to certain countries, end-users, and end-uses. Because we incorporate encryption functionality into some of our products, we also are subject to certain U.S. export control laws that apply to encryption items. If we fail to comply with such U.S. export controls laws and regulations, U.S. economic sanctions, or other similar laws, 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 our export or import privileges. Obtaining the necessary export license for a particular sale or offering may not be possible and may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, U.S. export control laws and economic sanctions prohibit the export of products and services to certain U.S. embargoed or sanctioned countries and persons, as well as for prohibited end-uses. Monitoring and ensuring compliance with these complex U.S. export control laws is particularly challenging because our offerings are widely distributed throughout the world and are available for download without registration. Even though we take precautions to ensure that we and our partners comply with all relevant export control laws and regulations, any failure by us or our partners to comply with such laws and regulations could have negative consequences for us, including reputational harm, government investigations, and penalties.

In addition, various countries regulate the import of certain encryption products and technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our end-customers' ability to implement our products or services in those countries. Changes in our products and services or changes in export and import regulations in such countries may create delays in the introduction of our products into international markets, prevent our end-customers with international operations from deploying our products globally, or, in some cases, prevent or delay the export or import of our products to certain countries, governments, or persons altogether. Any change in export or import laws or regulations, economic sanctions, or related legislation, shift in the enforcement or scope of existing export, import, or sanctions laws or regulations, or change in the countries, governments, persons, or technologies targeted by such export, import, or sanctions laws or regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products and services to, existing or potential end-customers with international operations. Any decreased use of our products or services or limitation on our ability to export to or sell our products and services in international markets could adversely affect our business, financial condition, and operating results.

Failure to comply with anti-bribery and anti-corruption laws, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the FCPA, the U.K. Bribery Act, and other anti-corruption, anti-bribery, and anti-money laundering laws in various jurisdictions, both domestic and abroad. We leverage third parties, including channel partners, to sell our offerings and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, we cannot assure you that all of our employees, representatives, contractors, partners, and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any allegations or violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, operating results, and prospects. Responding to any investigation or action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

Changes in laws and regulations related to the internet or changes in the internet infrastructure itself may diminish the demand for our products, and could adversely affect our business, results of operations, and financial condition.

The future success of our business depends upon the continued use of the internet as a primary medium for commerce, communications, and business applications. Federal, state, or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. Changes in these laws or regulations could require us to modify our products and platform in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees, or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally or result in reductions in the demand for internet-based products such as our products and platform. In addition, the use of the internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the internet and its acceptance as a business tool has been adversely affected by “viruses,” “worms,” and similar malicious programs. If use of the internet is reduced by these or other issues, then demand for our products could decline, which could adversely affect our business, results of operations, and financial condition.

Any legal proceedings or claims against us could be costly and time consuming to defend and could harm our reputation regardless of the outcome.

We are and may in the future become subject to legal proceedings and claims that arise in the ordinary course of business, including patent infringement, other intellectual property, privacy and data protection, data security, employment, securities, contractual rights, torts, or other legal claims. Such matters can be time-consuming, divert management’s attention and resources, cause us to incur significant expenses or liability, or require us to change our business practices. In addition, the expense of litigation and the timing of this expense from period to period are difficult to estimate, subject to change, and could adversely affect our financial condition and results of operations. Because of the potential risks, expenses, and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by entering into settlement agreements. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could expose us to greater than anticipated tax liabilities.

Our income tax obligations are based in part on our corporate structure and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions may aggressively interpret their laws in an effort to raise additional tax revenue. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and results of operations. It is possible that tax authorities may disagree with certain positions we have taken and any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. Further, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

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

As of January 31, 2024, we had U.S. federal and state net operating loss carryforwards of $690.4 million and $602.2 million, respectively. The U.S. federal net operating loss does not expire since all balances relate to losses incurred in tax years beginning after December 31, 2017, whereas state net operating losses will start expiring in 2026, respectively. Limitations imposed by the applicable jurisdictions on our ability to utilize net operating loss carryforwards could cause income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such net operating loss carryforwards to expire unused, in each case reducing or eliminating the benefit of such net operating loss carryforwards. For example, recently enacted California legislation limits the use of state net operating loss carryforwards for tax years beginning on or after January 1, 2024 and before January 1, 2027. Furthermore, we may not be able to generate sufficient taxable income to utilize our net operating loss carryforwards before they expire. If any of these events occur, we may not derive some or all of the expected benefits from our net operating loss carryforwards.

