2020 Annual Report

Security is always evolving, and so are we.

Fellow Stockholders,

It is no surprise that trying times often pose the greatest test of values that we as individuals and organizations must face, and as I reflect back it is clear that 2020 was no exception. It was a year that tested Rapid7's values in a multitude of ways, and I am proud of how our team responded. From supporting our customers who were under duress from the threats of a global pandemic, recession, and escalating cyber attacks to investing in our employees health and wellness under difficult circumstances, our organization lived our core values throughout the year.

At Rapid7, the strength of our team has been the cornerstone of our success for the better part of 20 years, and that was once again validated during 2020. Today, because of their contributions, we are helping customers around the world advance securely into a digital first, cloud-enabled world where they face fundamentally new challenges in regard to the pace of technology adoption.

We recognized this trend early in the pandemic period and made active decisions to double down our focus on supporting our customers to enable their success. Understanding that these investments in our people and our customers can, at times, have modest short-term impacts, we believed that taking care of our customers engenders deeper engagement and partnerships that generate greater long-term value for all of our stakeholders.

This has since been proven out by the great success we saw in 2020 as our customers increasingly turned to Rapid7's Insight Platform to help solve their growing security operations (SecOps) challenges. Our success in expanding customer adoption of our Platform last year is rooted in Rapid7's long standing commitment to technology investment and innovation. As I shared with you in early 2020, I believe it is critical, particularly during periods of challenge, that we not slow down or interrupt our pace of innovation. In fact, during 2020 Rapid7 accelerated our pace of innovation, investing not just in our existing leading technologies like Detection & Response and Vulnerability Risk Management, but also in new leading technologies like Cloud Security, anchored by our acquisition of Divvy Cloud Corporation, which we anticipate will help shape the security operations practices of the future.

These investments in our people, our customers, and our technology delivered a great outcome for our stakeholders in 2020 as full year annualized recurring revenue (ARR) grew 28% year-over-year to $433 million, exceeding our original 2020 ARR target provided in 2017 by over 20%. Moreover, we executed against our goals while remaining mindful of our dual focus on growth and profitability. As a result, we delivered positive non-GAAP operating profit in 2020 while navigating a volatile macro

environment and absorbing our largest acquisition to date.

As we look ahead, we continue to optimize around customers' needs to meet them where they are in the SecOps journey, with an emphasis on delivering a unified experience across our Insight Platform to help customers achieve better security outcomes and keep up with the rapid pace of innovation.

We will do this while continuing to invest in our employees, advocate for our customers and support our communities, remaining steadfast in our core values as we strive to deliver on our security mission while serving as an exemplar organization that creates value for our society. I am grateful for the contribution of all our stakeholders who have supported us on this journey, and I look forward to our continued partnership in the year ahead.

With Warm Regards,

Corey Thomas
Chairman & CEO
Rapid7

Non-GAAP operating margin is a non-GAAP metric, which is our non-GAAP income (loss) from operations divided by revenue. See the reconciliation of non-GAAP income (loss) from operations to its comparable GAAP measure in our Annual Report on Form 10-K for the year ended December 31, 2020 included herein.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

OR

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

Commission File Number 001-37496

RAPID7, INC.

(Exact name of registrant as specified in its charter)

Delaware	**35-2423994**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
120 Causeway Street Boston, MA	**02114**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (617) 247-1717

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	RPD	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Small 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 or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

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 June 30, 2020, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant, based on a closing price of $51.02 per share of the registrant's common stock as reported on The Nasdaq Global Market on June 30, 2020, was approximately $2,559,421,616. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant. The number of shares of registrant's common stock outstanding as of February 19, 2021 was 52,687,472.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2021 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including the sections entitled "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

• our ability to continue to add new customers, maintain existing customers and sell new products and professional services to new and existing customers;

• uncertain impacts that the COVID-19 pandemic may have on our business, strategy, operating results, financial condition and cash flows, as well as changes in overall level of software spending and volatility in the global economy;

• the effects of increased competition as well as innovations by new and existing competitors in our market;

• our ability to adapt to technological change and effectively enhance, innovate and scale our solutions;

• our ability to effectively manage or sustain our growth and to attain and sustain profitability;

• our ability to diversify our sources of revenue;

• potential acquisitions and integration of complementary business and technologies;

• our expected use of proceeds;

• our ability to maintain, or strengthen awareness of, our brand;

• perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to security breaches in our customers; systems, unscheduled downtime or outages;

• statements regarding future revenue, hiring plans, expenses, capital expenditures, capital requirements and stock performance;

• our ability to meet publicly announced guidance or other expectations about our business, key metrics and future operating results;

• our ability to maintain an adequate annualized recurring revenue growth;

• our ability to attract and retain qualified employees and key personnel and further expand our overall headcount;

• our ability to grow, both domestically and internationally;

• our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally including laws and regulations related to export compliance;

• our ability to maintain, protect and enhance our intellectual property;

• costs associated with defending intellectual property infringement and other claims; and

• the future trading prices of our common stock and the impact of securities analysts' reports on these prices.

These statements represent the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part I, Item 1A. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

As used in this report, the terms "Rapid7," the "company," "we," "us," and "our" mean Rapid7, Inc. and its subsidiaries unless the context indicates otherwise.

Summary of Risk Factors

Our business is subject to numerous risks and uncertainties, including those described in Item 1A "*Risk Factors*". These risks include, but are not limited to the following:

- The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition.
- Our quarterly operating results may vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.
- We are a rapidly growing company, which makes it difficult to evaluate our future operating and financial results and may increase the risk that we will not be successful.
- If we are unable to sustain our revenue growth rate, we may not achieve or maintain profitability in the future.
- Real or perceived failures, errors or defect in our solutions could adversely affect our brand and reputation, which could have an adverse effect on our business and results of operations.
- Our brand, reputation and ability to attract, retain and serve our customers are dependent in part upon the reliable performance of our products and network infrastructure.
- Our business and growth depend substantially on customers renewing their subscriptions with us. Any decline in our customer renewals or failure to convince customers to expand their use of our subscription offerings could adversely affect our future operating results.
- If we or our third party service providers experience a security breach or unauthorized parties otherwise obtain access to our customers' data, our reputation may be harmed, demand for our solutions may be reduced and we may incur significant liabilities.
- We face intense competition in our market.
- If we fail to manage our operations infrastructure, our customers may experience service outages and/or delays.
- A component of our growth strategy is dependent on our continued international expansion, which adds complexity to our operations.
- Because our products collect and store user and related information, domestic and international privacy and cyber security concerns, and other laws and regulations, could result in additional costs and liabilities to us or inhibit sales of our products.
- If our customers are unable to implement our products successfully, customer perceptions of our offerings may be impaired or our reputation and brand may suffer.
- We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.
- If we are not able to maintain and enhance our brand, our business and operating results may be adversely affected.
- Failure to maintain high-quality customer support could have a material adverse effect on our business.
- We are dependent on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.
- We rely on third-party software to operate certain functions of our business.
- We use third-party software and data that may be difficult to replace or that may cause errors or failures of our solutions, which could lead to lost customers or harm to our reputation and our operating results.
- Organizations may be reluctant to purchase our cloud-based offerings due to the actual or perceived vulnerability of cloud solutions.
- We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.
- Assertions by third parties of infringement or other violations by us of their intellectual property rights, whether or not correct, could result in significant costs and harm our business and operating results.
- We have a significant amount of debt that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur additional debt in the future, which may adversely affect our operations and financial results. We may not have sufficient cash flow from our business to pay our substantial debt when due.

The summary risk factors described above should be read together with the text of the full risk factors below in the section entitled "Risk Factors" and the other information set forth in this Annual Report on Form 10-K (Form 10-K), including our consolidated financial statements and the related notes, as well as in other documents that we file with the U.S. Securities and

Exchange Commission (SEC). The risks summarized above or described in full below are not the only risks that we face. Additional risks and uncertainties not precisely known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations, and future growth prospects.

PART I

Item 1. Business

Overview

Rapid7 is advancing security with visibility, analytics, and automation delivered through our Insight Platform. Our solutions simplify the complex, allowing security teams to work more effectively with IT and development to reduce vulnerabilities, monitor for misconfigurations and malicious behavior, investigate and shut down attacks, and automate routine tasks.

In the 20 years that Rapid7 has been in business, security companies and trends have come and gone, while broader technology innovation continues to advance rapidly. Every company is now a technology company, and rampant innovation inevitably creates security risk. The migration of businesses to the cloud, more distributed workforces and ubiquitous connected devices present security teams with an increasingly complex, ever-changing, and unpredictable attack surface.

We believe as cybersecurity challenges continue to rise exponentially, two key factors can prevent organizations from effectively managing their growing security exposure. First, the tools to manage complex security problems are often equally complicated to use. Second, there is a scarcity of cybersecurity professionals who are qualified to successfully manage these sophisticated tools. These two factors compound the difficulties that resource-constrained organizations face when attempting to minimize their security exposure, meet security compliance regulations and provide visibility to their leadership. We call the expanding divide between risk created through innovation and risk effectively managed by security teams the Security Achievement Gap.

We believe Rapid7 is uniquely positioned to improve how customer security challenges are addressed. All of our solutions and services are built with and supported by the expertise of our dedicated team of security researchers and consultants, who bring knowledge of attacker behavior and emerging vulnerabilities directly to customers. We also continue to invest in further simplifying our technology to improve usability, lowering the barrier for teams and organizations who lack resources to manage their security posture.

While our security technology is the foundation of our mission to make successful security accessible to all, technology alone will not solve today's cybersecurity challenges. Our ongoing commitment to researching and partnering with the technology community helps to curb new security risks born through innovation. We are also investing in under-served, at risk communities, like non-profits and hospitals, to better understand their needs and make security technology and services accessible. By continuously improving our technology, stemming the creation of risk in the community, and making security more usable and accessible, Rapid7 aims to close the Security Achievement Gap.

As of December 31, 2020, we had more than 9,700 customers that rely on Rapid7 technology, services, and research to improve security outcomes and securely advance their organizations. We have experienced strong revenue growth with revenue increasing from $157.4 million in 2016 to $411.5 million in 2020, representing a 27% compound annual growth rate.

In 2020, 2019 and 2018 recurring revenue, defined as revenue from term software licenses, content subscriptions, managed services, cloud-based subscriptions and maintenance and support, was 90%, 87% and 81%, respectively, of total revenue. We incurred net losses of $98.8 million, $53.8 million and $55.5 million in 2020, 2019 and 2018, respectively, as we continued to invest for long-term growth.

Our Solutions

We offer products across multiple pillars on our Insight Platform:

- **Vulnerability Risk Management:** Our industry-leading Vulnerability Risk Management (VRM) solutions provide clarity into risk across traditional and modern IT environments, and the capabilities and data to influence remediation teams and track progress. With built-in risk prioritization, IT-integrated remediation projects, tracking of goals and service level agreements, and pre-built automation workflows, our solutions are designed to not just enumerate risk, but also accelerate risk mitigation.
- **Incident Detection and Response:** Our industry-leading Incident Detection and Response (IDR) solutions are designed to enable organizations to rapidly detect and respond to cyber security incidents and breaches across physical, virtual and cloud assets. Equipped with user behavior analytics (UBA), attacker behavior analytics (ABA), network traffic analysis (NTA), end-point detection and response (EDR) and deception technology, our Security Information and Event Management (SIEM) solution is designed to provide comprehensive network visibility and accelerate threat investigation and response.

- **Application Security:** Our Application Security offerings provide dynamic application security testing and run-time application security monitoring and protection solutions that are designed to continuously analyze web applications for security vulnerabilities throughout a customer's software development life cycle.
- **Cloud Security:** Our Cloud Security solutions are designed to effectively manage and protect cloud and container environments. By combining continuous real-time monitoring with automation, our solutions quickly assess an organization's security and compliance posture and automate remediation of misconfigurations and policy violations to help deliver continuous security and compliance across multi-cloud environments.
- **Security Orchestration and Automation Response:** Our Security Orchestration and Automation Response (SOAR) solutions allow security teams to connect disparate solutions within their cyber security, IT and development operations and build automated workflows, without requiring code, to eliminate repetitive, manual and labor-intensive tasks, resulting in measurable time and cost savings.

Finally, to complement our products, we offer a range of managed services based on our software solutions and professional services, including penetration testing services, incident response services, security advisory services, and deployment and training.

Insight Platform

Our cloud-native Insight Platform is at the core of our product offerings. The platform was built using our extensive experience in collecting and analyzing data to enable our customers to create and manage analytics-driven cyber security risk management programs. By utilizing our powerful, proprietary analytics to assess and understand the context and relationships around users, IT assets and cyber threats within a customer's environment, our solutions make it easier for teams to identify and remediate vulnerabilities, monitor for misconfigurations and malicious behavior, investigate and shutdown attacks, and automate operations.

Our Insight Platform provides a high level of scalability. We leverage cloud technologies to achieve a scalable delivery model with a high degree of redundancy, fault tolerance, and cost-effectiveness.

We also designed our Insight Platform to provide a secure environment for our customers' data. We deploy a variety of technologies and practices that are designed to help ensure that the data collected from a customer's environment remains proprietary, secure and operational.

Insight Platform's Features:

Visibility: The Insight Platform allows security professionals to collect data once across their IT environment, enabling Security, IT, and development operations (DevOps) teams to collaborate effectively as they analyze shared data.

- **Unified Data Collection:** We designed the Insight Platform to allow customers to collect their data once and leverage that same data across multiple solutions, providing shared visibility across teams and reducing time to value for additional solutions. Our robust data collection architecture supports gathering a wide swath of operational data from endpoints to the cloud, including key data about assets and user-specific behavior, into a unified, searchable dataset.
- **Agentless and Agent-Based Architecture:** We developed our platform with flexible processing technologies that employ both agentless data collection and our own internally-developed endpoint agent technology, which enables rapid and seamless integration of our products into our customers' modern IT environments and provides security and IT professionals with instant visibility into their dynamic and rapidly-expanding IT ecosystem. Our lightweight endpoint Insight Agent is designed to automatically collect data from all endpoints, even those from remote workers and sensitive assets that cannot be actively scanned, or that rarely join the corporate network.
- **Endpoint Detection and Visibility:** With a universal lightweight agent and endpoint scanning, the Insight Platform provides real-time detection and the ability to proactively remediate IT environments, before a potential attack happens.
- **Network Traffic Analysis:** Network flow data illuminates environments and helps accelerate investigations. Our lightweight Network Sensor passively analyzes raw traffic to increase visibility into user activity, pinpoint real threats, and accelerate investigation with granular detail of attacker movement.
- **Cloud and Virtual Infrastructure Assessment:** Modern networks and infrastructures are constantly changing. The Insight Platform integrates with cloud services and virtual infrastructure to help ensure that technology is configured securely and that security professionals know when new devices are brought online.
- **Attack Surface Monitoring with Project Sonar:** As organizations grow and infrastructure becomes more complex, maintaining visibility into attack surface becomes more challenging. Our platform directly integrates with Project

Sonar, a Rapid7 research project that regularly scans the public internet, to gain insights into global exposure to common vulnerabilities. This capability also enables security professionals to identify previously unknown, externally facing assets connected to the internet.

Analytics: Increasing IT environment complexity coupled with a severe lack of cyber security professionals is overwhelming security and IT teams, who are struggling to deal with false positives and maintain adequate levels of cyber security. Our Insight Platform addresses these challenges with the following features:

- **User and Attacker Behavior Analytics:** Our Insight Platform incorporates extensive user behavior analytics (UBA) and attacker behavior analytics (ABA) to provide rapid context around users, attackers and assets involved in an incident, enabling organizations to more quickly respond to, contain and mitigate breaches. Our platform incorporates comprehensive UBA to create a behavior profile for each user and correlates every event with a user, asset or application to detect compromised credentials, lateral movement and other malicious behavior.
- **Risk Prioritization and Management:** With built-in risk assessment and risk prioritization, IT-integrated remediation projects, and pre-built automation workflows, the Insight Platform provides a granular view of what is relevant and critical today, to help ensure risks can be prioritized and mitigated more effectively.
- **Threat Detection:** Our Insight Platform includes integrated threat feeds, informed by public data as well as proprietary threat intelligence and adversary research, and continuously gathers and combines them with a customer's IT environment, to show threats that are most relevant to them.
- **Centralized Log Management:** Our cloud-based platform correlates millions of daily events in any IT environment directly to the users and assets behind them to highlight risk across the environment and help prioritize where to search and automate compliance without the requirement of extensive hardware.
- **Deception Technology:** Monitoring solutions that only analyze log files leave traces of the attacker unfound. Through our deep understanding of attacker behavior, our Insight Platform provides not only UBA and endpoint detection, but also easy-to-deploy intruder traps. These include honeypots, honey users, honey credentials, and honey files, all crafted to identify malicious behavior earlier in the attack chain.
- **Industry Experts:** With a highly specialized team of penetration testing, incident response, threat hunting and security operation center experts, we believe we are uniquely positioned to stay ahead of emerging threats and help detect threats quickly across a customer's entire IT ecosystem.

Automation: Our Insight Platform unites technology stacks and allows security operations teams to connect disparate solutions within their cyber security, IT and development operations.

- **Built-in Workflows:** Security tools have not historically been built to work well together, and without deep programming knowledge, building automation between tools was nearly impossible. With our Insight Platform, security professionals can streamline their operations with connect-and-go workflows, without requiring any code, resulting in significant time and cost savings. Examples of these workflows include assisted patching and automated containment.
- **Highly Customizable:** The Insight Platform not only has a wide range of pre-built workflows and integrations, it is also highly extensible. With approximately 300 plugins to connect security tools and easily customizable connect-and-go workflows, the Insight Platform frees up security teams to tackle other challenges, while still leveraging human decision points when it is most critical.

Insight Platform Product Offerings

We offer our Insight Platform solutions as software-as-a-service products, on a subscription basis. Our Insight Platform products are available globally and reduce the need for customers to manage large, complex, data infrastructure. We offer the following cloud products across the main pillars of Security Operations (SecOps):

InsightVM: Utilizing the power of our Insight Platform, InsightVM is designed to provide a fully available, scalable, and efficient way to collect vulnerability data, prioritize risk and automate remediation.

InsightVM is designed to provide prioritized guidance based on customized threat models; dynamic live dashboards that are easily customizable and queried; lightweight agents for continuous visibility; integration with cloud services, virtual infrastructure and container repositories such as dockers; in-product integration with solutions such as ServiceNow, IBM Bigfix, Microsoft SCCM and Jira ticketing systems; and remediation workflow for assigning and tracking remediation progress within the product. Embedded workflows also allow Security and IT teams to automatically deploy compensating controls for vulnerabilities that cannot be patched.

InsightVM is offered through a cloud-based subscription or as a managed service. The managed service is known as Managed Vulnerability Risk Management, which provides our resource constrained customers with a fully outsourced option for leveraging our innovation, expertise and technology.

InsightIDR: InsightIDR, our Incident Detection and Response (IDR) solution, is designed to enable organizations to rapidly detect and respond to cyber security incidents and breaches across physical, virtual and cloud assets.

InsightIDR unifies SIEM, UBA, and endpoint detection to detect stealthy attacks across today's complex networks. It analyzes the billions of events that occur daily in organizations to reduce them to the important behaviors and deliver high-fidelity and prioritized alerts. In addition to identifying stealthy attacks often missed by other solutions, InsightIDR focuses the security team on issues that warrant investigation and reduces the time to investigate with its user correlation, powerful search and endpoint interrogation capabilities.