Utilization of our net operating loss carryforwards and other tax attributes, such as research and development tax credits, may be subject to annual limitations, or could be subject to other limitations on utilization or benefit due to the ownership change limitations provided by Sections 382 and 383 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, and other similar provisions. Under Sections 382 and 383 of the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income may be limited. In general, an “ownership change” will occur if there is a cumulative change in our ownership by “5-percent stockholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We may have experienced various ownership changes, as defined by the Code, as a result of past financing transactions (or other activities), and we may experience ownership changes in the future as a result of subsequent changes in our stock ownership, some of which may be outside our control. Accordingly, our ability to use our net operating loss carryforwards and other tax attributes may be limited.

Further, the Tax Cuts and Jobs Act of 2017, as modified by the Coronavirus Aid, Relief, and Economic Security Act of 2020, or the Tax Act, changed the federal rules governing net operating loss carryforwards. For net operating loss carryforwards arising in tax years beginning after December 31, 2017, the Tax Act allows such net operating losses to be carried forward indefinitely but limits a taxpayer’s ability to use those carryforwards in tax years beginning after December 31, 2020, to 80% of taxable income for the tax year. Net operating loss carryforwards generated in tax years beginning before January 1, 2018, will not be subject to the Tax Act’s 80% taxable income limitation, but will continue to have a twenty-year carryforward period. As such, our net operating loss carryforwards and other tax assets could expire before utilization and could be subject to limitations, which could harm our business, revenue, and financial results.

Our corporate structure and intercompany arrangements are subject to the tax laws of various jurisdictions, and we could be obligated to pay additional taxes, which would harm our business and results of operations.

Based on our current corporate structure, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially due to changes in applicable tax principles, including increased tax rates, new tax laws, or revised interpretations of existing tax laws and precedents. In addition, the authorities in the jurisdictions in which we operate through our subsidiaries could review our tax returns or require us to file tax returns in jurisdictions in which we are not currently filing, and could impose additional tax, interest, and penalties. These authorities could also claim that various withholding requirements apply to us or our subsidiaries, assert that benefits of tax treaties are not available to us or our subsidiaries, or challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing. The relevant taxing authorities may determine that the manner in which we operate our business does not achieve the intended tax consequences. If such a disagreement was to occur, and our position was not sustained, we could be required to pay additional taxes, interest, and penalties. Any increase in the amount of taxes we pay or that are imposed on us could increase our worldwide effective tax rate and harm our business and results of operations.

The enactment of tax legislation implementing changes in the United States and other jurisdictions or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Legislation or other changes to tax laws of the United States and other jurisdictions could impact the tax treatment of our earnings. For example, the Tax Act has eliminated the option to deduct research and development expenditures currently and instead requires taxpayers to capitalize and amortize such expenditures over five or fifteen years, for U.S.-based and non-U.S. based research expenditures, respectively, beginning in 2022. Further, in August 2022 the United States enacted the Inflation Reduction Act of 2022, or the IRA, which introduced a 15% minimum tax on adjusted book income over one billion, and a 1% excise tax on stock buybacks. We do not currently expect the IRA will have a material impact on our income tax liability. Further, the Organization for Economic Cooperation and Development has proposed implementing a global minimum tax of 15%, which has been agreed to by over 136 countries. The Council of the European Union has adopted this proposed 15% global minimum tax, which has been implemented into the domestic laws of some jurisdictions, effective for fiscal years beginning on or after December 31, 2023. Due to expansion of our international business activities, such changes, as well as regulations and legal decisions interpreting and applying these changes may increase our worldwide effective tax rate and adversely affect our financial position and results of operations.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added, or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operation.

We may not collect sales and use, value added, or similar taxes in all jurisdictions in which we are deemed to have sales, and we have been advised that such taxes are not applicable to our products in certain jurisdictions. Sales and use, value added, and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties, and interest, to us or our end-customers for the past amounts, and we may be required to collect such taxes in the future. If we are unsuccessful in collecting such taxes from our end-customers, we could be held liable for such costs. Such tax assessments, penalties and interest, or future requirements may adversely affect our results of operations.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of investors.

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in those consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue, and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below our publicly announced guidance or the expectations of investors. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to the determination of stand-alone selling prices of our performance obligations in revenue agreements, measurement of stock-based compensation expense, the capitalization and estimated period of benefit of deferred contract acquisition costs, and accounting for income taxes including deferred tax assets and liabilities.

Changes in accounting principles and guidance could result in unfavorable accounting charges or effects.

We prepare our consolidated financial statements in accordance with principles generally accepted in the United States. These principles are subject to interpretation by the SEC and various bodies formed to create and interpret appropriate accounting principles and guidance. Changes in existing accounting rules or practices, new accounting pronouncements rules, or varying interpretations of current accounting pronouncements practice could harm our results of operations or the manner in which we conduct our business. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective. GAAP is subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and affect the reporting of transactions completed before the announcement of a change. Additionally, if there are changes to certain of our facts-and-circumstances or if regulators changed their interpretation, we might be required to change the way we report our financial results.

General Risks Related to Us

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 business, financial condition, and results of operations.

Subject to contractual restrictions set forth in the Merger Agreement, we may in the future acquire or invest in businesses, joint ventures, and platform technologies that we believe could complement or expand our platform, enhance our technology, or otherwise offer growth opportunities. We have limited experience and expertise regarding acquisitions, and we may devote resources to exploring larger and more complex acquisitions and investments than we have previously attempted. Any such acquisitions or investments 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, personnel, or operations of any acquired companies, particularly if the key personnel of an 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. In addition, we have limited experience in acquiring other businesses. If an acquired business fails to meet our expectations, our operating results, and business and financial position may suffer. We may not be able to find and identify desirable acquisition targets, we may incorrectly estimate the value of an acquisition target, and we may not be successful in entering into an agreement with any particular target. Further, any such transactions that we close may not result in the synergies or other benefits we expect to achieve, including the introduction of new products or enhancements to existing products, which could result in substantial impairment charges. In connection with these types of transactions and subject to the contractual restrictions set forth in the Merger Agreement, we may issue additional equity securities that would dilute our stockholders, or incur debt, which could adversely affect our results of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to maintain accurate financial records prevent fraud, or comply with applicable regulations, and investor confidence may, therefore, be adversely affected.

We maintain internal control over financial reporting designed to provide reasonable assurance regarding the preparation of financial statements in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements or prevent all fraud. Moreover, we may be subject to material weaknesses in such internal controls. Our design and implementation of internal controls is time-consuming, costly, and complicated. If we fail to maintain adequate internal control over financial reporting, we may suffer inaccuracies in our financial statements, we may be subject to increased likelihood of fraud, and investors may lose confidence in the accuracy and completeness of our financial statements, any of which could require additional financial and management resources.

Further, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act. We expect that the requirements of these regulations will continue to increase our legal, accounting, and financial compliance costs and make certain activities more difficult, time-consuming, and costly. We are required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are therefore required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Our independent registered public accounting firm must also formally attest to the effectiveness of our internal control over financial reporting. Any failure to maintain effective disclosure controls and internal control over financial reporting could have an adverse effect on our business, financial condition and results of operations and could cause a decline in the market price of our Class A common stock.

Our failure to maintain capital at our current level, raise additional capital, or generate the capital necessary to expand our operations and invest in new products could reduce our ability to compete and could harm our business.

Historically, we have financed our operations primarily through the sale of our equity securities as well as payments received from customers using our products and services. We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or otherwise enhance our offerings, improve our operating infrastructure, or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to current holders of our securities. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms that are favorable to us, if at all.

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

We review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. An adverse change in market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or intangible assets. Any such charges may adversely affect our results of operations.

We are exposed to fluctuations in currency exchange rates, and interest rates, and inflation, which could negatively affect our results of operations and our ability to invest and hold our cash.

Our sales are denominated in U.S. dollars, and therefore our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our platform to our customers outside of the United States, which could adversely affect our results of operations. In addition, an increasing portion of our operating expenses is incurred outside of the United States.

These operating expenses are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates. In the future, we expect to have sales denominated in currencies other than the U.S. dollar, which will subject our revenue to foreign currency risk. If we are not able to successfully hedge against the risks associated with currency fluctuations, our results of operations could be adversely affected.

The United States has recently experienced historically high levels of inflation. If the inflation rate continues to increase, such as increases in the costs of labor and supplies, it will affect our expenses, such as employee compensation which accounts for a significant portion of our operating expenses. Additionally, the United States is experiencing historically low unemployment rates, which in turn, creates a competitive wage environment that may increase our operating costs. To the extent inflation leads to rising interest rates, resulting in higher borrowing costs to us, and has other adverse effects on the market, it may adversely affect our consolidated financial condition and results of operations.

Catastrophic events, or man-made problems such as terrorism or climate change, may disrupt our business.