InsightIDR is designed to provide a cost-effective response to the need for SIEM. With our Metasploit community, research and incident response services, we are continually studying and identifying the latest attacker methods. We have found ways to increase accuracy, speed processes, and achieve greater confidence, even as attacker methods change. These include built-in deception capabilities such as honeypots and automated threat intelligence feeds that quickly alert our customers to new attacker behaviors seen in the wild by our own threat hunters.

Unlike most SIEMs, InsightIDR also provides the capability to seamlessly act on many threats automatically, thus further reducing the time from detection to response. InsightIDR includes out-of-the-box automation workflows to improve analyst productivity such as automated containment to mitigate an attack. Additionally, with the Insight Agent, users can kill malicious processes or quarantine infected endpoints from the network. They can also use InsightIDR to take containment actions across Active Directory, Access Management, EDR, and firewall tools.

InsightIDR also offers modules for Enhanced Network Traffic Analysis and Enhanced Endpoint Telemetry. Enhanced Network Traffic Analysis continuously monitors network traffic at any location or site across your network. This data increases visibility across the attack surface and detects intrusions (or other potential security events) on the network. Enhanced Endpoint Telemetry is the collection of detailed activity logs that are sent to InsightIDR each time a process starts on a monitored endpoint. In short, these logs give visibility into all endpoint activity—whether events occurred before, during, or after a detection. With this holistic view into endpoint activity, customers can unlock custom use cases and enrich investigations in InsightIDR.

InsightIDR is offered through a cloud-based subscription or as a managed service. The managed service is known as Managed Detection and Response, a fully outsourced service that combines our team of expert analysts with InsightIDR. When attacks are found, customers are promptly informed of all known details and our team moves to incident response, providing security teams with detailed, easy-to-follow remediation steps tailored to the environment.

InsightAppSec: InsightAppSec provides comprehensive dynamic application security testing that continuously analyzes web applications for security vulnerabilities.

The key features include: a universal translator to enable IT security professionals to analyze complex applications; customized attack simulation capabilities that allow automatic testing of workflows such as shopping carts; scanning automation; attack replay, which allows replay of vulnerabilities in real time in order to verify that vulnerabilities are exploitable and that successful remediation has occurred; continuous site monitoring, which detects changes in application ecosystems and triggers a re-scan according to configurable settings; and integration with ticketing systems.

InsightAppSec enables integration with protection technologies to automatically generate web application firewalls (WAFs), which are custom rules that help to protect vulnerable applications while the vulnerabilities are being remediated. InsightAppSec supports most leading WAFs, including F5, Sourcefire and Imperva.

InsightAppSec is offered on a cloud-based subscription basis or as a managed service. The managed service is known as Managed Application Security and provides a fully outsourced option for application scanning and security testing.

InsightConnect: InsightConnect is our SOAR solution that is used by security professionals to connect their many disparate solutions and automate workflows to increase the speed with which they can identify risk and respond to incidents. With a growing library of approximately 300 plugins to connect tools and easily customizable connect-and-go workflows, it allows our customers to automate manual and tedious tasks, while still leveraging their expertise when it is most critical, thereby saving time and improving efficiency. InsightConnect is offered on a cloud-based subscription basis.

Other Products

DivvyCloud: DivvyCloud is a Cloud Security Posture Management solution designed to minimize security and compliance risk for an organization's cloud infrastructure. DivvyCloud performs real-time, continuous discovery and analysis of cloud and container infrastructure resources allowing customers to identify security risks, threats and policy compliance violations such as data breaches, malicious insiders, account hijacking, insecure interfaces, and weak authentication. The product then takes automatic action to remediate identified security and compliance issues based on user-defined and/or automated parameters before they are exploited. DivvyCloud is offered on a term license subscription basis.

Nexpose: Nexpose is an on-premise version of our Vulnerability Risk Management solution, that enables customers to assess and remediate their overall exposure to cyber risk across their increasingly complex IT environments. Nexpose is offered through term-based software licenses.

AppSpider: AppSpider is the on-premise version of our Application Security Testing solution that provides comprehensive dynamic application security testing that continuously analyzes web applications for security vulnerabilities. AppSpider is offered through term-based software licenses.

Metasploit**:** Metasploit is an industry-leading penetration testing software solution, developed on an open source framework. Metasploit can be used to safely simulate attacks on an organization's network in order to uncover vulnerabilities before they are exploited by cyber attackers and assess the effectiveness of an organization's existing defenses, security controls and mitigation efforts. The Metasploit open source framework is freely available and geared toward developers and security researchers. We also offer Metasploit Pro, the commercial penetration testing software based on the Metasploit framework, through term-based software licenses.

InsightOps: InsightOps simplifies IT infrastructure monitoring and troubleshooting by centralizing data from across a customer's network into one secure location. With scalable and cost-effective architecture and the ability to bring together asset visibility and log management, InsightOps enables organizations to store and search structured, semi-structured and unstructured data in real time, enabling DevOps and IT professionals to centralize, search and monitor their log data in order to investigate anomalies, troubleshoot issues and conduct root cause analysis. InsightOps is offered on a cloud-based subscription basis.

Professional Services

Our professional services offerings enhance our ability to serve as a trusted advisor in assisting organizations to think proactively about their security programs and implement strategic, analytics-driven security strategies. We believe that our role as trusted advisor helps drive better security outcomes for our customers, as well as loyalty and further usage of our products. Our professional services offerings include, but are not limited to, Penetration Testing, Cyber Security Maturity Assessments, Security & Incident Response Program Development Services, IoT & Internet Embedded Device testing as well as Threat Modeling, TableTop Exercises and Incident Response services. In addition, we offer deployment and training services related to our platform, to further help customers operationalize and customize their platform experience.

For example, our Cyber Security Maturity Assessments provide our customers with a view of their current security posture, an objective review of their existing plans, and a guide to their strategic planning. By accessing our security talent, we help organizations develop an approach and road map to further mature and strengthen their program efforts - often simplifying the otherwise complex.

Our Growth Strategy

Our goal is to make advanced security accessible to resource constrained enterprises of all sizes. The main drivers of our growth strategy are:

- **Continued investments in product development:** We intend to continue to invest heavily in our product development to enhance our Insight Platform and deliver additional features, which will allow us to further penetrate and grow our addressable markets.
- **Grow our customer base:** We believe we have a strong opportunity to address the security needs of resource constrained organizations of any size. We will continue to increase investments in our sales and marketing efforts and foster the growth of our channel relationships to enable acquisition of these customers.
- **Upsell and cross-sell to our existing customer base:** We see significant opportunity to deepen our relationship with our existing customers. With a strong focus on customer experience, satisfaction, and the value proposition of our Insight Platform, we intend to expand customers' usage of products they own (upsell) and help them adopt additional products (cross-sell).
- **Further strengthen our customer renewal rate:** We intend to continue to drive customer satisfaction and renewals by offering professional services, support, and strong investments in customer success functions. Our customer success teams provide expertise to help our customers improve their security outcomes, leading to higher customer satisfaction.

- **Expand our partner ecosystem:** We continue to expand our strategic partnerships with our channel partners and system integrators. Technology alliances with partners such as ServiceNow, Microsoft, AWS and Palo Alto Networks enable our customers to succeed with our technology and platform in their ecosystem and deliver more value from their security operations program.
- **International expansion:** We continue to make investments to expand our international presence. These include investments in infrastructure, sales and marketing, and strategic partnerships.
- **Strategic M&A:** We have and may continue to make acquisitions that enhance the value of our Insight Platform and bolster our ability to solve emerging customer challenges, allowing us to deliver on the vision of becoming the SecOps leader.

Sales, Customer Support, and Marketing

We sell our solutions through direct inside and field sales team and indirect channel partner relationships.

Sales: Our sales teams focus on both new customer acquisition as well as up-selling and cross-selling additional offerings to our existing customers. Our sales teams are organized by geography, consisting of the Americas; Europe, the Middle East and Africa (EMEA); and Asia Pacific (APAC), as well as by target organization size. Our sales team consists of a mix of inside sales and field sales professionals, that sell to small, medium and large enterprise customers. Our highly technical sales engineers help define customer use cases, manage solution evaluations and train channel partners.

We maintain a global channel partner network that complements our sales organization, particularly in EMEA, APAC and Latin America. We have established strong co-sell relationships with strategic channel partners, who provide additional leverage through customer acquisition, deal execution and providing value in securing renewals. We continue to invest in partner models that enable us to create long term customer value.

We generated 47%, 43%, and 39% of sales from channel partners, in 2020, 2019, and 2018, respectively. Our revenue is not concentrated with any individual channel partner. No channel partner represented more than 10% of our revenue in 2020, 2019 or 2018.

Customer Support: Our customer support organization is responsible for providing technical support to our customers acquired directly and through channel partners. We believe that a dedicated support team is essential to a successful customer deployment and ongoing experience, as well as overall customer satisfaction.

Marketing: We focus our marketing efforts on increasing the strength of the Rapid7 brand, communicating product advantages and business benefits, generating leads for our sales force and channel partners and driving product adoption. We deliver targeted content to demonstrate our thought leadership in security and use digital advertising methods to drive downloads of our free trial software, which deliver opportunities to our sales organization. We work with our own researchers, as well as the broader IT and security community, to share important information about vulnerabilities and threats. We share that research through our blog, social media and traditional public relations. In addition, we host regional and national events to engage both customers and prospects, deliver product training and foster community collaboration.

Research and Development Efforts

We invest substantial resources in research and development to enhance our core technology platform and products, develop new end market-specific solutions and applications, and conduct product and quality assurance testing. Our technical and engineering team monitors and tests our products on a regular basis, and we maintain a regular release process to refine, update, and enhance our existing products. We also have a team of experienced security researchers who work to keep us abreast of the latest developments in the cyber security landscape. Our research and development teams are located in our offices in Boston, Massachusetts; Austin, Texas; Los Angeles and San Francisco, California; Arlington, Virginia; Toronto, Canada; Dublin and Galway, Ireland; Belfast, Northern Ireland; and Stockholm, Sweden, providing us with a broad, worldwide reach to engineering talent.

Metasploit Community: Our Metasploit product has an active community of contributors and users. This online security community provides us with a robust and growing network of active users and influencers who promote the usage of our software. Security researchers contribute modules to the Metasploit Framework that serve as a resource about real-world attacker techniques. The community also provides us with near real-time visibility into new cyber attacks as they occur and a deep understanding of attacker behaviors.

We perform security research that enables the analytics in our platform and products as well as delivers strategic value to the security community at large. The output of our research results in threat intelligence, exposure analysis and attacker awareness that we publish as well as integrate into our platform. This data is used for security research, product development, and across our services to help protect and inform our customers, partners and community. We share this data with validated educational and private security researchers, research partners, vetted threat sharing communities, and organizational security teams through our Open Data portal to foster collaboration and encourage discovery of new insights. We collect data for research purposes through two key areas:

Attacker Intelligence: We collect data from across the internet through a variety of honeypots distributed both geographically and across IP space. The honeypots collect many data types which are then analyzed to help enhance our understanding of attacker methods.

Internet Intelligence: We conduct internet-wide scans across many services and protocols to gain insight into global exposures and vulnerabilities.

This data collected is analyzed for the purpose of analytics in our platform and results in core research reports. We publish a variety of reports including The National Exposure Index, The Industry Cyber Exposure Report and Under the Hoodie. The National Exposure Index, published annually, is a census report that highlights the state of exposed internet services at the nation-state level and provides key trending information on the use of insecure protocols. The Industry Cyber Exposure Index details the attack surface, insecure service presence, email safety configurations, malware infection rates and internet supply-chain risks of Fortune 500 companies. The Under the Hoodie report sheds light on the art of penetration testing by revealing not just the process, techniques and tools that go into it, but also revealing the real-world experience of our engineers and investigators, gathered over thousands of penetration tests.

Our Customers

Our customer base has grown from approximately 6,200 customers at the end of 2016 to more than 9,700 customers as of December 31, 2020, in 144 countries, including 46% of the organizations in the Fortune 100. We define a customer as any entity that has (1) an active Rapid7 contract or a contract that expired within 90 days or less of the applicable measurement date; and for Logentries products, those customers with a contract value equal to or greater than $2,400 per year, or (2) purchased Rapid7 professional services within the 12 months preceding the applicable measurement date.

Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, education, real estate, transportation, government and professional services, with customers in the services industry representing our largest industry in 2020 at 16% of our revenue. In 2020, 49% of our revenue was generated from enterprises, which we define as organizations that have either annual revenue greater than $1.0 billion or more than 2,500 employees, and the balance was generated from middle-market and small organizations.

Our revenue is not concentrated with any individual customer and no customer represented more than 1% of our revenue in 2020, 2019 or 2018.

Our Competition

The markets we operate in are highly competitive, fragmented and subject to technology change and innovation. Our primary competitors in Vulnerability Risk Management include Qualys and Tenable; in Incident Detection and Response (SIEM) include Splunk, Micro Focus, LogRhythm and Microsoft (Sentinel); in Application Security include Micro Focus and IBM; in Security Orchestration and Automation Response include Phantom (Splunk) and Demisto (Palo Alto Networks); in Cloud Security include Prisma (Palo Alto Networks) and CloudGuard (Check Point Software Technologies) and finally, while the competition in our professional services business is diverse, our competitors include FireEye’s Mandiant, SecureWorks and NCC Group.

We compete on the basis of a number of factors, including:

- product functionality;
- breadth of offerings;
- performance;
- brand name, reputation and customer satisfaction;
- ease of implementation, use and maintenance;
- total cost of ownership; and
- scalability, reliability and security.

Some of our competitors have greater sales, marketing and financial resources, more extensive geographic presence or greater brand awareness than we do. We may face future competition in our markets from other large, established companies, as well as from emerging companies. In addition, we expect that there is likely to be continued consolidation in our industry that could lead to increased price competition and other forms of competition.

Government Regulations

We are subject to various federal, state and international laws and regulations that affect our business, including those relating to the privacy and security of customer and employee personal information and export or import of our products to certain countries, governments or entities. Additional laws in all of these areas are likely to be passed in the future, which could result in significant limitations on or changes to the ways in which we can collect, use, host, store or transmit the personal information and data of our customers or employees, communicate with our customers, and deliver products and services, may significantly increase our compliance costs.

Intellectual Property

Our future success and competitive position depends in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patents, trademarks, copyrights, trade secrets, employee and third-party nondisclosure agreements, licensing arrangements and other contractual protections to protect our intellectual property in the United States and other jurisdictions.

We have numerous issued patents and a number of registered and unregistered trademarks. We believe that the duration of our issued patents is sufficient when considering the expected lives of our products. We file patent applications to protect our intellectual property and have a number of patent applications pending. We require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and control access to software, documentation and other proprietary information. Although we rely on intellectual property rights, including trade secrets, patents, copyrights and trademarks, as well as contractual protections to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel, creation of new modules, features and functionality, and frequent enhancements to our solutions are more essential to establishing and maintaining our technology leadership position.

We also license software from third parties for integration into our offerings, including open source software and other software available on commercially reasonable terms. We believe our continuing research and product development are not materially dependent on any single license or other agreement with a third party relating to the development of our products.

Human Capital

Rapid7 is dedicated to making the best in security operations achievable for all, and our employees are critical to achieving this mission. In order to continue to innovate, compete and succeed in our highly competitive and rapidly evolving market, it is crucial that we continue to attract and retain experienced employees. As part of these efforts, we strive to offer a competitive compensation and benefits program, foster a community where everyone feels included and empowered to do their best work, and give employees the opportunity to give back to their communities and make a social impact.

As of December 31, 2020, we had 1,847 full-time employees, including 341 in product and service delivery and support, 742 in sales and marketing, 517 in research and development and 247 in general and administrative. As of December 31, 2020, we had 1,316 full-time employees in the United States and 531 full-time employees internationally. None of our U.S. employees are covered by collective bargaining agreements. We believe our employee relations are good and we have not experienced any work stoppages.

Compensation, Benefits and Well-being

Our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business objectives, assist in the achievement of our strategic goals and create long-term value for our stockholders and fit within our company culture. In addition to their base salary, eligible employees are compensated for their contributions to the Company's goals with short-term incentives and long-term equity awards tied to the value of our stock price. We believe that a compensation program with both short-term and long-term awards provides fair and competitive compensation and aligns employee and stockholder interests, including by incentivizing business and individual performance (pay for performance), motivating based on long-term company performance and integrating compensation with our business plans. In addition to cash and equity compensation, we also offer employees a wide array of benefits such as life and health (medical, dental and vision) insurance, paid time off and retirement benefits. We also provide emotional well-being services through our Employee Assistance Program.

In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees as well as the communities in which we operate. This includes having the vast majority of our employees work from home, while implementing additional safety measures for employees continuing critical on-site work.

Diversity, Equity and Inclusion

We believe that a company culture focused on diversity and inclusion is a key driver of creativity and innovation and that diverse and inclusive teams make better business decisions, which ultimately drive better business outcomes. We are committed to recruiting, retaining and developing high-performing, innovative and engaged employees with diverse backgrounds and experiences. In 2018, we launched a diversity initiative to increase the number of under-represented groups (women and people of color) to fifty percent of the employee base in the United States by the end of 2020. We undertook to promote transparency by publishing our workforce demographic data internally and to increase thoughtful discussions across the Company, including holding unconscious bias training for our employees, further expanding efforts to recruit under-represented groups through referrals and by expanding beyond the traditional networks from which we recruited. We are also focused on identifying and promoting diverse leaders through the organization at all levels and signed the Corporate Parity Pledge, which includes, among other things, a commitment to interview at least one woman and one person of color for every open role at the vice president level and above. We have also directed our talent acquisition team to take the further step of interviewing at least one woman and/or person of color for every role we hire for. These efforts yielded results. At the end of 2020, we increased the percent of under-represented employees in the U.S. to over 49%, with over 4% increases in each of the percent of women and the percent of people of color. Additionally, in 2020, we completed a comprehensive employee pay equity survey for our U.S. employees, with outside advisors using regression models to determine that women and people of color at Rapid7 were not paid less for the same job, level, and location, controlling for pay differentiators such as performance and tenure/experience. We intend to conduct an analysis like this every few years.

Community Involvement

We aim to give back to the communities where we live and work, and believe that this commitment helps in our efforts to attract and retain employees. We partner with a variety of STEM and inclusion-focused programs to promote technology education for all. Beyond contributions of cash, we encourage employee volunteerism at all our locations by both designating a global day of service each fall, as well as more concentrated work throughout the year. In 2020, working with the Tides Foundation, we created and funded the Rapid7 for Good Fund to direct charitable contributions to community organizations that focus on STEM education and diversity, equity and inclusion in technology, and in particular, cybersecurity.

Corporate Information

Our principal executive offices are located at 120 Causeway Street, Boston, Massachusetts. Our telephone number is +1 617-247-1717. Our website address is www.rapid7.com.

"Rapid7," the Rapid7 logo, and other trademarks or service marks of Rapid7, Inc. appearing in this Annual Report on Form 10-K are the property of Rapid7, Inc. This Annual Report on Form 10-K contains additional trade names, trademarks and service marks of others, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Annual Report on Form 10-K may appear without the ® or TM symbols. The information contained on our website or information that may be accessed through links on our website is not incorporated by reference into this Annual Report on Form 10-K.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on or through our website at *investors.rapid7.com* as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties including those described below. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, as well as our other public filings with the Securities and Exchange Commission (the SEC), before making an investment decision. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. Furthermore, the ongoing COVID-19 pandemic (including federal, state and local governmental responses, broad economic impacts and market disruptions) has heightened risks discussed in the risk factors described below. If any of the following risks or others not specified below materialize, our business, financial condition and results of operations could be materially adversely affected. In that event, the trading price of our common stock could decline. Please also see "Special Note Regarding Forward-Looking Statements."