A significant natural disaster, such as an earthquake, fire, flood, or significant power outage, and the risks associated with climate change could have an adverse impact on our business, results of operations, and financial condition. We have a number of our employees and executive officers located in the San Francisco Bay Area, a region known for seismic activity, drought, and wildfires, and the resultant air quality impacts and power outages associated with such wildfires. Furthermore, it is more difficult to mitigate the impact of these events on our employees while they work from home as we have a largely remote workforce.

In addition, acts of terrorism, pandemics, such as the outbreak of the novel coronavirus or another public health crisis, protests, riots, and the increasing frequency and impact of extreme weather events on critical infrastructure in the U.S. and elsewhere have the potential to disrupt our business, the business of our third-party suppliers, and the business of our customers, and may cause us to experience higher attrition, losses, and additional costs to maintain or resume operations. Additionally, any disruption in the business of our partners or customers that affects sales in a given fiscal quarter could have a significant adverse impact on our quarterly results for that and future quarters. All of these risks may increase further if our response to catastrophic events proves inadequate.

In February 2022, armed conflict escalated between Russia and Ukraine. The sanctions announced by the U.S. and other countries against Russia, following Russia's invasion of Ukraine, to date include restrictions on selling or importing goods, services, or technology in or from affected regions and travel bans and asset freezes impacting connected individuals and political, military, business, and financial organizations in Russia. The United States and other countries could impose wider sanctions and take other actions should the conflict further escalate. It is not possible to predict the broader consequences of this conflict, which could include further sanctions, embargoes, regional instability, prolonged periods of higher inflation, geopolitical shifts, and adverse effects on macroeconomic conditions, currency exchange rates, and financial markets, all of which could have a material adverse effect on our business, financial condition, and results of operations.

Health epidemics could in the future have an adverse impact on our business, operations, and the markets and communities in which we, our partners, and customers operate.

Our business and operations could be adversely affected by health epidemics impacting the markets and communities in which we, our partners, and customers operate.

Health epidemics are also a contributing factor that could lead to existing and potential customers accelerating transitions to the cloud. However, if customers do not transition to the cloud at anticipated rates, we may not experience these anticipated benefits.

The extent of the impact of health epidemics on our customers and our customers' response to the epidemics is difficult to assess or predict, and we may be unable to accurately forecast our revenues or financial results, especially when the long-term impact of the epidemic is uncertain. Our results of operations could be materially above or below our forecasts, which could adversely affect our results of operations, disappoint analysts and investors, and/or cause our stock price to decline.

The ultimate impact of health epidemics is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, operations, ability to access capital, or the global economy as a whole. There is also no guarantee a future outbreak of any widespread epidemics will not occur, or that the global economy will recover, either of which could harm our business.

Risks Related to the Ownership of our Common Stock

The market price for our Class A common stock may be volatile or may decline regardless of our operating performance.

The market price of our Class A common stock may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, many of which are beyond our control, including:

- actual or anticipated changes or fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- announcements by us or our competitors of new offerings or new or terminated significant contracts, commercial relationships, or capital commitments;
- industry or financial analyst or investor reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- future sales or expected future sales of shares of our Class A common stock;
- investor perceptions of us and the industries in which we operate;
- price and volume fluctuations in the overall stock market from time to time;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- failure of industry or financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property rights or our solutions, or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- actual or perceived breaches of, or failures relating to, privacy, data protection, or data security;
- interruptions, delays, or outages of our platform;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;

- any major changes in our management or our board of directors;
- general economic conditions and slow or negative growth of our markets; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

The dual-class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to the initial public offering, including our executive officers, employees, and directors and their affiliates, and limiting your ability to influence corporate matters, which could adversely affect the trading price of our Class A common stock.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of October 31, 2024, Armon Dadgar, our co-founder, holds and/or controls approximately 26% of the voting power of our outstanding common stock, and our other executive officers and directors and their affiliates together hold and/or control approximately 62% of the voting power of our outstanding common stock. As a result, our executive officers, directors, and other affiliates have significant influence over our management and affairs and over all matters requiring stockholder approval, including election of directors and significant corporate transactions, such as a merger or other sale of the company or our assets, including the proposed Merger with IBM, for the foreseeable future. Our other co-founder Mitchell Hashimoto ceased to be an employee of HashiCorp in fiscal 2024 and has no significant influence on the voting power of our outstanding common stock.

In addition, the holders of Class B common stock collectively will continue to be able to control all matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the outstanding shares of our common stock. Because of the 10-to-1 voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock even when the shares of Class B common stock represent as little as 10% of all outstanding shares of our Class A common stock and Class B common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected.

Future transfers or voluntary conversions by holders of shares of Class B common stock will generally result in those shares converting to shares of Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. Certain permitted transfers, as specified in our amended and restated certificate of incorporation, will not result in shares of Class B common stock automatically converting to shares of Class A common stock, including certain estate planning transfers as well as transfers to our founders or our founders’ estates or heirs upon death or incapacity of such founder.

FTSE Russell does not allow most newly public companies with dual or multi-class capital structures to be included in their indices. Also, in 2017, MSCI, a leading stock index provider, opened public consultations on its treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from certain of its indices; however, in October 2018, MSCI announced its decision to include equity securities “with unequal voting structures” in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. Under the announced policies, our dual-class capital structure makes us ineligible for inclusion in certain indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track these indices will not be investing in our stock. In addition, we cannot assure you that other stock indices will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indices, exclusion from certain stock indices would likely preclude investment by many of these funds and would make our Class A common stock less attractive to other investors. As a result, the trading price, volume, and liquidity of our Class A common stock could be adversely affected.

Future sales of substantial amounts of our Class A common stock in the public market, or the perception that they might occur, could reduce the price that our Class A common stock might otherwise attain.

Future sales of a substantial number of shares of Class A common stock in the public market, particularly sales by our directors, executive officers, and significant stockholders, or the perception that these sales could occur, could adversely affect the market price of our Class A common stock and may make it more difficult for you to sell your shares of

Class A common stock at a time and price that you deem appropriate. Many of our equity holders who held our capital stock prior to completion of our initial public offering, or IPO have substantial unrecognized gains on the value of the equity they hold based on recent market prices of our shares of Class A common stock, and therefore, they may take steps to sell their shares or otherwise secure the unrecognized gains on those shares. We are unable to predict the timing of or the effect that such sales may have on the prevailing market price of our Class A common stock.

Further, as of October 31, 2024, up to 4,192,208 shares of our Class B common stock and up to 13,230,774 shares of our Class A common stock may be issued upon exercise of outstanding stock options or vesting and settlement of outstanding restricted stock units, or RSUs, and 36,663,374 shares of our Class A common stock are available for future issuance under our 2021 Equity Incentive Plan and 2021 Employee Stock Purchase Plan, and will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, exercise limitations, and Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act. We have registered all of the shares of Class A common stock issuable upon exercise of outstanding options and all shares of Class A common stock issuable upon vesting and settlement of RSUs, as well as other equity incentive awards we may grant in the future for public resale under the Securities Act. Shares of Class A common stock will become eligible for sale in the public market to the extent such options are exercised and RSUs settle, subject to compliance with applicable securities laws. If these additional shares of Class A common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our Class A common stock could decline.

Additional stock issuances could result in significant dilution to our stockholders and additional issuances of debt or senior equity securities could impair the value of our Class A common stock.

We may issue common stock or securities convertible into common stock from time to time in connection with a financing, acquisition, investment, our share incentive plans, or otherwise. Any such issuance could result in dilution to our existing stockholders unless pre-emptive rights exist. The amount of dilution could be substantial depending upon the size of the issuances or exercises.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the market price of our Class A common stock.

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

- any amendments to our amended and restated certificate of incorporation or our amended and restated bylaws requires the approval of at least 66-2/3% of our then-outstanding voting power;
- our board of directors is classified into three classes of directors with staggered three-year terms and stockholders will only be able to remove directors from office for cause;
- our stockholders will only be able to take action at a meeting of stockholders and will not be able to take action by written consent for any matter;
- our amended and restated certificate of incorporation does not provide for cumulative voting;
- vacancies on our board of directors will be able to be filled only by our board of directors and not by stockholders;
- a special meeting of our stockholders may only be called by an officer pursuant to a resolution adopted by our board of directors, the chairperson of our board of directors, our Chief Executive Officer, or our President (in the absence of a chief executive officer);
- certain litigation against us can only be brought in Delaware, unless we consent in writing to the selection of an alternative forum;

- our amended and restated certificate of incorporation authorizes 100,000,000 shares of undesignated preferred stock, the terms of which may be established and shares of which may be issued without further action by our stockholders; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

These provisions, alone or together, could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, could limit the opportunity for our stockholders to receive a premium for their shares of our Class A common stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware and the federal district courts of the United States will be the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another State court in Delaware or the federal district court for the District of Delaware) is the exclusive forum for the following (except for any claim as to which such court determines that there is an indispensable party not subject to the jurisdiction of such court (and the indispensable party does not consent to the personal jurisdiction of such court within ten days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than such court or for which such court does not have subject matter jurisdiction):

- any derivative action or proceeding brought on behalf of us;
- any action asserting a claim of breach of a fiduciary duty;
- any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws (as either may be amended from time to time); and
- any action asserting a claim against us that is governed by the internal affairs doctrine.