Risks Related to Our Business and Industry

The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition.

The COVID-19 pandemic has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. We are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. Our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our customers, partners, suppliers and others with whom we work, for an indefinite period of time. To support the health and well-being of our employees, customers, partners and communities, a vast majority of our employees began working remotely as of late March 2020, and they continue to do so. In addition, many of our customers and prospective customers are working remotely. The disruptions to our operations caused by the COVID-19 pandemic may result in inefficiencies, delays and additional costs in our sales and marketing, professional service and research and development efforts, which cannot be predicted or quantified at this time. To the extent that disruptions occur, we may not be able to fully mitigate any such inefficiencies, delays and additional costs through remote or other alternative work arrangements. In addition, given the economic uncertainty created by COVID-19, we have and may continue to see delays in our sales cycle, failures of customers to renew at all or to renew the anticipated scope their subscriptions with us, requests from customers for payment term deferrals as well as pricing or bundling concessions, which, if significant, could materially and adversely affect our business, results of operations and financial condition. Although such events did not have a material adverse impact on our customer renewals for fiscal year 2020, our annualized recurring revenue (ARR) related to contracts in place at the end of the fiscal year 2020 was lower than initially anticipated at the beginning of fiscal year 2020 as a result of the pull back on customer spending, in light of the economic uncertainty caused by the COVID-19 pandemic.

Negative conditions in the general economy both in the United States and abroad, including conditions resulting from the COVID-19 pandemic, changes in gross domestic product growth, financial and credit market fluctuations, energy costs, international trade relations and other geopolitical issues, the availability and cost of credit and the global housing and mortgage markets could cause a decrease in consumer discretionary spending and business investment and diminish growth expectations in the U.S. economy and abroad. More generally, the COVID-19 pandemic raises the possibility of an extended global economic downturn and has caused volatility in financial markets, which could materially and adversely affect demand for our products and professional services and could materially and adversely impact our results and financial condition even after the pandemic is contained and the various pandemic-related orders are lifted. For example, we may be unable to collect receivables from those customers significantly impacted by COVID-19, which may be more pronounced in industry verticals more directly impacted by the COVID-19 pandemic. Also, a decrease in subscriptions and/or renewals in a given period could negatively affect our ARR as well as our revenues in future periods, particularly if experienced on a sustained basis, because a substantial proportion of our software subscriptions yield revenue recognized over time. The pandemic may also have the effect of heightening many of the other risks described in this “Risk Factors” section, including risks associated with our guidance, our customers, our potential customers, our market opportunity, renewals and sales cycle, among others. We will continue to evaluate the nature and extent of the impact of the COVID-19 pandemic on our business.

Although we expect that current cash and cash equivalent balances, including the proceeds of our convertible senior notes offering in May 2020, together with cash flows that are generated from operations and availability under our new revolving credit facility, will be sufficient to meet our domestic and international working capital needs and other capital and liquidity requirements for at least the next 12 months, if our access to capital is restricted or our borrowing costs increase, our operations and financial condition could be adversely impacted.

The full extent of the COVID-19 pandemic's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the ultimate duration, spread and reemergence of the pandemic, its impact on capital and financial markets, the timing of economic recovery and any new information that may emerge concerning the severity of the virus, its spread to or reemergence in other geographic regions as well as the actions taken to contain it, among others. Any of these impacts could have a material adverse impact on our business, results of operations and financial condition and ability to execute and capitalize on our strategies. Due to the current uncertainty regarding the severity and duration of the COVID-19 pandemic, we cannot predict whether our response to date or the actions we may take in the future will be effective in mitigating the effects of COVID-19 pandemic on our business, results of operations or financial condition. Accordingly, we are unable at this time to predict the impact of the COVID-19 pandemic on our operations, liquidity, and financial results, and, depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material.

Our quarterly operating results may vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.

Our operating results, including the levels of our revenue, ARR, renewal rates, cash flow, deferred revenue and gross margins, have historically varied from period to period, and we expect that they will continue to do so as a result of a number of factors, many of which are outside of our control, including:

- quarantine, travel limitation, or business disruptions in regions affecting our operations, stemming from actual, imminent or perceived outbreak of contagious disease, including the COVID-19 pandemic;
- the level of demand for our products and professional services;
- customer renewal rates and ability to attract new customers;
- the extent to which customers purchase additional products or professional services;
- the mix of our products, as well as professional services, sold during a period;
- the ability to successfully grow our sales of our cloud-based solutions;
- the level of perceived threats to organizations' cyber security;
- network outages, security breaches, technical difficulties or interruptions with our products;
- changes in the growth rate of the markets in which we compete;
- sales of our products and professional services due to seasonality and customer demand;
- the timing and success of new product or service introductions by us or our competitors or any other changes in the competitive landscape of our industry, including consolidation among our competitors;
- the introduction or adoption of new technologies that compete with our offerings;
- decisions by potential customers to purchase cyber security products or professional services from other vendors;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- price competition;
- our ability to successfully manage and integrate any acquired businesses, including Divvy Cloud Corporation (DivvyCloud), and including without limitation the amount and timing of expenses and potential future charges for impairment of goodwill from acquired companies;
- our ability to increase, retain and incentivize the channel partners that market and sell our products and professional services;
- our continued international expansion and associated exposure to changes in foreign currency exchange rates, including any fluctuations caused by uncertainties relating to United Kingdom's exit from the European Union, commonly referred to as "Brexit";
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- the announcement or adoption of new regulations and policy mandates or changes to existing regulations and policy mandates;
- the cost or results of existing or unforeseen litigation and intellectual property infringement;

- the strength of regional, national and global economies;
- the impact of natural disasters or manmade problems such as terrorism or war; and
- future accounting pronouncements or changes in our accounting policies.

Fluctuations in our quarterly operating results, key metrics, non-GAAP metrics and the price of our common stock may be particularly pronounced in the current economic environment due to the uncertainty caused by and the unprecedented nature of the current COVID-19 pandemic. Each factor above or discussed elsewhere herein or the cumulative effect of some of these factors may result in fluctuations in our operating results. This variability and unpredictability could result in our failure to meet expectations with respect to operating results, or those of securities analysts or investors, for a particular period. If we fail to meet or exceed expectations for our operating results for these or any other reasons, the market price of our stock could fall and we could face costly lawsuits, including securities class action suits.

We are a rapidly growing company, which makes it difficult to evaluate our future operating and financial results and may increase the risk that we will not be successful.

We are a rapidly growing company. Our ability to forecast our future operating and financial results is subject to a number of uncertainties, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in rapidly evolving industries. If our assumptions regarding these uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in our markets, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, our business could suffer and the trading price of our common stock may decline.

If we are unable to sustain our revenue growth rate, we may not achieve or maintain profitability in the future.

From the year ended December 31, 2016 to the year ended December 31, 2020, our revenue grew from $157.4 million to $411.5 million. Although we have experienced rapid growth historically and currently have high renewal rates, we may not continue to grow as rapidly in the future and our renewal rates may decline. Any success that we may experience in the future will depend, in large part, on our ability to, among other things:

- maintain and expand our customer base;
- increase revenues from existing customers through increased or broader use of our products and professional services within their organizations;
- improve the performance and capabilities of our products through research and development;
- continue to develop our cloud-based solutions;
- maintain the rate at which customers purchase and renew subscriptions to our cloud-based solutions, content subscriptions, maintenance and support and managed services;
- continue to successfully expand our business domestically and internationally;
- continue to effectively grow and improve the productivity of our sales teams; and
- successfully compete with other companies.

If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth.

We have not been profitable historically and may not achieve or maintain profitability in the future.

We have posted a net loss in each year since inception, including net losses of $98.8 million, $53.8 million and $55.5 million in the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, we had an accumulated deficit of $617.3 million. While we have experienced significant revenue growth in recent periods, we may not obtain a high enough volume of sales of our products and professional services to sustain or increase our growth or achieve or maintain profitability in the future. We also expect our costs to increase in future periods, which could negatively affect our future operating results if our revenue does not increase. In particular, we expect to continue to expend financial and other resources on:

- research and development related to our offerings, including investments in our research and development team;
- sales and marketing, including a continued expansion of our sales organization, both domestically and internationally;
- continued international expansion of our business;
- strategic acquisitions and expansion of our partner ecosystem; and

- general and administrative expenses as we continue to implement and enhance our administrative, financial and operational systems, procedures and controls.

These investments may not result in increased revenue or growth in our business. If we are unable to increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position and results of operations will be harmed, and we may not be able to achieve or maintain profitability over the long term. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our financial performance may be harmed, and we may not achieve or maintain profitability in the future.

Our business and growth depend substantially on customers renewing their subscriptions with us. Any decline in our customer renewals or failure to convince customers to expand their use of our subscription offerings could adversely affect our future operating results.

Our subscription offerings are sold on a term basis. In order for us to improve our operating results, it is important that our existing customers renew their subscriptions with us when the existing subscription term expires, and renew on the same or more favorable terms. Our customers have no obligation to renew their subscriptions with us and we may not be able to accurately predict customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our new or current product offerings, our pricing, the effects of economic conditions, including due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic, competitive offerings, our customers' perception of their exposure, or alterations or reductions in their spending levels. If our customers do not renew their agreements with us or renew on terms less favorable to us, our revenues and results of operations may be adversely impacted.

Our future growth is also affected by our ability to sell additional offerings to our existing customers, which depends on a number of factors, including customers' satisfaction with our products and services and general economic conditions. If our efforts to cross-sell and upsell to our customers are unsuccessful, the rate at which our business grows might decline.

If our new and existing product offerings and product enhancements do not achieve sufficient market acceptance, our financial results and competitive position will suffer.

Our business substantially depends on, and we expect our business to continue to substantially depend on, sales of our Insight Platform solutions. As such, market acceptance of our Insight Platform is critical to our continued success. Demand for Insight Platform solutions are affected by a number of factors beyond our control, including continued market acceptance of cloud-based offerings, the timing of development and release of new products by our competitors, technological change, and growth or contraction in our market and the economy in general. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our Insight Platform solutions, our business operations, financial results and growth prospects will be materially and adversely affected.

We spend substantial amounts of time and money to research and develop or acquire new offerings and enhanced versions of our existing offerings to incorporate additional features, improve functionality or other enhancements in order to meet our customers' rapidly evolving demands. In addition, we continue to invest in solutions that can be deployed on top of our platform to target specific use cases and to cultivate our community. When we develop a new or enhanced version of an existing offering, we typically incur expenses and expend resources upfront to market, promote and sell the new offering. Therefore, when we develop or acquire new or enhanced offerings, their introduction must achieve high levels of market acceptance in order to justify the amount of our investment in developing and bringing them to market. For example, if our recent product expansions and offerings, such as our Cloud Security offerings, do not garner widespread market adoption and implementation, our financial results and competitive position could suffer.

Further, we may make changes to our offerings that our customers do not like, find useful or agree with. We may also discontinue certain features, begin to charge for certain features that are currently free or increase fees for any of our features or usage of our offerings.

Our new and existing offerings or product enhancements and changes to our existing offerings could fail to attain sufficient market acceptance for many reasons, including:

- our failure to predict market demand accurately in terms of product functionality and to supply offerings that meet this demand in a timely fashion, including changes in demand as a result of the COVID-19 pandemic;
- real or perceived defect, errors or failures;
- negative publicity about their performance or effectiveness;
- delays in releasing to the market our new offerings or enhancements to our existing offerings;

- introduction or anticipated introduction of competing products by our competitors;
- inability to scale and perform to meet customer demands;
- poor business conditions for our customers, causing them to delay IT purchases, including as a result of the COVID-19 pandemic; and
- reluctance of customers to purchase cloud-based offerings.

If our new or existing offerings or enhancements and changes do not achieve adequate acceptance in the market, our competitive position will be impaired, and our revenue, business and financial results will be negatively impacted. The adverse effect on our financial results may be particularly acute because of the significant research, development, marketing, sales and other expenses we will have incurred in connection with the new offerings or enhancements.

We face intense competition in our market.

The market for SecOps solutions is highly fragmented, intensely competitive and constantly evolving. We compete with an array of established and emerging security software and services vendors. With the introduction of new technologies and market entrants, we expect the competitive environment to remain intense going forward. Our primary competitors in Vulnerability Risk Management include Qualys and Tenable; in Incident Detection and Response (SIEM) include Splunk, Micro Focus, LogRhythm and Microsoft (Sentinel); in Application Security include Micro Focus and IBM; in Security Orchestration and Automation Response include Phantom (Splunk) and Demisto (Palo Alto Networks); in Cloud Security include Prisma (Palo Alto Networks) and CloudGuard (Check Point Software Technologies) and finally, while the competition in our professional services business is diverse, our competitors include FireEye's Mandiant, SecureWorks and NCC Group.

Some of our actual and potential competitors have advantages over us, such as longer operating histories, significantly greater financial, technical, marketing or other resources, stronger brand and business user recognition, larger and more mature intellectual property portfolios and broader global distribution and presence. In addition, our industry is evolving rapidly and is becoming increasingly competitive. Larger and more established companies may focus on security operations and could directly compete with us. Smaller companies could also launch new products and services that we do not offer and that could gain market acceptance quickly.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our offerings and new market entrants, we expect competition to intensify in the future. In addition, some of our larger competitors have substantially broader product offerings and can bundle competing products and services with other software offerings. As a result, customers may choose a bundled product offering from our competitors, even if individual products have more limited functionality than our solutions. These competitors may also offer their products at a lower price as part of this larger sale, which could increase pricing pressure on our offerings and cause the average sales price for our offerings to decline. These larger competitors are also often in a better position to withstand any significant reduction in spending by customers, and will therefore not be as susceptible to economic downturns.

Furthermore, our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and product and services offerings in the markets we address. In addition, current or potential competitors may be acquired by third parties with greater available resources. As a result of such relationships and acquisitions, our current 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 and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do. For all of these reasons, we may not be able to compete successfully against our current or future competitors, or we may be required to expend significant resources in order to remain competitive. If our competitors are more successful than we are in developing new product and service offerings or in attracting and retaining customers, our business, financial condition and results of operations could be adversely affected.

If we fail to manage our operations infrastructure, our customers may experience service outages and/or delays.

Our future growth is dependent upon our ability to continue to meet the expanding needs of our customers and to attract new customers. As existing customers gain more experience with our products, they may broaden their reliance on our products, which will require that we expand our operations infrastructure. We also seek to maintain excess capacity in our operations infrastructure to facilitate the rapid provision of new customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support changes in hardware and software parameters and the evolution of our products, all of which require significant lead time. If we do not accurately predict our infrastructure requirements, our existing customers may experience service outages that may subject us to financial penalties, financial liabilities and customer losses. If our operations infrastructure fails to keep pace with increased sales, customers may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and our revenue.

To date, we have derived a majority of our revenue from customers using our vulnerability management offerings. If we are unable to renew or increase sales of our vulnerability management offerings, or if we are unable to increase sales of our other offerings, our business and operating results could be adversely affected.

Although we continue to introduce and acquire new products and professional services, we derive and expect to continue to derive a majority of our revenue from customers using certain of our vulnerability management offerings (VM), InsightVM, Nexpose and Metasploit. Greater than half of our revenue was attributable to InsightVM, Nexpose and Metasploit in each of our last three fiscal years. As a result, our operating results could suffer due to:

- any decline in demand for our vulnerability management offerings;
- failure of our vulnerability management offerings to detect vulnerabilities in our customers' IT environments;
- the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, our vulnerability management offerings;
- technological innovations or new standards that our vulnerability management offerings do not address;
- sensitivity to current or future prices offered by us or competing solutions;
- our inability to release enhanced versions of our vulnerability management offerings on a timely basis in response to the dynamic threat landscape; and
- a decline in overall IT spending due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic.

Our inability to renew or increase sales of our vulnerability management offerings, including cloud-based subscriptions, content subscriptions, managed services and content and maintenance and support subscriptions, or a decline in prices of our vulnerability management offerings would harm our business and operating results more seriously than if we derived significant revenues from a variety of offerings. In addition, we have introduced several non-VM subscription products, including InsightIDR, InsightAppSec, InsightConnect and DivvyCloud. These products are relatively new, and it is uncertain whether they will gain the market acceptance we expect. Any factor adversely affecting sales of our non-VM products or professional services, including release cycles, market acceptance, competition, performance and reliability, reputation and economic and market conditions, could adversely affect our business and operating results.

If we are unable to successfully hire, train, manage and retain qualified personnel, especially those in sales and marketing and research and development, our business may suffer.

We continue to be substantially dependent on our sales force to obtain new customers and increase sales with existing customers. Our ability to successfully pursue our growth strategy will also depend on our ability to attract, motivate and retain our personnel, especially those in sales, marketing and research and development. We face intense competition for these employees from numerous technology, software and other companies, especially in certain geographic areas in which we operate, and we cannot ensure that we will be able to attract, motivate and/or retain sufficient qualified employees in the future. If we are unable to attract new employees and retain our current employees, we may not be able to adequately develop and maintain new products or professional services or market our existing products or professional services at the same levels as our competitors and we may, therefore, lose customers and market share. Our failure to attract and retain personnel, especially those in sales and marketing and research and development positions for which we have historically had a high turnover rate, could have an adverse effect on our ability to execute our business objectives and, as a result, our ability to compete could decrease, our operating results could suffer and our revenue could decrease. Even if we are able to identify and recruit a sufficient number of new hires, these new hires will require significant training before they achieve full productivity and they may not become productive as quickly as we would like or at all.

We believe that our corporate culture has been a critical component to our success. We have invested substantial time and resources in building our team. As we grow and mature as a public company, we may find it difficult to maintain our corporate culture. Any failure to preserve our culture could negatively affect our future success, including our ability to attract, motivate and retain personnel and effectively focus on and pursue our business strategy.

A component of our growth strategy is dependent on our continued international expansion, which adds complexity to our operations.

We market and sell our products and professional services throughout the world and have personnel in many parts of the world. For the years months ended December 31, 2020, 2019 and 2018, operations located outside of North America generated 17%, 16% and 15%, respectively, of our revenue. Our growth strategy is dependent, in part, on our continued international expansion. We expect to conduct a significant amount of our business with organizations that are located outside the United States, particularly in Europe and Asia. We cannot assure you that our expansion efforts into international markets will be successful in creating further demand for our products and professional services or in effectively selling our products and professional services in the international markets that we enter. Our current international operations and future initiatives will involve a variety of risks, including:

- increased management, infrastructure and legal costs associated with having international operations;
- reliance on channel partners;
- trade and foreign exchange restrictions;
- economic or political instability or uncertainty in foreign markets and around the world, such as related to Brexit;
- foreign currency exchange rate fluctuations;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;
- changes in regulatory requirements, including, but not limited to data privacy, data protection and data security regulations;
- difficulties and costs of staffing and managing foreign operations;
- the uncertainty and limitation of protection for intellectual property rights in some countries;
- costs of compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations;
- costs of compliance with U.S. laws and regulations for foreign operations, including the U.S. Foreign Corrupt Practices Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell or provide our solutions in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, and irregularities in, financial statements;
- the potential for political unrest, acts of terrorism, hostilities or war;
- management communication and integration problems resulting from cultural differences and geographic dispersion;
- costs associated with language localization of our products;
- increased exposure to natural disasters, acts of war, terrorism, epidemics, or pandemics and other health crises, including the ongoing COVID-19 pandemic; and
- costs of compliance with multiple and possibly overlapping tax structures.

Our business, including the sales of our products and professional services by us and our channel partners, may be subject to foreign governmental regulations, which vary substantially from country to country and change from time to time. Our failure, or the failure by our channel partners, to comply with these regulations could adversely affect our business. Further, in many foreign countries it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. regulations applicable to us. Although we have implemented policies and procedures designed to comply with these laws and policies, there can be no assurance that our employees, contractors, channel partners and agents have complied, or will comply, with these laws and policies. Violations of laws or key control policies by our employees, contractors, channel partners or agents could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our products and could have a material adverse effect on our business and results of operations. If we are unable to successfully manage the challenges of international expansion and operations, our business and operating results could be adversely affected.

We are also monitoring developments related to Brexit. Brexit could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and differing laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. In particular, although the United Kingdom enacted a Data Protection Act in May 2018 that is consistent with the EU General Data Protection Regulation, uncertainty remains regarding how data transfers to the United Kingdom will be regulated. Any of these effects of Brexit, among others, could adversely affect our operations in the United Kingdom and our financial results.

We recognize a significant percentage of our revenue ratably over the term of our agreements with customers, and as a result, downturns or upturns in sales may not be immediately reflected in our operating results.

We recognize a significant percentage of our revenue ratably over the various terms of our agreements with customers. As a result, a substantial portion of the revenue that we report in each period will be derived from the recognition of deferred revenue relating to agreements entered into during previous periods. Consequently, a decline in new sales or renewals in any one period may not be immediately reflected in our revenue results for that period. This decline, however, will negatively affect our revenue in future periods. Accordingly, the effect of significant 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. Our model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers generally will be recognized over the applicable term.

We also intend to increase our investment in research and development, sales and marketing, and general and administrative functions and other areas to grow our business. We are likely to recognize the costs associated with these increased investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our operating results.

We may be unable to rapidly and efficiently adjust our cost structure in response to significant revenue declines, which could adversely affect our operating results.

If our customers are unable to implement our products successfully, customer perceptions of our offerings may be impaired or our reputation and brand may suffer.

Our products are deployed in a wide variety of IT environments, including large-scale, complex infrastructures. Some of our customers have experienced difficulties implementing our products in the past and may experience implementation difficulties in the future. If our customers are unable to implement our products successfully, customer perceptions of our offerings may be impaired or our reputation and brand may suffer.

In addition, in order for our products to achieve their functional potential, our products must effectively integrate into our customers' IT infrastructures, which have different specifications, utilize varied protocol standards, deploy products from multiple different vendors and contain multiple layers of products that have been added over time. Our customers' IT infrastructures are also dynamic, with a myriad of devices and endpoints entering and exiting the customers' IT systems on a regular basis, and our products must be able to effectively adapt to and track these changes.

Any failure by our customers to appropriately implement our products or any failure of our products to effectively integrate and operate within our customers' IT infrastructures could result in customer dissatisfaction, impact the perceived reliability of our products, result in negative press coverage, negatively affect our reputation and harm our financial results.

Acquisitions could disrupt our business and harm our financial condition and operating results.

In order to remain competitive, we have in the past and may in the future seek to acquire additional businesses, products or technologies. We also may not find suitable acquisition candidates, and acquisitions we complete may be unsuccessful.

Achieving the anticipated benefits of past or future acquisitions will depend in part upon whether we can integrate acquired operations, products and technology in a timely and cost-effective manner and successfully market and sell these as new product offerings, or as new features within our existing offerings. For example, on May 1, 2020 we acquired Divvy Cloud Corporation (DivvyCloud), a cloud security posture management platform, and on January 28, 2021 we acquired Alcide.IO Ltd. (Alcide), a Kubernetes cloud workload protection platform. Some of our acquisitions could improve the capabilities of our existing offerings or platform, as opposed to becoming a new offering. The acquisitions of DivvyCloud and Alcide are intended to extend the cloud security capabilities of our Insight Platform, helping security and DevOps teams understand and manage governance, risk and security in their growing cloud environments, which may encounter difficulties or unforeseen expenditures. The integration of Alcide and any other acquisition may prove to be difficult due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and accustomed to different corporate cultures and business operations and internal systems. We may need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked sufficiently effective controls, procedures and policies. The acquisition and integration processes are complex, expensive and time consuming, and may cause an interruption of, or loss of momentum in, product development, sales activities and operations of both companies. Further, we may be unable to retain key personnel of an acquired company following the acquisition. If we are unable to effectively execute or integrate acquisitions, the anticipated benefits of such acquisition, including sales or growth opportunities or targeted synergies may not be realized, and our business, financial condition and operating results could be adversely affected.

In addition, we may only be able to conduct limited due diligence on an acquired company's operations or may discover that the products or technology acquired were not as capable as we thought based upon the initial or limited due diligence. Following an acquisition, we may be subject to unforeseen liabilities arising from an acquired company's past or present operations and these liabilities may be greater than the warranty and indemnity limitations that we negotiate. Any unforeseen liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance about our business, future operating results and key metrics, including ARR. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Some of those key assumptions relate to the impact of the COVID-19 pandemic and the associated economic uncertainty on our business and the timing and scope of economic recovery globally, which are inherently difficult to predict. While presented with numerical specificity, this guidance is necessarily speculative in nature, and is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions or economic conditions, some of which may change. This guidance, which inherently consists of forward-looking statements, is also qualified by, and subject to, assumptions, estimates and expectations as of the date given. Forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements including the risks described in this Risk Factors section and in the Risk Factors section of any future SEC filings we make. It can be expected that some or all of the assumptions, estimates and expectations of any guidance we furnished will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release of such guidance.

Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such projections or that consensus due to a number of factors, many of which are outside of our control, including due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic and which could adversely affect our operations and operating results. There are no comparable recent events that provide guidance as to the probable effect of the COVID-19 pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change. We are relying on the reports and models of economic and medical experts in making assumptions relating to the duration of this crisis and predictions as to timing and pace of any future economic recovery. If these models are incorrect or incomplete, or if we fail to accurately predict the full impact that the COVID-19 pandemic will have on all aspects of our business, the guidance and other forward-looking statements provided may also be incorrect or incomplete. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would decline.

If we are unable to maintain successful relationships with our channel partners, our business operations, financial results and growth prospects could be adversely affected.

Our success is dependent in part upon establishing and maintaining relationships with a variety of channel partners that we utilize to extend our geographic reach and market penetration. We anticipate that we will continue to rely on these partners in order to help facilitate sales of our offerings as part of larger purchases in the United States and to grow our business internationally. For the years ended December 31, 2020, 2019 and 2018, we derived approximately 47%, 43%, and 39%, respectively, of our revenue from sales of products and professional services through channel partners, and the percentage of revenue derived from channel partners may increase in future periods. Our agreements with our channel partners are non-exclusive and do not prohibit them from working with our competitors or offering competing solutions, and some of our channel partners may have more established relationships with our competitors. If our channel partners choose to place greater emphasis on products of their own or those offered by our competitors or do not effectively market and sell our products and professional services, our ability to grow our business and sell our products and professional services, particularly in key international markets, may be adversely affected. In addition, our failure to recruit additional channel partners, or any reduction or delay in their sales of our products and professional services or conflicts between channel sales and our direct sales and marketing activities may harm our results of operations. Finally, even if we are successful, our relationships with channel partners may not result in greater customer usage of our products and professional services or increased revenue.

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

We believe that maintaining and enhancing our brand identity is critical to our relationships with our customers and channel partners and to our ability to attract new customers and channel partners. The successful promotion of our brand will depend largely upon our marketing efforts, our ability to continue to offer high-quality offerings and our ability to successfully differentiate our offerings from those of our competitors. Our brand promotion activities may not be successful or yield increased revenues. In addition, independent industry analysts often provide reviews of our offerings, as well as those of our competitors, and perception of our offerings in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products and professional services, our brand may be adversely affected.

Moreover, it may be difficult to maintain and enhance our brand in connection with sales through channel or strategic partners. The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new markets and as more sales are generated through our channel partners. To the extent that these activities yield increased revenues, these revenues may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors with stronger brands, and we could lose customers and channel partners, all of which would adversely affect our business operations and financial results.

Failure to maintain high-quality customer support could have a material adverse effect on our business.

Once our products are deployed within our customers' networks, our customers depend on our technical and other customer support services to resolve any issues relating to the implementation and maintenance of our products. If we do not effectively assist our customers in deploying our products, help our customers quickly resolve post-deployment issues or provide effective ongoing support, our ability to renew or sell additional products or professional services to existing customers would be adversely affected and our reputation with potential customers could be damaged. Further, to the extent that we are unsuccessful in hiring, training and retaining adequate technical and customer success personnel, our ability to provide adequate and timely support to our customers will be negatively impacted, and our customers' satisfaction with our offerings will be adversely affected.

We are dependent on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

Our future performance depends on the continued services and contributions of our senior management, particularly Corey Thomas, our Chief Executive Officer, and other key employees to execute on our business plan and to identify and pursue new opportunities and product innovations. From time to time, there may be changes in our senior management team resulting from the termination or departure of our executive officers and key employees. Our senior management and key employees are employed on an at-will basis, which means that they could terminate their employment with us at any time. Further, members of our management and other key personnel in critical functions across our organization may be unable to perform their duties or have limited availability due to COVID-19. The temporary or permanent loss of the services of our senior management, particularly Mr. Thomas, or other key employees for any reason could significantly delay or prevent the achievement of our development and strategic objectives and harm our business, financial condition and results of operations.

We rely on third-party software to operate certain functions of our business.

We rely on software vendors to operate certain critical functions of our business, including financial management, customer relationship management and human resource management. If we experience difficulties in implementing new software or 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 and our processes for managing sales of our solutions and supporting our customers could be impaired until equivalent services, if available, are identified, obtained and integrated, all of which could harm our business.

We use third-party software and data that may be difficult to replace or that may cause errors or failures of our solutions, which could lead to lost customers or harm to our reputation and our operating results.

We license third-party software and security and compliance data from various third parties that are used in our solutions in order to deliver our offerings. In the future, this software or data may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of this software or data could result in delays in the provisioning of our offerings until equivalent technology or data is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. In addition, any errors or defects in or failures of this third-party software could result in errors or defects in our products or cause our products to fail, which could harm our business and be costly to correct. Many of these providers attempt to impose limitations on their liability for such errors, defects or failures, and if enforceable, we may have additional liability to our customers or third-party providers that could harm our reputation and increase our operating costs.

We will need to maintain our relationships with third-party software and data providers, and to obtain software and data from such providers that do not contain errors or defects. Any failure to do so could adversely impact our ability to deliver effective solutions to our customers and could harm our operating results.

Our products contain third-party open source software components, and our failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products.

Our products contain software licensed to us by third parties under so-called "open source" licenses, including the GNU General Public License, the GNU Lesser General Public License, the BSD License, the Apache License and others. From time to time, there have been claims against companies that distribute or use open source software in their products and services, asserting that such open source software infringes the claimants' intellectual property rights. We could be subject to suits by parties claiming that what we believe to be licensed open source software infringes their intellectual property rights. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. In addition, certain open source licenses require that source code for software programs that are subject to the license be made available to the public and that any modifications or derivative works to such open source software continue to be licensed under the same terms.

Although we monitor our use of open source software in an effort both to comply with the terms of the applicable open source licenses and to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products. The terms of certain open source licenses require us to release the source code of our applications and to make our applications available under those open source licenses if we combine or distribute our applications with open source software in a certain manner. In the event that portions of our applications are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all, or a portion of, those applications or otherwise be limited in the licensing of our applications. Disclosing our proprietary source code could allow our competitors to create similar products with lower development effort and time and ultimately, could result in a loss of sales for us. Disclosing the source code of our proprietary software could also make it easier for cyber attackers and other third parties to discover vulnerabilities in or to defeat the protections of our products, which could result in our products failing to provide our customers with the security they expect. Any of these events could have a material adverse effect on our business, operating results and financial condition.

Our technology alliance partnerships expose us to a range of business risks and uncertainties that could have a material adverse impact on our business and financial results.

We have entered, and intend to continue to enter, into technology alliance partnerships with third parties to support our future growth plans, including with certain of our actual or potential competitors. For example, through these technology alliance partnerships, we integrate with certain third-party application program interfaces (APIs), which enhance our data collection capabilities in our customers' IT environments. If these third parties no longer allow us to integrate with their APIs, or if we determine not to maintain these integrations, the functionality of our products may be reduced and our products may not be as marketable to certain potential customers. Technology alliance partnerships require significant coordination between the parties involved, particularly if a partner requires that we integrate its products with our products. Further, we have invested and will continue to invest significant time, money and resources to establish and maintain relationships with our technology alliance partners, but we have no assurance that any particular relationship will continue for any specific period of time, result in new offerings that we can effectively commercialize or result in enhancements to our existing offerings. In addition, while we believe that entering into technology alliance partnerships with certain of our actual or potential competitors is currently beneficial to our competitive position in the market, such partnerships may also give our competitors insight into our offerings that they may not otherwise have, thereby allowing them to compete more effectively against us.

If our products fail to help our customers achieve and maintain compliance with regulations and/or industry standards, our revenue and operating results could be harmed.

We generate a portion of our revenue from our vulnerability management offerings that help organizations achieve and maintain compliance with regulations and industry standards both domestically and internationally. For example, many of our customers subscribe to our vulnerability management offerings to help them comply with the security standards developed and maintained by the Payment Card Industry Security Standards Council (the PCI Council), which apply to companies that process, transmit or store cardholder data. In addition, our vulnerability management offerings are used by customers in the health care industry to help them comply with numerous federal and state laws and regulations related to patient privacy. In particular, HIPAA, and the 2009 Health Information Technology for Economic and Clinical Health Act include privacy standards that protect individual privacy by limiting the uses and disclosures of individually identifiable health information and implementing data security standards. The foregoing and other state, federal and international legal and regulatory regimes may affect our customers' requirements for, and demand for, our products and professional services. Governments and industry organizations, such as the PCI Council, may also adopt new laws, regulations or requirements, or make changes to existing laws or regulations, that could impact the demand for, or value of, our products. If we are unable to adapt our products to changing legal and regulatory standards or other requirements in a timely manner, or if our products fail to assist with, or expedite, our customers' cyber security defense and compliance efforts, our customers may lose confidence in our products and could switch to products offered by our competitors or threaten or bring legal actions against us. In addition, if laws, regulations or standards related to data security, vulnerability management and other IT security and compliance requirements are relaxed or the penalties for non-compliance are changed in a manner that makes them less onerous, our customers may view government and industry regulatory compliance as less critical to their businesses, and our customers may be less willing to purchase our products. In any of these cases, our revenue and operating results could be harmed.

In addition, government and other customers may require our products to comply with certain privacy, security or other certifications and standards. If our products are late in achieving or fail to achieve or maintain compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such customers, or may otherwise be at a competitive disadvantage, either of which would harm our business, results of operations, and financial condition.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.

Selling to government entities can be highly competitive, expensive and time consuming, and often requires significant upfront time and expense without any assurance that we will win a sale. Government demand and payment for our products and professional services may also be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our offerings. Government entities also have heightened sensitivity surrounding the purchase of cyber security solutions due to the critical importance of their IT infrastructures, the nature of the information contained within those infrastructures and the fact that they are highly-visible targets for cyber attacks. Accordingly, increasing sales of our products and professional services to government entities may be more challenging than selling to commercial organizations. Further, in the course of providing our products and professional services to government entities, our employees and those of our channel partners may be exposed to sensitive government information. Any failure by us or our channel partners to safeguard and maintain the confidentiality of such information could subject us to liability and reputational harm, which could materially and adversely affect our results of operations and financial performance.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

Our reporting currency is the U.S. dollar and we generate a majority of our revenue in U.S. dollars. However, for the years ended December 31, 2020, 2019 and 2018 we incurred 12%, 13% and 13%, respectively, of our expenses outside of the United States in foreign currencies, primarily the British pound sterling and euro, principally with respect to salaries and related personnel expenses associated with our sales and research and development operations. Additionally, for the years ended December 31, 2020, 2019 and 2018, 9%, 8% and 7%, respectively, of our revenue was generated in foreign currencies. Accordingly, changes in exchange rates may have an adverse effect on our business, operating results and financial condition. The exchange rate between the U.S. dollar and foreign currencies has fluctuated in recent years and may fluctuate substantially in the future. Furthermore, a strengthening of the U.S. dollar could increase the cost in local currency of our products and services to customers outside the United States, which could adversely affect our business, results of operations, financial condition and cash flows. We implemented a hedging program during the third quarter of 2020 and have entered into forward contracts designated as cash flow hedges in order to mitigate our exposure to foreign currency fluctuations resulting from certain operating expenses denominated in certain foreign currencies. These forward contracts and other hedging strategies such as options and foreign exchange swaps related to transaction exposures that we may implement to mitigate this risk in the future may not eliminate our exposure to foreign exchange fluctuations.

Changes in financial accounting standards may adversely impact our reported results of operations.

A change in accounting standards or practices could adversely affect our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our operating results.

We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

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 enhance our products, 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 those of holders of our common stock. 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 favorable to us, if at all. For example, while the potential impact and duration of the COVID-19 pandemic on the global economy and our business in particular may be difficult to assess or predict, the pandemic has resulted in, and may continue to result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. Although we expect that current cash and cash equivalent balances, including the proceeds from the issuance our 2.25% convertible senior notes due 2025 (2025 Notes) and cash flows that are generated from operations will be sufficient to meet our domestic and international working capital needs and other capital and liquidity requirements for at least the next 12 months, if we are unable to obtain adequate financing or financing on terms satisfactory to us if and when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected.

Risks Related to Intellectual Property, Litigation and Government Regulation

Failure to protect our proprietary technology and intellectual property rights could substantially harm our business and operating results.

Our success and competitive position depend in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patent, trademark, copyright and trade secret laws and contractual protections in the United States and other jurisdictions, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage.

We cannot assure you that any patents will issue from any patent applications, that patents that issue from such applications will give us the protection that we seek or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers. We have registered the “Rapid7,” “Nexpose” and “Metasploit” names and logos in the United States and certain other countries. We have registrations and/or pending applications for additional marks in the United States and other countries; however, we cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights. While we have copyrights in our software, we do not typically register such copyrights with the Copyright Office. This failure to register the copyrights in our software may preclude us from obtaining statutory damages for infringement under certain circumstances. We also license software from third parties for integration into our products, including open source software and other software available on commercially reasonable terms. We cannot assure you that such third parties will maintain such software or continue to make it available.

In order to protect our unpatented proprietary technologies and processes, we rely on trade secret laws and confidentiality agreements with our employees, consultants, channel partners, vendors and others. Despite our efforts to protect our proprietary technology and trade secrets, unauthorized parties may attempt to misappropriate, reverse engineer or otherwise obtain and use them. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, the contractual provisions that we enter into may not prevent unauthorized use or disclosure of our proprietary technology or intellectual property rights and may not provide an adequate remedy in the event of unauthorized use or disclosure of our proprietary technology or intellectual property rights. Moreover, policing unauthorized use of our technologies, trade secrets and intellectual property is difficult, expensive and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. We may be unable to determine the extent of any unauthorized use or infringement of our solutions, technologies or intellectual property rights.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could result in impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could negatively affect our brand and adversely impact our business, operating results and financial condition.