This provision would not apply to suits brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended, or the Exchange Act, or any other claim for which the U.S. federal courts have exclusive jurisdiction.

Our amended and restated bylaws further provide that the federal district courts of the U.S. will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

These exclusive-forum provisions 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. Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to these provisions. There is uncertainty as to whether a court would enforce such provisions, and the enforceability of similar choice of forum provisions in other companies' charter documents has been challenged in legal proceedings. We also note that stockholders cannot waive compliance (or consent to noncompliance) with the federal securities laws and the rules and regulations thereunder. It is possible that a court could find these types of provisions to be inapplicable or unenforceable, and if a court were to find either exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could significantly harm our business.

If industry or financial analysts do not publish research or reports about our business, or if they issue inaccurate or unfavorable research about our business, the market price and trading volume of our Class A common stock could decline.

The market price and trading volume of our Class A common stock is heavily influenced by the way analysts interpret our financial information and other disclosures. We do not control these analysts, or the content and opinions included in their reports. If industry analysts cease coverage of us, our stock price would be negatively affected. Further, if any of the analysts who cover us do not publish research or reports about our business, downgrade our Class A common stock, or issue an inaccurate or unfavorable opinion regarding our company, our share price would likely decline. In addition, the share prices of many companies in the technology industry have declined significantly after those companies have failed to meet, or significantly exceed, the financial guidance publicly announced by the companies or the expectations of analysts. If our financial results fail to meet, or significantly exceed, our announced guidance or the expectations of analysts or public investors, analysts could downgrade our Class A common stock or publish unfavorable research about us. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, our visibility in the financial markets could decrease, which in turn could cause our share price or trading volume to decline.

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

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends in the foreseeable future. Further, our ability to pay dividends on our capital stock in the future is limited by contractual restrictions under the terms of the Merger Agreement. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, contractual restrictions, capital requirements, general business conditions and other factors that our board of directors may deem relevant. As a result, stockholders must rely on sales of their capital stock after price appreciation as the only way to realize any future gains on their investment; because there is no market for any of our equity securities, stockholders may not be able to sell their capital stock when desired, or at all.

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.

Rule 10b5-1 Trading Plans

No officers or directors, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” as defined in Regulation S-K Item 408, during the third quarter of fiscal 2025.

Item 6. Exhibits.

The documents listed below are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
2.1**	Agreement and Plan of Merger, dated as of April 24, 2024, by and among International Business Machines Corporation, McCloud Merger Sub, Inc, and the Registrant.	8-K	001-41121	2.1	4/25/2024
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	8-K	001-41121	3.1	12/13/2021
3.2	Amended and Restated Bylaws of the Registrant.	8-K	001-41121	3.2	12/13/2021
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*†	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2*†	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).				

* Filed herewith
** Certain information in this document has been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant will furnish supplementally a copy of any such information to the Securities and Exchange Commission upon request.
† The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

Date: December 5, 2024	By:	/s/ David McJannet
		David McJannet
		Chief Executive Officer (Principal Executive Officer)
Date: December 5, 2024	By:	/s/ Werner Schwock
		Werner Schwock
		Interim Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

**CERTIFICATION 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**

I, David McJannet, certify that:

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

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

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

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

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

(ii) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: December 5, 2024	By:	/s/ David McJannet
		David McJannet
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION 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

I, Werner Schwock, certify that:

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

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

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

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

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

(ii) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles

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

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

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

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

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

Date: December 5, 2024

By: /s/ Werner Schwock
Werner Schwock
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of HashiCorp, Inc. (the "Company") on Form 10-Q for the period ending October 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: December 5, 2024

By: /s/ David McJannet
David McJannet
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of HashiCorp, Inc. (the “Company”) on Form 10-Q for the period ending October 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: December 5, 2024	By:	/s/ Werner Schwock
		Werner Schwock
		Interim Chief Financial Officer
		(Principal Financial and Accounting Officer)