Assertions by third parties of infringement or other violations by us of their intellectual property rights, whether or not correct, could result in significant costs and harm our business and operating results.

Patent and other intellectual property disputes are common in our industry. We are periodically involved in disputes brought by non-practicing entities alleging patent infringement and we may, from time to time, be involved in other such disputes in the ordinary course of our business. Some companies, including some of our competitors, own large numbers of patents, copyrights and trademarks, which they may use to assert claims against us. Many of these companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights. Third parties have in the past and may in the future assert claims of infringement, misappropriation or other violations of intellectual property rights against us and we are currently involved in legal proceedings with Finjan, Inc., which has filed a complaint against us and our wholly-owned subsidiary, Rapid7 LLC, in the United States District Court, District of Delaware, alleging patent infringement. Third parties may also assert claims against our customers or channel partners, whom we typically indemnify against claims that our solutions infringe, misappropriate or otherwise violate the intellectual property rights of third parties. As the numbers of products and competitors in our market increase and overlaps occur, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violation of intellectual property rights by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from our business.

The patent portfolios of our most significant competitors are larger than ours. This disparity may increase the risk that they may sue us for patent infringement and may limit our ability to counterclaim for patent infringement or settle through patent cross-licenses. In addition, future assertions of patent rights by third parties, and any resulting litigation, may involve patent holding companies or other adverse patent owners who have no relevant product revenues and against whom our own patents may therefore provide little or no deterrence or protection. There can be no assurance that we will not be found to infringe or otherwise violate any third-party intellectual property rights or to have done so in the past.

An adverse outcome of a dispute may require us to:

- pay substantial damages, including treble damages, if we are found to have willfully infringed a third party's patents or copyrights;
- cease making, licensing or using solutions that are alleged to infringe or misappropriate the intellectual property of others;
- expend additional development resources to attempt to redesign our solutions or otherwise develop non-infringing technology, which may not be successful;
- enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights; and
- indemnify our partners and other third parties.

In addition, royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Some licenses may also be non-exclusive, and therefore, our competitors may have access to the same technology licensed to us.

Any of the foregoing events could seriously harm our business, financial condition and results of operations.

We are subject to governmental export and import controls that could impair our ability to compete in international markets and/or subject us to liability if we are not in compliance with applicable laws.

Like other U.S.-based IT security products, our products are subject to U.S. export control and import laws and regulations, including the U.S. Export Administration Regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control. Exports of these products must be made in compliance with these laws and regulations. Compliance with these laws and regulations is complex, and if we were to fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil and criminal penalties, including fines for our company and responsible employees or managers, and, in extreme cases, incarceration of responsible employees and managers and the possible loss of export privileges. Complying with export control laws and regulations, including obtaining the necessary licenses or authorizations, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. Changes in export or import laws and regulations, shifts in the enforcement or scope of existing laws and regulations, or changes in the countries, governments, persons, products or services targeted by such laws and regulations, could also result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers. A decreased use of our products or limitation on our ability to export or sell our products could adversely affect our business, financial condition and results of operations.

We also incorporate encryption technology into our products. These encryption products may be exported outside of the United States only with the required export authorizations, including by a license, a license exception or other appropriate government authorizations, including the filing of a product classification request. In addition, various countries regulate the import and domestic use of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Governmental regulation of encryption technology and regulation of imports or exports of encryption products, or our failure to obtain required import or export approval for our products, when applicable, could harm our international sales and adversely affect our revenue. Compliance with applicable laws and regulations regarding the export and import of our products, including with respect to new products or changes in existing products, may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products globally or, in some cases, could prevent the export or import of our products to certain countries, governments, entities or persons altogether.

Further, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments or persons. Although we take precautions to prevent our products from being provided to those subject to U.S. sanctions, such measures may be circumvented and we have in the past identified limited instances of non-compliance with these rules. After these instances were disclosed to U.S. authorities, those authorities decided to not bring enforcement actions against or impose penalties on us.

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

As of December 31, 2020, we had federal and state net operating loss carryforwards (NOLs), of $376.7 million and $290.2 million, respectively, available to offset future taxable income, which expire in various years beginning in 2021 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code imposes limitations on a company's ability to use NOLs if a company experiences a more-than-50-percentage point ownership change over a three-year testing period. Based upon our analysis as of December 31, 2019, we determined that although a limitation on our historical NOLs exists, we do not expect this limitation to impair our ability to use our NOLs prior to expiration. However, if changes in our ownership occur in the future, our ability to use our NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results, cash balances and the market price of our common stock.

We could be subject to additional tax liabilities.

We are subject to U.S. federal, state, local and sales taxes in the United States and foreign income taxes, withholding taxes and transaction taxes in numerous foreign jurisdictions. We generally conduct our international operations through wholly-owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are and will continue to be subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Significant judgment is required in evaluating our tax positions and our worldwide provision for taxes. During the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain and the relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations by recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the valuation of our deferred tax assets and liabilities. We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes, sales taxes and value-added taxes against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period for which a determination is made.

Risks Related to Data Privacy and Cybersecurity

Real or perceived failures, errors or defects in our solutions could adversely affect our brand and reputation, which could have an adverse effect on our business and results of operations.

If our products or professional services fail to detect vulnerabilities in our customers' cyber security infrastructure, or if our products or professional services fail to identify and respond to new and increasingly complex methods of cyber attacks, our business and reputation may suffer. There is no guarantee that our products or professional services will detect all vulnerabilities and threats, especially in light of the rapidly changing security landscape to which we must respond, including the constantly evolving techniques used by attackers to access or sabotage data. If we fail to update our solutions in a timely or effective manner to respond to these threats, our customers could experience security breaches. Many federal, state and foreign governments have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, and any association of us with such publicity may cause our customers to lose confidence in the effectiveness of our solutions. An actual or perceived security breach or theft of sensitive data of one of our customers, regardless of whether the breach is attributable to the failure of our products or professional services, could adversely affect the market's perception of our offerings and subject us to legal claims.

Additionally, our products may falsely detect vulnerabilities or threats that do not actually exist. For example, our Metasploit offering relies on information provided by an active community of security researchers who contribute new exploits, attacks and vulnerabilities. We expect that the continued contributions from these third parties will both enhance the robustness of Metasploit and also support our sales and marketing efforts. However, to the extent that the information from these third parties is inaccurate or malicious, the potential for false indications of security vulnerabilities and susceptibility to attack increases. These false positives, while typical in the industry, may impair the perceived reliability of our offerings and may therefore adversely impact market acceptance of our products and professional services and could result in negative publicity, loss of customers and sales and increased costs to remedy any problem. Further, to the extent that our community of third parties is reduced in size or participants become less active, we may lose valuable insight into the dynamic threat landscape and our ability to quickly respond to new exploits, attacks and vulnerabilities may be reduced.

Our products may also contain undetected errors or defects. Errors or defects may be more likely when a product is first introduced or as new versions are released, or when we introduce an acquired company's products. We have experienced these errors or defects in the past in connection with new products, acquired products and product upgrades and we expect that these errors or defects will be found from time to time in the future in new, acquired or enhanced products after commercial release. Defects may cause our products to be vulnerable to attacks, cause them to fail to detect vulnerabilities or threats, or temporarily interrupt customers' networking traffic. Any errors, defects, disruptions in service or other performance problems with our products may damage our customers' businesses and could hurt our reputation. If our products or professional services fail to detect vulnerabilities or threats for any reason, we may incur significant costs, the attention of our key personnel could be diverted, our customers may delay or withhold payment to us or elect not to renew or other significant customer relations problems may arise. We may also be subject to liability claims for damages related to errors or defects in our products. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our products may harm our business and operating results. Limitation of liability provisions in our standard terms and conditions and our other agreements may not adequately or effectively protect us from any claims related to errors or defects in our solutions, including as a result of federal, state or local laws or ordinances or unfavorable judicial decisions in the United States or other countries.

Our brand, reputation and ability to attract, retain and serve our customers are dependent in part upon the reliable performance of our products and network infrastructure.

Our brand, reputation and ability to attract, retain and serve our customers are dependent in part upon the reliable performance of our products and network infrastructure. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints and fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time.

We utilize third-party data centers located in North America, Europe, Australia and Asia, in addition to operating and maintaining certain elements of our own network infrastructure. Some elements of our complex infrastructure are operated by third parties that we do not control and that could require significant time to replace. We expect this dependence on third parties to continue. More specifically, certain of our products, in particular our cloud-based products, are hosted on cloud providers such as Amazon Web Services, which provides us with computing and storage capacity. Interruptions in our systems or the third-party systems on which we rely, whether due to system failures, computer viruses, physical or electronic break-ins, or other factors, could affect the security or availability of our products, network infrastructure and website.

Prolonged delays or unforeseen difficulties in connection with adding capacity or upgrading our network architecture when required may cause our service quality to suffer. Problems with the reliability or security of our systems or third-party systems on which we rely could harm our reputation. Damage to our reputation and the cost of remedying these problems could negatively affect our business, financial condition, and operating results.

Additionally, our existing data center facilities and third-party hosting providers have no obligations to renew their agreements with us on commercially reasonable terms or at all, and certain of the agreements governing these relationships may be terminated by either party at any time. If we are unable to maintain or renew our agreements with these providers on commercially reasonable terms or if in the future we add additional data center facilities or third-party hosting providers, we may experience additional costs or downtime or delays as we transition our operations.

Any disruptions or other performance problems with our products could harm our reputation and business and may damage our customers' businesses. Interruptions in our service delivery might reduce our revenue, cause us to issue credits to customers, subject us to potential liability and cause customers to not renew their purchases or our products.

If we or our third party service providers experience a security breach or unauthorized parties otherwise obtain access to our customers' data, our reputation may be harmed, demand for our solutions may be reduced and we may incur significant liabilities.

We sell cyber security and data analytics products. As a result, we have been and will be a target of cyber attacks designed to impede the performance of our products, penetrate our network security or the security of our cloud platform or our internal systems, or that of our customers, misappropriate proprietary information and/or cause interruptions to our services. For example, because Metasploit serves as an introduction to hacking for many individuals, a successful cyber attack on us may be perceived as a victory for the cyber attacker, thereby increasing the likelihood that we may be a target of cyber attacks, even absent financial motives. In addition, with so many of our employees now working remotely due to the global COVID-19 pandemic, we may face an increased risk of attempted security breaches and incidents.

Also, as more of our customers move to working remotely for extended periods of time during the global COVID-19 pandemic we expect there will be an increased amount of personal, confidential and proprietary information that is stored in our solutions, which increases the exposure and risk of cyberattacks and other malicious internet-based activity. While we have taken steps to protect such information that we have access to, including information we may obtain through our customer support services or customer usage of our offerings, our security measures or those of our third-party service providers could be breached or otherwise fail to prevent unauthorized access to or disclosure, modification, misuse, loss or destruction of such information. Computer malware, viruses, social engineering (phishing attacks), and increasingly sophisticated network attacks have become more prevalent in our industry, particularly against cloud services. Further, if our systems or those of our third-party service providers are breached as a result of third-party action, employee error or misconduct, attackers could learn critical information about how our products operate to help protect our customers' IT infrastructures from cyber risk, thereby making our customers more vulnerable to cyber attacks.

We also process, store and transmit our own data as part of our business and operations. This data may include personal, confidential or proprietary information. We make use of third-party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, credit card processing, human resources services, customer relationship management, enterprise risk planning and other functions. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches and incidents, and to reduce the impact of a security breach or incident at a third-party vendor, such measures cannot provide absolute security. There can be no assurance that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. While we maintain measures designed to protect the integrity, confidentiality and security of our data, our security measures or those of our third-party service providers could fail and result in unauthorized access to or disclosure, modification, misuse, loss or destruction of such data.

Any security breach or other security incident, or the perception that one has occurred, could result in a loss of customer confidence in the security of our offerings and damage to our brand, reduce the demand for our offerings, disrupt normal business operations, require us to spend material resources to investigate or correct the breach and to prevent future security breaches and incidents, expose us to legal liabilities, including litigation, regulatory enforcement, and indemnity obligations, and adversely affect our revenues and operating results. These risks may increase as we continue to grow the number and scale of our cloud services, and process, store, and transmit increasing amounts of data.

Additionally, we cannot be certain that our insurance coverage will be adequate for data security liabilities actually incurred, that insurance will cover any indemnification claims against us relating to any incident, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

If Metasploit were to be used by attackers to exploit vulnerabilities in the cyber security infrastructures of third parties, our reputation and business could be harmed.

Although Metasploit is a penetration testing tool that is intended to allow organizations to test the effectiveness of their cyber security programs, Metasploit has in the past and may in the future be used to exploit vulnerabilities in the cyber security infrastructures of third parties. While we have incorporated certain features into Metasploit to deter misuse, there is no guarantee that these controls will not be circumvented or that Metasploit will only be used defensively or for research purposes. Any actual or perceived security breach, malicious intrusion or theft of sensitive data in which Metasploit is believed to have been used could adversely affect perception of, and demand for, our offerings. Further, the identification of new exploits and vulnerabilities by the Metasploit community may enhance the knowledge base of cyber attackers or enable them to undertake new forms of attacks. If any of the foregoing were to occur, we could suffer negative publicity and loss of customers and sales, as well as possible legal claims.

Because our products collect and store user and related information, domestic and international privacy and cyber security concerns, and other laws and regulations, could result in additional costs and liabilities to us or inhibit sales of our products.

We, and our customers, are subject to a number of domestic and international laws and regulations that apply to online services and the internet generally. These laws, rules and regulations address a range of issues including data privacy and cyber security, and restrictions or technological requirements regarding the collection, use, storage, protection, retention or transfer of data. The regulatory framework for online services, data privacy and cyber security issues worldwide can vary substantially from jurisdiction to jurisdiction, is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws, rules and regulations regarding the collection, use, storage and disclosure of information, web browsing and geolocation data collection, data analytics, cyber security and breach notification procedures. Interpretation of these laws, rules and regulations and their application to our products and professional services in the United States and foreign jurisdictions is ongoing and cannot be fully determined at this time.

In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act, the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Gramm Leach Bliley Act and state breach notification laws, as well as regulator enforcement positions and expectations reflected in federal and state regulatory actions, settlements, consent decrees and guidance documents. In June 2018, California enacted the California Consumer Privacy Act (CCPA), which took effect on January 1, 2020. The CCPA requires a broad range of companies that do business in California to honor the requests of California residents to access and require deletion of their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used and shared. The CCPA provides for civil penalties of up to $7,500 for violations, and a private right of action for data breaches that allows private plaintiffs to seek the greater of actual damages or statutory damages of up to $750 per affected consumer per data breach. These statutory remedies are expected to prompt an increase in data breach litigation and the cost to resolve it. The CCPA has prompted a number of proposals for new federal and state privacy legislation in the United States that, if passed, could increase our potential liability, increase our compliance costs and adversely affect our business.

Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal frameworks with which we, and/or our customers, must comply, including the European Union's General Data Protection Regulation, (EU) 2016/679 (GDPR), laws implemented by European Union (EU) member states which contain derogations from, or exemptions or authorizations for the purposes of, the GDPR, or which are otherwise intended to supplement the GDPR and, following the withdrawal of the United Kingdom (UK) from the EU on January 31, 2020 and the expiry of the transitional arrangements agreed to between the UK and EU on December 31, 2020, the so-called 'UK GDPR' (i.e., the GDPR as it continues to form part of UK law by virtue of section 3 of the European Union (Withdrawal) Act 2018, as amended (including by the various Data Protection, Privacy and Electronic Communications (Amendments etc) (EU Exit) Regulations) (European Data Protection Laws). The European Data Protection Laws present significantly greater risks, compliance burdens and costs for companies with users and operations in the EU and UK. Under the GDPR, fines of up to 20 million euros or up to 4% of the annual global turnover of the infringer, whichever is greater, could be imposed for significant non-compliance and similar levels of fines could also be imposed under the UK GDPR.

The European Data Protection Laws are broad in their application and apply when we do business with EU- and UK-based customers and when our U.S.-based customers collect and use personal data that originates from individuals resident in the EU and UK. They also apply to transfers of personal data between us and our EU- and UK-based subsidiaries, including employee information. Further, many U.S. federal and state and other foreign government bodies and agencies have introduced, and are currently considering, additional laws and regulations. Non-compliance with these laws could result in penalties or significant legal liability. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition.

European Data Protection Laws generally prohibit the transfer of personal data from the European Economic Area (EEA), the UK and Switzerland (Europe), to the United States and most other countries unless the parties to the transfer have implemented specific safeguards to protect the transferred personal data. One of the primary safeguards used for transfers of personal data from Europe to the United States was the Privacy Shield framework which is administered by the U.S. Department of Commerce. To facilitate the transfer of both customer and employee personal data from Europe to the United States, we self-certified under the EU-US Privacy Shield framework on December 20, 2016. However, this framework was recently invalidated by a decision of the EU's highest court in July 2020 and authorities in the UK and Switzerland have similarly invalidated use of the Privacy Shield as a vehicle for lawful data transfers from those countries to the United States. The same decision also cast doubt on the ability to use one of the primary alternatives to the Privacy Shield, namely, the European Commission's Standard Contractual Clauses (SCCs), to lawfully transfer personal data from Europe to the United States and most other countries. At present, there are few if any viable alternatives to the SCCs. As such, our processing of personal data from Europe may not comply with European Data Protection Law. This may increase our exposure to the GDPR's and UK GDPR's heightened sanctions for violations of its cross-border data transfer restrictions, including injunctions against transferring personal data subject to the GDPR. This may also reduce demand for our services from companies subject to European Data Protection Laws. Loss of our ability to import personal data from Europe may also require us to increase our data processing capabilities in the EEA at significant expense.

Although by virtue of the UK GDPR, the GDPR applies in the UK in substantially unvaried form, going forward there will be increasing scope for divergence in application, interpretation and enforcement of the data protection law as between the UK and the EEA. Furthermore, it is unclear whether transfers of personal data from the EEA to the UK will be permitted to take place on the basis of a future adequacy decision of the European Commission, or whether a 'transfer mechanism,' such as the SCCs, will be required. For the meantime, under the post-Brexit Trade and Cooperation Agreement between, on the one hand, the EU and the European Atomic Energy Community and, on the other, the UK, it has been agreed that transfers of personal data to the UK from EU member states will not be treated as "restricted transfers" to a non-EEA country for a period of up to four months from January 1, 2021, plus a potential further two months extension (the adequacy assessment period). This will also apply to transfers to the UK from EEA member states, assuming those states accede to the relevant provision of the Trade and Cooperation Agreement. This adequacy assessment period may end sooner, for example, in the event that the European Commission adopts an adequacy decision in respect of the UK. If the European Commission does not adopt an 'adequacy decision' in respect of the UK prior to the expiry of the extended adequacy assessment period, from that point onwards the UK will be an 'inadequate third country' under the GDPR and transfers of data from the EEA to the UK will require a 'transfer mechanism,' such as the SCCs.

Additionally, other countries outside of Europe have enacted or are considering enacting similar cross-border data transfer restrictions and laws requiring local data residency, which could increase the cost and complexity of delivering our services and operating our business. In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing practices or the features of our products. We may also be subject to claims of liability or responsibility for the actions of third parties with whom we interact or upon whom we rely in relation to various services, including but not limited to vendors and business partners. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our products, which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

The costs of compliance with, and other burdens imposed by, the laws, rules, 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 software. Privacy or cyber security concerns, whether valid or not valid, may inhibit market adoption of our products particularly in certain industries and foreign countries.

Further, there are active legislative discussions regarding the implementation of laws or regulations that could restrict the manner in which security research is conducted and that could restrict or possibly bar the conduct of penetration testing and the use of exploits, which are an essential component of our Metasploit product and our business strategy more generally. Our failure to comply with existing laws, rules or regulations, changes to existing laws or their interpretation, or the imposition of new laws, rules or regulations, could result in additional costs and may necessitate changes to our business practices and divergent operating models, which may have a material and adverse impact on our business, results of operations, and financial condition.

Organizations may be reluctant to purchase our cloud-based offerings due to the actual or perceived vulnerability of cloud solutions.

Some organizations have been reluctant to use cloud solutions for cyber security, such as our InsightVM, InsightIDR, InsightAppSec, InsightConnect and DivvyCloud, because they have concerns regarding the risks associated with the reliability or security of the technology delivery model associated with this solution. If we or other cloud service providers experience security incidents, breaches of customer data, disruptions in service delivery or other problems, the market for cloud solutions as a whole may be negatively impacted, which could harm our business.

Risks Related to our Common Stock

The market price of our common stock has been and is likely to continue to be volatile.

The market price of our common stock may be highly volatile and may fluctuate substantially as a result of a variety of factors, some of which are related in complex ways. Since shares of our common stock were sold in our initial public offering, or IPO, in July 2015 at a price of $16.00 per share, our stock price has ranged from an intraday low of $9.05 to an intraday high of $94.60 through February 19, 2021. Factors that may affect the market price of our common stock include:

- actual or anticipated fluctuations in our financial condition and operating results;
- variance in our financial performance from expectations of securities analysts;
- changes in our projected operating and financial results;
- changes in the prices of our products and professional services;
- changes in laws or regulations applicable to our products or professional services;

- announcements by us or our competitors of significant business developments, acquisitions or new offerings;
- our involvement in any litigation or investigations by regulators;
- our sale of our common stock or other securities in the future;
- changes in our board of directors, senior management or key personnel;
- trading volume of our common stock;
- price and volume fluctuations in the overall stock market;
- changes in the anticipated future size and growth rate of our market;
- sales of shares of our common stock by us or our stockholders, including sales and purchases of any common stock issued upon conversion of our convertible senior notes; and
- general economic, regulatory and market conditions.

Recently, the stock markets, and in particular the market on which our common stock is listed, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies due to, among other factors, the actions of market participants or other actions outside of our control, including general market volatility caused by the COVID-19 pandemic. These fluctuations have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial costs and divert our management's attention.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Future sales of our common stock or equity-linked securities in the public market could lower the market price for our common stock and adversely impact the trading price of the Notes.

In the future, we may sell additional shares of our common stock or equity-linked securities to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options, settlement of other equity incentive awards and upon conversion of the Notes. The indentures for the Notes do not restrict our ability to issue additional common stock or equity-linked securities in the future. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock or equity-linked securities, or the perception that such issuances and sales may occur, could adversely affect the trading price of the Notes and the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-linked securities.

Risks Related to our Indebtedness

We have a significant amount of debt that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur additional debt in the future, which may adversely affect our operations and financial results. We may not have sufficient cash flow from our business to pay our substantial debt when due.

As of December 31, 2020, we had $230.0 million aggregate principal amount of indebtedness under the convertible senior notes due in 2023 (the 2023 Notes) and an additional $230.0 million aggregate principal amount of indebtedness under the convertible senior notes due in 2025 (the 2025 Notes) (collectively, the Notes). In addition, we may also incur indebtedness under our senior secured credit facility. Our indebtedness may:

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

Further, the indentures governing the Notes do not restrict our ability to incur additional indebtedness, secure existing or future debt, recapitalize our existing or future debt or take a number of other actions that could intensify the risks discussed above and below. Further, we and our subsidiaries may incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit facility and any future debt instruments existing at the time, some of which may be secured indebtedness. While our senior secured credit facility restricts our ability to incur additional indebtedness, if our senior secured credit facility is terminated, we may not be subject to such restriction under the terms of such indebtedness.

Our ability to pay our debt when due or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. In addition, any required repurchase of the Notes for cash as a result of a fundamental change or voluntary redemption (in each case, pursuant to the terms of the Notes) would lower our current cash on hand such that we would not have that cash available to fund operations. If we are unable to generate sufficient cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring our debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

In addition, our senior secured credit facility contains, and any future additional indebtedness that we may incur may contain, financial and other restrictive covenants that limit our ability to operate our business, raise capital, pay dividends and/or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full. Any such event of default under our senior secured credit facility would give the lenders the right to terminate their commitments to provide additional loans under our senior secured credit facility and to declare any and all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders under our senior secured credit facility would have the right to proceed against the collateral in which we granted a security interest to them, which consists of substantially all our assets. If the debt under our senior secured credit facility were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately materially and adversely affect our cash flows, business, results of operations, financial condition and our ability to make payments under our indebtedness, including the Notes, when due. Further, the terms of any new or additional financing may be on terms that are more restrictive or on terms that are less desirable to us.

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

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. As disclosed in Note 11 to our consolidated financial statements, the conditional conversion feature of the 2023 Notes was triggered as of December 31, 2020, and the 2023 Notes are convertible at the option of the holders, in whole or in part, between January 1, 2021 and March 31, 2021. Whether the 2023 Notes will be convertible following such fiscal quarter will depend on the continued satisfaction of this condition or another conversion condition in the future. As of December 31, 2020, the 2025 Notes are not convertible at the option of the holder. In addition, even if holders of Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

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

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

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are included in the denominator for purposes of calculating diluted earnings per share.

We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. For example, in August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* which changes the accounting for the convertible debt instruments described above. The standard eliminates beneficial conversion feature and cash conversion models resulting in more convertible instruments being accounted for as a single unit; and simplifies classification of debt on the balance sheet and earnings per share calculation. The standard is effective for us in the first quarter of fiscal 2022 and can be adopted on a full or modified retrospective basis. We plan to adopt this standard in the first quarter of 2021 under the modified retrospective basis. Adopting this guidance will reduce non-cash interest expense, and thereby increase net income, in our consolidated financial statements. Additionally, the treasury stock method for calculating earnings per share will no longer be allowed for convertible debt instruments whose principal amount may be settled using shares. Rather, the if-converted method will be required. Application of the "if converted" method may reduce our reported diluted earnings per share. We cannot be sure whether other changes may be made to the current accounting standards related to the Notes, or otherwise, that could have an adverse impact on our financial statements.

The phaseout of LIBOR, or the replacement of LIBOR with a different reference rate, may adversely affect interest rates.

On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it would phase out LIBOR by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021, or if alternative rates or benchmarks will be adopted. Changes in the method of calculating LIBOR, or the replacement of LIBOR with an alternative rate or benchmark, may adversely affect interest rates and result in higher borrowing costs. This could materially and adversely affect our results of operations, cash flows and liquidity. We cannot predict the effect of the potential changes to LIBOR or the establishment and use of alternative rates or benchmarks. We may need to renegotiate our senior secured credit facility or incur other indebtedness, and changes in the method of calculating LIBOR, or the use of an alternative rate or benchmark, may negatively impact the terms of such indebtedness. If changes are made to the method of calculating LIBOR or LIBOR ceases to exist, we may need to amend certain contracts, including our senior secured credit facility, and we cannot predict what alternative rate or benchmark would be negotiated. This may result in an increase to our interest expense.

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

In connection with the pricing of the Notes and the exercise by the initial purchasers of their option to purchase additional Notes, we entered into capped call transactions with certain counterparties (Capped Calls). The Capped Calls cover, subject to customary adjustments, the number of shares of our common stock initially underlying the Notes. The Capped Calls are expected to offset the potential dilution as a result of conversion of the Notes. In connection with establishing their initial hedge of the capped call transactions, the counterparties or their respective affiliates entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricings of the Notes, including with certain investors in the Notes. The counterparties and/or or their respective affiliates may modify or unwind their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so on each exercise date of the capped call transactions, which are scheduled to occur during the applicable observation period relating to any conversion of the 2023 Notes on or after February 1, 2023, or relating to any conversion of the 2025 Notes on or after November 1, 2024, in each case that is not in connection with a redemption). We cannot make any prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the prices of the Notes or the shares of our common stock. Any of these activities could adversely affect the value of the Notes and our common stock.

We are subject to counterparty risk with respect to the capped call transactions.

The option counterparties are financial institutions, and we will be subject to the risk that one or more of the option counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the Capped Calls. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transaction. Our exposure will depend on many factors but, generally, our exposure will increase if the market price or the volatility of our common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

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

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

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

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

The conversion of some or all of the Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares of our common stock upon conversion of any of the Notes. As disclosed in Note 11 to our consolidated financial statements, the conditional conversion feature of the 2023 Notes was triggered as of December 31, 2020, and the 2023 Notes are convertible at the option of the holders, in whole or in part, between January 1, 2021 and March 31, 2021. Whether the Notes will be convertible following such fiscal quarter will depend on the continued satisfaction of this condition or another conversion condition in the future. As of December 31, 2020, the 2025 Notes are not convertible at the option of the holder. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the price of our common stock.

General Risks

Failure to comply with governmental laws and regulations could harm our business.

Our business is subject to regulation by various federal, state, local and foreign governments. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, injunctions or other collateral consequences. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, reputation, results of operations and financial condition.

Our business is subject to the risks of pandemics, earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by manmade problems such as terrorism.

A significant public health crisis, epidemic or pandemic (including the ongoing COVID-19 pandemic), or a natural disaster, such as an earthquake, fire or a flood, or a significant power outage could have a material adverse impact on our business, operating results and financial condition. In addition, public health crises or natural disasters could affect our channel partners' ability to perform services for us on a timely basis. In the event we or our channel partners are hindered by any of the events discussed above, our ability to provide our products or professional services to customers could be delayed.

In addition, our facilities and those of our third-party data centers and hosting providers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. The occurrence of a public health crisis, natural disaster, power failure or an act of terrorism, vandalism or other misconduct, a decision by a third party to close a facility on which we rely without adequate notice, or other unanticipated problems could result in lengthy interruptions in provision or delivery of our products, potentially leaving our customers vulnerable to cyber attacks. The occurrence of any of the foregoing events could damage our systems and hardware or could cause them to fail completely, and our insurance may not cover such events or may be insufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, that may result from interruptions in our service as a result of system failures.

All of the aforementioned risks may be exacerbated if our disaster recovery plans or the disaster recovery plans established for our third-party data centers and hosting providers prove to be inadequate. To the extent that any of the above results in delayed or reduced customer sales, our business, financial condition and results of operations could be adversely affected.

We are obligated to maintain proper and effective internal controls over financial reporting and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We have been and are required, pursuant to Section 404 of the Sarbanes-Oxley Act (Section 404), to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. While we have established certain procedures and control over our financial reporting processes, we cannot assure you that these efforts will prevent restatements of our financial statements in the future.

Our independent registered public accounting firm is also required, pursuant to Section 404, to report annually on the effectiveness of our internal control over financial reporting. This assessment is required to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. For future reporting periods, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion.

If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion that our internal controls over financial reporting are effective, investors could lose confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and Nasdaq. Failure to remediate any material weakness in our internal control over financial reporting, or to maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

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

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

- authorize our board of directors to issue preferred stock without further stockholder action and with voting liquidation, dividend and other rights superior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent, and limit the ability of our stockholders to call special meetings;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for director nominees;
- establish that our board of directors is divided into three classes, with directors in each class elected prior to our 2021 annual meeting serving three-year staggered terms;
- prior to June 30, 2022 require the approval of holders of two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our amended and restated bylaws or amend or repeal the provisions of our

amended and restated certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action by written consent or call a special meeting;

- prohibit cumulative voting in the election of directors; and
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, who are responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder. Any of the foregoing provisions could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our amended and restated certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or (4) any action asserting a claim governed by the internal affairs doctrine. Our amended and restated certificate of incorporation further provides that any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have notice of and consented to the foregoing provision. The forum selection clause in our amended and restated certificate of incorporation may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters occupy approximately 147,000 square feet in Boston, Massachusetts under an operating lease that expires in November 2029. In July 2019, we entered into a lease agreement with respect to approximately 67,000 square feet at 100 Causeway Street, Boston, Massachusetts, to be located in the same complex as, and in order to expand, our corporate headquarters. The term of the lease is 98 months and is expected to commence in October 2021. We have additional U.S. offices including Los Angeles and San Francisco, California; Austin, Texas; and Arlington, Virginia. We also lease various international offices including in Toronto, Canada; Reading, United Kingdom; Belfast, Northern Ireland; Dublin and Galway, Ireland; Melbourne, Australia and Singapore.

We believe that our current facilities are suitable and adequate to meet our current needs. We intend to add new facilities or expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Item 3. Legal Proceedings.

In October 2018, Finjan, Inc. (Finjan) filed a complaint against us and our wholly-owned subsidiary, Rapid7 LLC, in the United States District Court, District of Delaware, alleging patent infringement of seven patents held by them. In the complaint, Finjan sought unspecified damages, attorneys' fees and injunctive relief. We intend to vigorously contest Finjan's claims. The final outcome, including our liability, if any, with respect to Finjan's claims, is uncertain. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

In addition, from time to time, we are a party to litigation or subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business, financial condition or results of operations. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is listed on the Nasdaq Global Market under the symbol "RPD."

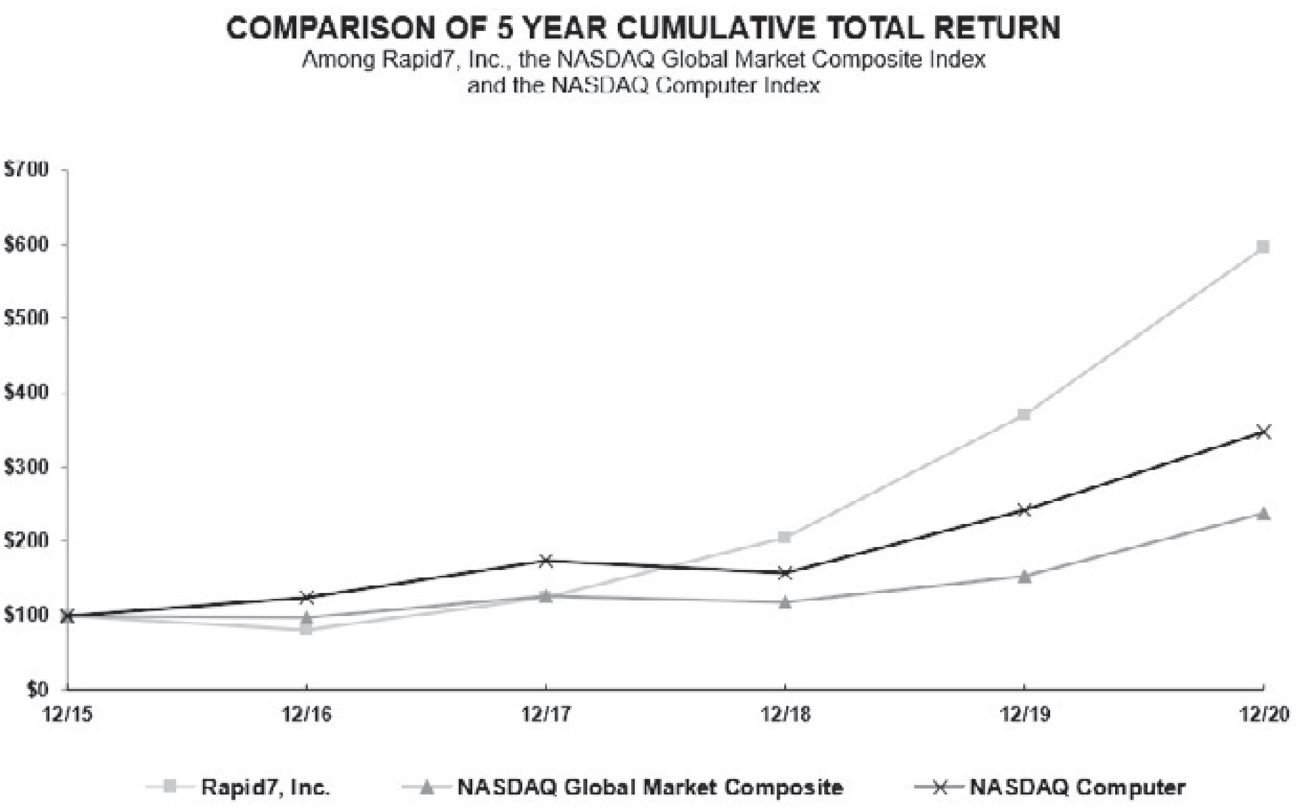
As of December 31, 2020, there were 44 holders of record of our common stock, including Cede & Co., a nominee for The Depository Trust Company (DTC), which holds shares of our common stock on behalf of an indeterminate number of beneficial owners. All of the shares of common stock held by brokerage firms, banks and other financial institutions as nominees for beneficial owners are deposited into participant accounts at DTC, and are considered to be held of record by Cede & Co. as one stockholder. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Stock Performance Graph

The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filings.

The following graph shows a comparison from December 31, 2015 through December 31, 2020 of the cumulative total return for an investment of $100 in our common stock, the Nasdaq Global Market and the Nasdaq Computer Index. Data for the Nasdaq Global Market and the Nasdaq Computer Index assume reinvestment of dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020
Rapid7, Inc.	$ 100.00	$ 80.44	$ 123.33	$ 205.95	$ 370.26	$ 595.90
Nasdaq Global Market Composite	100.00	97.96	125.49	118.10	153.01	238.08
Nasdaq Computer	100.00	123.67	174.80	157.40	241.96	347.26

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Initial Public Offering of Common Stock

None.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plan is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

Item 6. Selected Financial Data.

The following selected historical financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes appearing in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K to fully understand the factors that may affect the comparability of the information presented below.

The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

The following selected consolidated statements of operations data for the years ended December 31, 2020, 2019 and 2018, and the consolidated balance sheet data as of December 31, 2020 and 2019, have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the year ended December 31, 2017 and 2016 and the consolidated balance sheet data as of December 31, 2018, 2017 and 2016 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2020	2019	2018	2017 (1)	2016 (1)
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenue:					
Products	$ 382,922	$ 297,897	$ 210,794	$ 163,016	$ 126,807
Professional services	28,564	29,050	33,297	37,924	30,630
Total revenue	411,486	326,947	244,091	200,940	157,437
Cost of revenue(2):					
Products	96,864	68,179	47,488	33,074	19,552
Professional services	24,653	22,967	23,595	23,836	20,173
Total cost of revenue	121,517	91,146	71,083	56,910	39,725
Operating expenses(2):					
Research and development	108,568	79,364	67,743	50,938	47,955
Sales and marketing	195,981	157,722	123,310	111,593	90,524
General and administrative	59,519	44,710	34,993	30,293	28,282
Total operating expense	364,068	281,796	226,046	192,824	166,761
Loss from operations	(74,099)	(45,995)	(53,038)	(48,794)	(49,049)
Interest income	1,454	6,014	3,229	862	—
Interest expense	(24,137)	(13,389)	(4,934)	(87)	131
Other income (expense), net	(81)	(433)	(336)	313	(109)
Loss before income taxes	(96,863)	(53,803)	(55,079)	(47,706)	(49,027)
Provision for (benefit from) income taxes	1,986	42	466	(2,236)	(27)
Net loss	$ (98,849)	$ (53,845)	$ (55,545)	$ (45,470)	$ (49,000)
Net loss per share, basic and diluted	$ (1.94)	$ (1.10)	$ (1.20)	$ (1.06)	$ (1.19)
Weighted-average common shares outstanding, basic and diluted	51,036,824	48,731,791	46,456,825	42,952,950	41,248,473

(1) On January 1, 2018, we adopted Financial Accounting standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606) using the modified retrospective method. The consolidated statement of operations for the years ended December 31, 2017 and 2016 were not adjusted for the adoption of ASC 606.

(2) Includes stock-based compensation expense and depreciation and amortization expense as follows:

	Year Ended December 31,				
	2020	2019	2018	2017	2016
			(in thousands)		
Stock-based compensation expense:					
Cost of revenue	$ 4,298	$ 2,580	$ 1,692	$ 1,085	$ 610
Research and development	24,423	15,670	10,822	7,205	6,054
Sales and marketing	16,826	11,883	7,569	5,756	6,607
General and administrative	18,341	10,531	7,510	5,495	4,045
Total stock-based compensation expense	$ 63,888	$ 40,664	$ 27,593	$ 19,541	$ 17,316
Depreciation and amortization expense:					
Cost of revenue	$ 13,218	$ 9,110	$ 5,673	$ 3,597	$ 2,529
Research and development	2,844	2,083	1,336	1,077	1,080
Sales and marketing	4,779	3,971	2,783	1,986	1,842
General and administrative	1,790	1,364	1,305	968	1,274
Total depreciation and amortization expense	$ 22,631	$ 16,528	$ 11,097	$ 7,628	$ 6,725

	As of December 31,				
	2020	2019	2018	2017 (1)	2016 (1)
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$173,617	$123,413	$ 99,565	$ 51,562	$ 53,148
Working capital, excluding deferred revenue	398,286	309,441	310,646	139,604	101,527
Total assets	913,122	664,913	559,369	284,136	243,303
Total deferred revenue	309,950	267,744	248,571	224,500	169,063
Total debt	378,586	185,200	174,688	—	—
Total liabilities	841,586	581,745	472,050	259,983	201,265
Total stockholders' equity	71,536	83,168	87,319	24,153	42,038

(1) On January 1, 2018, we adopted ASC 606 using the modified retrospective method. The consolidated balance sheets as of December 31, 2017 and 2016 were not adjusted for the adoption of ASC 606.

Item 7. 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 consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those under "Risk Factors" included in Part I, Item 1A or in other parts of this Annual Report on Form 10-K.

Overview

Rapid7 is advancing security with visibility, analytics, and automation delivered through our Insight Platform. Our solutions simplify the complex, allowing security teams to work more effectively with IT and development to reduce vulnerabilities, monitor for misconfigurations and malicious behavior, investigate and shut down attacks, and automate routine tasks.

In the 20 years that Rapid7 has been in business, security companies and trends have come and gone, while broader technology innovation continues to advance rapidly. Every company is now a technology company, and rampant innovation inevitably creates security risk. The migration of businesses to the cloud, more distributed workforces and ubiquitous connected devices present security teams with an increasingly complex, ever-changing, and unpredictable attack surface.

We believe as cybersecurity challenges continue to rise exponentially, two key factors can prevent organizations from effectively managing their growing security exposure. First, the tools to manage complex security problems are often equally complicated to use. Second, there is a scarcity of cybersecurity professionals who are qualified to successfully manage these sophisticated tools. These two factors compound the difficulties that resource-constrained organizations face when attempting to minimize their security exposure, meet security compliance regulations and provide visibility to their leadership. We call the expanding divide between risk created through innovation and risk effectively managed by security teams the Security Achievement Gap.

We believe Rapid7 is uniquely positioned to improve how customer security challenges are addressed. All of our solutions and services are built with and supported by the expertise of our dedicated team of security researchers and consultants, who bring knowledge of attacker behavior and emerging vulnerabilities directly to customers. We also continue to invest in further simplifying our technology to improve usability, lowering the barrier for teams and organizations who lack resources to manage their security posture.

While our security technology is the foundation of our mission to make successful security accessible to all, technology alone will not solve today's cybersecurity challenges. Our ongoing commitment to researching and partnering with the technology community helps to curb new security risks born through innovation. We are also investing in under-served, at risk communities, like non-profits and hospitals, to better understand their needs and make security technology and services accessible. By continuously improving our technology, stemming the creation of risk in the community, and making security more usable and accessible, Rapid7 aims to close the Security Achievement Gap.

We market and sell our products and professional services to organizations of all sizes globally, including mid-market businesses, enterprises, non-profits, educational institutions and government agencies. Our customers span a wide variety of industries such as technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, education, real estate, transportation, government and professional services. As of December 31, 2020, we had over 9,700 customers in 144 countries, including 46% of the Fortune 100. Our revenue was not concentrated with any individual customer and no customer represented more than 1% of our revenue in 2020, 2019 or 2018.

Recent Developments

Acquisition of Alcide.IO Ltd.

On January 28, 2021, we acquired Alcide.IO Ltd., a leading provider of Kubernetes security for a total purchase price of approximately $50 million in cash, subject to certain adjustments.

COVID-19 Response

Rapid7 remains focused on supporting its customers, partners, employees and communities during the COVID-19 pandemic. The impact of COVID-19 on the global economy and on our business continues to be a fluid situation. We responded quickly to adopt a virtual sales strategy to enable most of our employees to work productively from home, continued our focus on customers and new customers and worked to guard the health and safety of our team, support our customers and partners, mitigate risk, and maximize our financial performance. We are focused on ensuring continuity for our customers and partners. During 2020, we slowed hiring and reduced discretionary spending from what was initially anticipated at the beginning of the fiscal year 2020. In addition, we continue to realize savings that naturally accrue from less travel and virtual rather than in-person events.

The continuing COVID-19 pandemic is expected to result in a sustained global slowdown of economic activity that is likely to decrease demand for a broad variety of goods and services, including from our customers. Our operational and financial performance were negatively impacted by the slowdown in activity associated with the COVID-19 pandemic for the year ending December 31, 2020 and we expect that to continue going forward. The extent of the impact of the COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the disease, its impact on industry events, and its effect on our customers, partners, suppliers and vendors and other parties with whom we do business, all of which are uncertain and cannot be predicted at this time. To the extent possible, we are conducting business as usual, with necessary or advisable modifications to employee travel, employee work locations, and cancellation of Rapid7 in-person marketing events. We will continue to actively monitor the at times rapidly evolving situation related to COVID-19 and may take further actions that alter our business operations, including those that may be required by federal, foreign, state or local authorities, or that we determine are in the best interests of our employees, customers, partners, suppliers, vendors and stockholders. At this point, the extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition is uncertain. Furthermore, due to our subscription model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods.

Our Business Model

We have offerings in five key areas: (1) Vulnerability Risk Management, (2) Incident Detection and Response, (3) Application Security and (4) Cloud Security and (5) Security Orchestration and Automation Response.

We offer our products through a variety of delivery models to meet the needs of our diverse customer base, including:

- Cloud-based subscriptions, which provide our software capabilities to our customers through cloud access and on a subscription basis. Our InsightIDR, InsightVM, InsightAppSec and InsightConnect products are offered as cloud-based subscriptions, generally with a one-year term.
- Managed services, through which we operate our products and provide our capabilities on behalf of our customers. Our Managed Vulnerability Management, Managed Application Security and Managed Detection and Response products are offered on a managed service basis, generally pursuant to one-year agreements.
- Licensed software, including both term and perpetual licenses, and the simultaneous sale of maintenance and support. Our Nexpose, Metasploit, AppSpider and DivvyCloud products are offered through term or perpetual software licenses. Our customers who purchase software licenses also purchase maintenance and support, which provides our customers with telephone and web-based support and ongoing bug fixes and repairs during the term of the maintenance and support agreement, and our customers who purchase our Nexpose and Metasploit products also purchase content subscriptions, which provide them with real-time access to the latest vulnerabilities and exploits. Our maintenance and support and content subscription agreements are typically for one-year terms.

We also offer various professional services across all of our offerings, including deployment and training services related to our software and cloud-based products, incident response services, penetration testing and security advisory services. Customers can purchase our professional services together with our product offerings or on a stand-alone basis pursuant to fixed fee or time-and-materials agreements.

In 2020, 2019 and 2018 recurring revenue, defined as revenue from term software licenses, content subscriptions, managed services, cloud-based subscriptions and maintenance and support, was 90%, 87% and 81%, respectively, of total revenue.

We calculate our renewal rate by dividing the dollar value of renewed customer agreements, including upsells and cross-sells of additional products, but excluding professional services and Logentries, in a trailing 12-month period by the dollar value of the corresponding customer agreements. Our renewal rate was 103%, 108% and 119% for the quarters ended December 31, 2020, 2019 and 2018, respectively. For the quarter ended December 31, 2018, our renewal rate was adjusted from the previously disclosed 120% to 119%, based on a reclassification of certain upsells and cross-sells.

Key Metrics

We monitor the following key metrics to help us measure and evaluate the effectiveness of our operations and as a means to evaluate period-to-period comparisons. We believe that both management and investors benefit from referring to these key metrics as supplemental information in assessing our performance and when planning, forecasting, and analyzing future periods. These key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to certain competitors' operating results. We believe these key metrics are useful to investors both because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and also because they are used by institutional investors and the analyst community to help evaluate the health of our business:

	Year Ended December 31,		
	2020	2019	2018
		(dollars in thousands)	
Total revenue	$ 411,486	$ 326,947	$ 244,091
Year-over-year growth	25.9 %	33.9 %	21.5 %
Non-GAAP income (loss) from operations	$ 2,032	$ 2,404	$ (26,273)
Operating cash flow	$ 4,887	$ (1,420)	$ 6,066

	As of December 31,	
	2020	2019
	(dollars in thousands)	
Number of customers	9,736	9,022
Year-over-year growth	7.9 %	15.5 %
Annualized recurring revenue (ARR)	$ 432,946	$ 338,714
Year-over-year growth	27.8 %	34.5 %

Total Revenue and Growth. We are focused on driving continued revenue growth through increased sales of our products and professional services to new and existing customers. We monitor total revenue and believe it is useful to investors as a measure of the overall success of our business.

Non-GAAP Income (Loss) from Operations. We monitor non-GAAP income (loss) from operations, a non-GAAP financial measure, to analyze our financial results. We believe non-GAAP income (loss) from operations is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making. See Non-GAAP Financial Results for further information on non-GAAP income (loss) from operations and a reconciliation of non-GAAP income (loss) from operations to the comparable GAAP financial measure.

Operating Cash Flow. We monitor our operating cash flow and believe it is a useful to investors as a measure of our overall business performance, which enables us to analyze our financial performance without the effects of certain non-cash items such as stock-based compensation expenses and depreciation and amortization. Additionally, operating cash flow takes into account the increase in deferred revenue as a result of increases in sales of products and services, which reflects the receipt of cash payment for products before they are recognized into revenue. Our operating cash flow is significantly impacted by the timing of commission and bonus payments, accounts payable payments and collections of accounts receivable.

Number of Customers. We believe that the size of our customer base is an indicator of our global market penetration and that our net customer additions are an indicator of the growth of our business. We define a customer as any entity that has (1) an active Rapid7 contract or a contract that expired within 90 days or less of the applicable measurement date; and for Logentries products, those customers with a contract value equal to or greater than $2,400 per year, or (2) purchased Rapid7 professional services within the 12 months preceding the applicable measurement date.

Annualized Recurring Revenue and Growth. Annualized Recurring Revenue (ARR) is defined as the annual value of all recurring revenue related to contracts in place at the end of the quarter. ARR should be viewed independently of revenue and deferred revenue as ARR is an operating metric and is not intended to be combined with or replace these items. ARR is not a forecast of future revenue, which can be impacted by contract start and end dates and renewal rates and does not include revenue reported as perpetual license or professional services revenue in our consolidated statement of operations. We use ARR and believe it is useful to investors as a measure of the overall success of our business.

Non-GAAP Financial Results

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain non-GAAP financial measures, including non-GAAP gross profit, non-GAAP income (loss) from operations, non-GAAP net income (loss), non-GAAP net income (loss) per share and adjusted EBITDA. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons, and use certain non-GAAP financial measures as performance measures under our executive bonus plan. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making. While our non-GAAP financial measures are an important tool for financial and operational decision-making and for evaluating our own operating results over different periods of time, you should review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not rely on any single financial measure to evaluate our business.

We define non-GAAP gross profit, non-GAAP income (loss) from operations, non-GAAP net income (loss) and non-GAAP net income (loss) per share as the respective GAAP balances excluding the effect of stock-based compensation expense, amortization of acquired intangible assets, amortization of debt discount and issuance costs, and certain other items such as acquisition-related expenses, follow-on public offering costs and litigation-related expenses. Non-GAAP net income (loss) per basic and diluted share is calculated as Non-GAAP net income (loss) divided by the weighted average shares used to compute net income (loss) per share, with the number of weighted average shares decreased to reflect the anti-dilutive impact of the capped call transactions entered into in connection with our convertible senior notes.

We believe these non-GAAP financial measures are useful to investors in assessing our operating performance due to the following factors:

- *Stock-based compensation expense.* We exclude stock-based compensation expense because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact our non-cash expense. We believe that providing non-GAAP financial measures that exclude stock-based compensation expense allows for more meaningful comparisons between our operating results from period to period.
- *Amortization of acquired intangible assets.* We believe that excluding the impact of amortization of acquired intangible assets allows for more meaningful comparisons between operating results from period to period as the intangible assets are valued at the time of acquisition and are amortized over several years after the acquisition.
- *Amortization of debt discount and issuance costs.* The expense for the amortization of debt discount and debt issuance costs related to our convertible senior notes and revolving credit facility is a non-cash item and we believe the exclusion of this interest expense provides a more useful comparison of our operational performance in different periods.
- *Litigation-related expenses.* We exclude certain litigation-related expenses consisting of professional fees and related costs incurred by us related to significant litigation outside the ordinary course of business. We believe it is useful to exclude such expenses because we do not consider such amounts to be part of our ongoing operations.
- *Acquisition-related expenses and follow-on public offering costs.* We exclude acquisition-related expenses and follow-on public offering costs as costs that are unrelated to the current operations and neither are comparable to the prior period nor predictive of future results.
- *Anti-dilutive impact of capped call transaction.* Our capped calls transactions are intended to offset potential dilution from the conversion features in our convertible senior notes. Although we cannot reflect the anti-dilutive impact of the capped call transactions under GAAP, we do reflect the anti-dilutive impact of the capped call transactions in non-GAAP net income (loss) per diluted share to provide investors with useful information in evaluating our financial performance on a per share basis.

We define adjusted EBITDA as net loss before (1) interest income, (2) interest expense, (3) other income (expense), net, (4) provision for income taxes, (5) depreciation expense, (6) amortization of intangible assets, (7) stock-based compensation expense, and (8) certain other items. We believe that the use of adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact upon our reported financial results. Further, stock-based compensation expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees.

The following tables reconcile GAAP gross profit to non-GAAP gross profit for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
GAAP total gross profit	$ 289,969	$ 235,801	$ 173,008
Stock-based compensation expense	4,298	2,580	1,692
Amortization of acquired intangible assets	8,700	6,339	3,985
Non-GAAP total gross profit	$ 302,967	$ 244,720	$ 178,685

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
GAAP gross profit – products	$ 286,058	$ 229,718	$ 163,306
Stock-based compensation expense	2,740	1,405	726
Amortization of acquired intangible assets	8,700	6,339	3,985
Non-GAAP gross profit – products	$ 297,498	$ 237,462	$ 168,017

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
GAAP gross profit – professional services	$ 3,911	$ 6,083	$ 9,702
Stock-based compensation expense	1,558	1,175	966
Non-GAAP gross profit – professional services	$ 5,469	$ 7,258	$ 10,668

The following table reconciles GAAP loss from operations to non-GAAP income (loss) from operations for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
GAAP loss from operations	$ (74,099)	$ (45,995)	$ (53,038)
Stock-based compensation expense	63,888	40,664	27,593
Amortization of acquired intangible assets	9,138	6,479	4,144
Acquisition-related expenses	1,343	514	115
Follow-on public offering costs	—	—	205
Litigation-related expenses	1,762	742	600
Non-GAAP income (loss) from operations	$ 2,032	$ 2,404	$ (20,381)

The following table reconciles GAAP net loss to non-GAAP net income (loss) for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands, except share and per share data)		
GAAP net loss	$ (98,849)	$ (53,845)	$ (55,545)
Stock-based compensation expense	63,888	40,664	27,593
Amortization of acquired intangible assets	9,138	6,479	4,144
Acquisition-related expenses	1,343	514	115
Follow-on public offering costs	—	—	205
Litigation-related expenses	1,762	742	600
Release of valuation allowance, acquisition-related	—	(761)	—
Amortization of debt discount and issuance costs	17,518	10,513	3,831
Non-GAAP net (loss) income	$ (5,200)	$ 4,306	$ (19,057)
Reconciliation of net (loss) income per share, basic:			
GAAP net loss per share, basic	$ (1.94)	$ (1.10)	$ (1.20)
Non-GAAP adjustments to net loss	$ 1.84	$ 1.19	$ 0.79
Non-GAAP net (loss) income per share, basic	$ (0.10)	$ 0.09	$ (0.41)
Reconciliation of net (loss) income per share, diluted:			
GAAP net loss per share, diluted	$ (1.94)	$ (1.10)	$ (1.20)
Non-GAAP adjustments to net loss	$ 1.84	$ 1.18	$ 0.79
Non-GAAP net (loss) income per share, diluted	$ (0.10)	$ 0.08	$ (0.41)
Weighted-average common shares used in GAAP per share calculation, basic	51,036,824	48,731,791	46,456,825
Weighted average shares used in non-GAAP per share calculation:			
Basic	51,036,824	48,731,791	46,456,825
Diluted	51,036,824	52,058,103	46,456,825

The following table reconciles GAAP net loss to adjusted EBITDA for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Net loss	$ (98,849)	$ (53,845)	$ (55,545)
Interest income	(1,454)	(6,014)	(3,229)
Interest expense	24,137	13,389	4,934
Other (income) expense, net	81	433	336
Provision for income taxes	1,986	42	466
Depreciation expense	11,036	8,963	6,486
Amortization of intangible assets	11,595	7,565	4,611
Stock-based compensation expense	63,888	40,664	27,593
Acquisition-related expenses	1,343	514	115
Follow-on public offering costs	—	—	205
Litigation-related expenses	1,762	742	600
Adjusted EBITDA	$ 15,525	$ 12,453	$ (13,428)

Components of Results of Operations

Revenue

We generate revenue primarily from selling products and professional services through a variety of delivery models to meet the needs of our diverse customer base.

Products

We generate products revenue from the sale of (1) cloud-based subscriptions, (2) managed services offerings, which utilize our products and (3) term or perpetual software licenses for our products, as well as associated content subscriptions. We also generate revenue when customers purchase or renew agreements for maintenance and support of their software licenses. Substantially all of our customers purchase an agreement for maintenance and support in connection with their purchase of a software license.

Professional Services

We generate professional service revenue from the sale of deployment and training services related to our products, incident response services and security advisory services.

Cost of Revenue

Our total cost of revenue consists of the costs of products and professional services. Cost of revenue includes overhead costs for depreciation, facilities, IT, information security, and recruiting. Our IT overhead costs include IT personnel compensation costs and costs associated with our IT infrastructure. All overhead costs are allocated based on relative headcount.

Cost of Products

Cost of products consists of personnel and related costs for our content, support, managed service and cloud operations teams, including salaries and other payroll related costs, bonuses, stock-based compensation and allocated overhead costs. Also included in cost of products are software license fees, cloud computing costs and internet connectivity expenses directly related to delivering our products, amortization of contract fulfillment costs, as well as amortization of certain intangible assets including internally developed software.

Cost of Professional Services

Cost of professional services consists of personnel and related costs for our professional services team, including salaries and other payroll related costs, bonuses, stock-based compensation, costs of contracted third-party vendors, travel and entertainment expenses and allocated overhead costs.

We expect our cost of revenue to increase on an absolute dollar basis as we continue to grow our revenue.

Gross Margin

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our products and services, transaction volume growth, the mix of revenue between software licenses, cloud-based subscriptions, managed services and professional services and changes in cloud computing costs. We expect our gross margins to fluctuate over time depending on the factors described above.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Operating expenses include overhead costs for depreciation, facilities, IT, information security and recruiting. Our IT overhead costs include IT personnel compensation costs and costs associated with our IT infrastructure. All overhead costs are allocated based on relative headcount.

Research and Development Expense

Research and development expense consists of personnel costs for our research and development team, including salaries and other payroll related costs, bonuses and stock-based compensation. Additional expenses include travel and entertainment, consulting and professional fees for third-party development resources as well as allocated overhead costs.

We expect research and development expense to increase on an absolute dollar basis in the near term as we continue to increase investments in our products and technology platform innovation and to increase slightly as a percentage of total revenue.

Sales and Marketing Expense

Sales and marketing expense consists of personnel costs for our sales and marketing team, including salaries and other payroll related costs, commissions, including amortization of deferred commissions, bonuses and stock-based compensation. Additional expenses include marketing activities and promotional events, travel and entertainment, training costs, amortization of certain intangible assets and allocated overhead costs.

We expect sales and marketing expense to increase on an absolute dollar basis in the near term as we continue to increase investments to drive our revenue growth, but to decrease as a percentage of total revenue.

General and Administrative Expense

General and administrative expense consists of personnel costs for our executive, legal, human resources, and finance and accounting departments, including salaries and other payroll related costs, bonuses and stock-based compensation. Additional expenses include travel and entertainment, professional fees, litigation-related expenses, insurance, acquisition-related expenses, amortization of certain intangible assets and allocated overhead costs.

We expect general and administrative expense to increase on an absolute dollar basis in the near term as we continue to increase investments to support our growth, but to remain relatively consistent as a percentage of total revenue.

Interest Income

Interest income consists primarily of interest income on our cash and cash equivalents and our short and long-term investments.

Interest Expense

Interest expense consists primarily of contractual interest expense, as well as amortization of debt discount and issuance costs related to our convertible senior notes and revolving credit facility.

Other Income (Expense), Net

Other income (expense), net consists primarily of unrealized and realized gains and losses related to changes in foreign currency exchange rates.

Provision for Income Taxes

Provision for income taxes consists of income taxes in foreign jurisdictions where we conduct business, withholding taxes, and state income taxes in the United States. We maintain a full valuation allowance for domestic and certain foreign deferred tax assets, including net operating loss carryforwards and tax credits. Based on our history of losses, we expect to maintain this full valuation allowance for the foreseeable future as it is more likely than not that some or all of those deferred tax assets may not be realized.

Results of Operations

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Consolidated Statement of Operations Data:			
Revenue:			
Products	$ 382,922	$ 297,897	$ 210,794
Professional services	28,564	29,050	33,297
Total revenue	411,486	326,947	244,091
Cost of revenue:(1)			
Products	96,864	68,179	47,488
Professional services	24,653	22,967	23,595
Total cost of revenue	121,517	91,146	71,083
Operating expenses:(1)			
Research and development	108,568	79,364	67,743
Sales and marketing	195,981	157,722	123,310
General and administrative	59,519	44,710	34,993
Total operating expenses	364,068	281,796	226,046
Loss from operations	(74,099)	(45,995)	(53,038)
Interest income	1,454	6,014	3,229
Interest expense	(24,137)	(13,389)	(4,934)
Other income (expense), net	(81)	(433)	(336)
Loss before income taxes	(96,863)	(53,803)	(55,079)
Provision for income taxes	1,986	42	466
Net loss	(98,849)	(53,845)	(55,545)

(1) Cost of revenue and operating expenses include stock-based compensation expense and depreciation and amortization expense as follows:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Stock-based compensation expense:			
Cost of revenue	$ 4,298	$ 2,580	$ 1,692
Research and development	24,423	15,670	10,822
Sales and marketing	16,826	11,883	7,569
General and administrative	18,341	10,531	7,510
Total stock-based compensation expense	$ 63,888	$ 40,664	$ 27,593

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Depreciation and amortization expense:			
Cost of revenue	$ 13,218	$ 9,110	$ 5,673
Research and development	2,844	2,083	1,336
Sales and marketing	4,779	3,971	2,783
General and administrative	1,790	1,364	1,305
Total depreciation and amortization expense	$ 22,631	$ 16,528	$ 11,097

The following table sets forth our consolidated statements of operations data expressed as a percentage of revenue:

	Year Ended December 31,		
	2020	2019	2018
Consolidated Statement of Operations Data:			
Revenue:			
Products	93.1 %	91.1 %	86.4 %
Professional services	6.9	8.9	13.6
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Products	23.5	20.9	19.4
Professional services	6.0	7.0	9.7
Total cost of revenue	29.5	27.9	29.1
Operating expenses:			
Research and development	26.4	24.3	27.8
Sales and marketing	47.6	48.2	50.5
General and administrative	14.5	13.7	14.3
Total operating expenses	88.5	86.2	92.6
Loss from operations	(18.0)	(14.1)	(21.7)
Interest income	0.4	1.8	1.3
Interest expense	(5.9)	(4.1)	(2.0)
Other income (expense), net	—	(0.1)	(0.1)
Loss before income taxes	(23.5)	(16.5)	(22.6)
Provision for income taxes	0.5	—	0.2
Net loss	(24.0)%	(16.5)%	(22.8)%

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

Revenue

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Revenue:				
Products	$ 382,922	$ 297,897	$ 85,025	28.5 %
Professional services	28,564	29,050	(486)	(1.7)
Total revenue	$ 411,486	$ 326,947	$ 84,539	25.9 %

Total revenue increased by $84.5 million in 2020 compared to 2019 which included $6.3 million of revenue attributable to the DivvyCloud acquisition in May 2020. The remainder of the increase in revenue was primarily from existing customers as a result of the continued growth of our customer base. Revenue from renewals, upsells and cross-sells are considered revenue from existing customers.

The increase in total revenue in 2020 was comprised of $68.1 million generated from sales in North America and $16.4 million generated from sales from the rest of the world.

Cost of Revenue

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Cost of revenue:				
Products	$ 96,864	$ 68,179	$ 28,685	42.1 %
Professional services	24,653	22,967	1,686	7.3
Total cost of revenue	$ 121,517	$ 91,146	$ 30,371	33.3 %
Gross margin %:				
Products	74.7 %	77.1 %		
Professional services	13.7	20.9		
Total gross margin %	70.5 %	72.1 %		

Total cost of revenue increased by $30.4 million in 2020 compared to 2019, primarily due to a $14.3 million increase in personnel costs, inclusive of a $1.7 million increase in stock-based compensation expense, resulting from an increase in headcount to support our growing customer base, and a $11.4 million increase in cloud computing costs related to growing cloud-based subscription revenue. The $14.3 million increase in personnel costs included $1.2 million of additional costs attributable to the employees acquired in the DivvyCloud acquisition in May 2020. Our increase in total cost of revenue also included a $2.6 million increase in allocated overhead driven largely by an increase in IT and facilities costs, a $2.4 million increase in amortization expense for acquired intangible assets and a $1.4 million increase in amortization expense for capitalized internally-developed software. These increases were partially offset by a $1.7 million decrease in other expenses.

Total gross margin percentage decreased in 2020 compared to 2019. The decrease in products gross margin was primarily due to an increase in revenue from cloud-based subscriptions and managed services, which have lower gross margins than our licensed software products. The decrease in professional services gross margin was primarily due to a reduction in professional services revenue as customers delayed scheduling the delivery of services in response to the COVID-19 pandemic.

Operating Expenses

Research and Development Expense

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Research and development	$ 108,568	$ 79,364	$ 29,204	36.8 %
% of revenue	26.4 %	24.3 %		

Research and development expense increased by $29.2 million in 2020 compared to 2019, primarily due to a $22.9 million increase in personnel costs, a $5.1 million increase in allocated overhead driven by costs related to our global kick-off meeting and an increase in IT and facilities costs, and a $1.7 million increase in third-party infrastructure costs. These increases were partially offset by a $0.5 million decrease in other expenses. The $22.9 million increase in personnel costs was primarily due to a $14.1 million increase in salaries and related costs driven by growth in headcount, including $5.3 million in additional salaries and related costs attributable to the employees acquired in the acquisition of DivvyCloud in May 2020, and a $8.8 million increase in stock-based compensation expense, including $4.2 million of stock-based compensation expense related to RSUs issued to retained employees and common stock to be issued to the founders as part of the acquisition of DivvyCloud.

Sales and Marketing Expense

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Sales and marketing	$ 195,981	$ 157,722	$ 38,259	24.3 %
% of revenue	47.6 %	48.2 %		

Sales and marketing expense increased by $38.3 million in 2020 compared to 2019, primarily due to a $26.8 million increase in personnel costs, a $6.5 million increase in commission expense, a $5.0 million increase in allocated overhead driven by costs related to our global kick-off meeting as well as an increase in IT and facilities costs, a $4.0 million increase in marketing and advertising costs and a $0.9 million increase in other expenses. The $26.8 million increase in personnel costs was primarily due a $21.9 million increase in salaries and related costs driven by growth in headcount, including $6.1 million of additional costs attributable to the employees acquired in the DivvyCloud acquisition in May 2020, and a $4.9 million increase in stock-based compensation expense, including $1.5 million in stock-based compensation expense related to RSUs issued to DivvyCloud retained employees. These increases were partially offset by a $4.9 million decrease in travel and entertainment expenses as a result of reduced travel due to the COVID-19 pandemic.

General and Administrative Expense

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
General and administrative	$ 59,519	$ 44,710	$ 14,809	33.1 %
% of revenue	14.5 %	13.7 %		

General and administrative expense increased by $14.8 million in 2020 compared to 2019, primarily due to a $10.7 million increase in personnel costs due to an increase in headcount, inclusive of a $7.8 million increase in stock-based compensation expense, a $2.1 million increase in professional fees primarily due to litigation and acquisition-related expenses and other professional consulting fees, a $0.6 million increase in allocated overhead driven by costs related to our global kick-off meeting as well as an increase in IT costs, a $0.6 million increase in other office expenses and a $0.8 million increase in other expenses.

Interest Income

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Interest income	$ 1,454	$ 6,014	$ (4,560)	(75.8)%
% of revenue	0.4 %	1.8 %		

Interest income decreased by $4.6 million in 2020 compared to 2019 primarily due to a decrease in interest rates.

Interest Expense

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Interest expense	$ (24,137)	$ (13,389)	$ (10,748)	80.3 %
% of revenue	(5.9)%	(4.1)%		

Interest expense increased by $10.7 million in 2020 compared to 2019 primarily due to contractual interest and amortization of debt discount and issuance costs related to the 2025 Notes issued in May 2020.

Other Income (Expense), Net

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Other income (expense), net	$ (81)	$ (433)	$ 352	(81.3)%
% of revenue	— %	(0.1)%		

Other income (expense), net reflected a $0.4 million decrease in expense in 2020 compared to 2019 due to realized and unrealized foreign currency gains and losses, primarily related to the euro and British pound sterling.

Provision for Income Taxes

	Year Ended December 31,		Change	
	2020	2019	$	%
	(dollars in thousands)			
Provision for income taxes	$ 1,986	$ 42	$ 1,944	NM
% of revenue	0.5 %	— %		

Provision for income taxes increased by $1.9 million in 2020 compared to 2019 primarily due to a $1.1 million increase in foreign income and withholding taxes and a $0.8 million deferred tax benefit in 2019. The $0.8 million deferred tax benefit resulted from a partial release of our valuation allowance to account for the creation of a deferred tax liability for the developed technology intangible asset acquired in the acquisition of NetFort, which is not deductible for tax purposes.

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Revenue

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Revenue:				
Products[(1)]	$ 297,897	$ 210,794	$ 87,103	41.3 %
Professional services	29,050	33,297	(4,247)	(12.8)
Total revenue	$ 326,947	$ 244,091	$ 82,856	33.9 %

[(1)] *Prior to the fiscal year beginning January 1, 2020, we presented revenue on our consolidated statement of operations as products, maintenance and support and professional services revenue. For the year ended December 31, 2020, we combined products and maintenance and support revenue as products revenue on our consolidated statement of operations as our customers continue to migrate from our on-premise products to our SaaS Insight Platform. Given this continued migration, we believe it is more relevant to categorize maintenance and support revenue together as products revenue. Prior periods have been adjusted to conform with this presentation.*

Total revenue increased by $82.9 million in 2019 compared to 2018. The increase in revenue consisted of a $19.0 million increase in revenue from new customers and $63.9 million increase in revenue from existing customers. The $63.9 million increase in revenue from existing customers was due to an increase in revenue from renewals, upsells and cross-sells as a result of the continued growth of our customer base. Revenue from new customers represents the revenue recognized from the customer's initial purchase. All renewals, upsells and cross-sells are considered revenue from existing customers.

The increase in total revenue in 2019 was comprised of $66.8 million generated from sales in North America and $16.1 million generated from sales from the rest of the world.

The $4.2 million decrease in professional services revenue in 2019 compared to 2018 was primarily due to a reduction in professional services bookings resulting from our continued shift to selling more strategic professional services.

Cost of Revenue

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Cost of revenue:				
Products	$ 68,179	$ 47,488	$ 20,691	43.6 %
Professional services	22,967	23,595	(628)	(2.7)
Total cost of revenue	$ 91,146	$ 71,083	$ 20,063	28.2 %
Gross margin %:				
Products	77.1 %	77.5 %		
Professional services	20.9	29.1		
Total gross margin %	72.1 %	70.9 %		

Total cost of revenue increased by $20.1 million in 2019 compared to 2018, primarily due to $10.8 million increase in cloud computing costs related to growing cloud-based subscription revenue, a $3.4 million increase in allocated overhead driven largely by an increase in IT and facilities costs, primarily as a result of our increased office space, and a $3.0 million increase in personnel costs, inclusive of a $0.9 million increase in stock-based compensation expense, as a result of an increase in headcount to support our growing customer base. Our increase in total cost of revenue also included a $2.3 million increase in amortization of intangible assets primarily due our acquisition of NetFort in April 2019 and tCell in October 2018, and a $0.6 million increase in amortization expense for capitalized internally-developed software.

Total gross margin percentage increased in 2019 compared to 2018. The decrease in products gross margin was due to the continued transition of our Nexpose customers to our subscription-based InsightVM product. The decrease in professional services gross margin was primarily due to a reduction in professional services revenue.

Operating Expenses

Research and Development Expense

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Research and development	$ 79,364	$ 67,743	$ 11,621	17.2 %
% of revenue	24.3 %	27.8 %		

Research and development expense increased by $11.6 million in 2019 compared to 2018 primarily due to a $9.5 million increase in personnel costs and a $4.4 million increase in allocated overhead driven largely by an increase in IT and facilities costs, primarily as a result of our increased office space. These increases were partially offset by a $0.5 million write-off of a capitalized internal-use software project in the prior year, a $0.4 million decrease in third-party cloud infrastructure costs, a $0.3 million increase in research and development tax credits, a $0.3 million decrease in travel expenses and a $0.8 million decrease in other expenses. The $9.5 million increase in personnel costs was primarily due to a $7.5 million increase in salaries and related costs driven by growth in headcount and a $4.8 million increase in stock-based compensation expense, partially offset by a $2.8 million increase in personnel costs that were capitalized as internal-use software costs.

Sales and Marketing Expense

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Sales and marketing	$ 157,722	$ 123,310	$ 34,412	27.9 %
% of revenue	48.2 %	50.5 %		

Sales and marketing expense increased by $34.4 million in 2019 compared to 2018 primarily due to a $13.5 million increase in personnel costs, inclusive of a $4.3 million increase in stock-based compensation expense, as a result of an increase in headcount to drive additional sales. Our increase in sales and marketing expense also included a $8.9 million increase in allocated overhead driven largely by an increase in IT and facilities costs, primarily as a result of our increased office space, a $6.0 million increase in commission expense, a $3.6 million increase in marketing and advertising costs, a $0.6 million increase in travel expenses and a $1.8 million increase in other expenses.

General and Administrative Expense

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
General and administrative	$ 44,710	$ 34,993	$ 9,717	27.8 %
% of revenue	13.7 %	14.3 %		

General and administrative expense increased by $9.7 million in 2019 compared to 2018 primarily due to a $5.3 million increase in personnel costs, inclusive of a $3.0 million increase in stock-based compensation expense, as a result of an increase in headcount to support our overall company growth, a $1.6 million increase in professional fees primarily due to acquisition and litigation-related expenses and other professional consulting fees, a $1.5 million increase in bad debt expense, a $0.5 million increase in allocated overhead driven largely by an increase in facilities costs, primarily as a result of our increased office space, and a $1.3 million increase in other expenses.

Interest Income

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Interest income	$ 6,014	$ 3,229	$ 2,785	86.2 %
% of revenue	1.8 %	1.3 %		

Interest income increased by $2.8 million in 2019 compared to 2018 primarily due to higher interest income as a result of an increase in cash and cash equivalents and investments due to the issuance of the Notes in August 2018.

Interest Expense

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Interest expense	$ (13,389)	$ (4,934)	$ (8,455)	171.4 %
% of revenue	(4.1)%	(2.0)%		

Interest expense increased by $8.5 million in 2019 compared to 2018 primarily due to contractual interest and amortization of debt discount and issuance costs related to the issuance of the Notes.

Other Income (Expense), Net

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Other income (expense), net	$ (433)	$ (336)	$ (97)	28.9 %
% of revenue	(0.1)%	(0.1)%		

Other income (expense), net reflected a $0.1 million increase in expense in 2019 compared to 2018 due to realized and unrealized foreign currency losses, primarily related to the euro and British pound sterling.

Provision for Income Taxes

	Year Ended December 31,		Change	
	2019	2018	$	%
	(dollars in thousands)			
Provision for income taxes	$ 42	$ 466	$ (424)	NM
% of revenue	— %	0.2 %		

Provision for income taxes decreased by $0.4 million in 2019 compared to 2018 primarily due to a $0.8 million deferred tax benefit in 2019, partially offset by a $0.2 million release of a tax reserve in the prior year and a one-time $0.2 million tax benefit recognized as a result of tax reform in 2018. The $0.8 million deferred tax benefit resulted from a partial release of our valuation allowance to account for the creation of a deferred tax liability for the developed technology intangible asset acquired in the acquisition of NetFort, which is not deductible for tax purposes.

Liquidity and Capital Resources

As of December 31, 2020, we had $173.6 million in cash and cash equivalents, $149.0 million of short- and long-term investments that have maturities ranging from 1 to 16 months. Since our inception, we have generated significant losses and expect to continue to generate losses for the foreseeable future and as of December 31, 2020 have an accumulated deficit of $617.3 million. Our principal sources of liquidity are cash and cash equivalents, short and long-term investments and our Credit and Security Agreement (Credit Agreement). To date, we have financed our operations primarily through private and public equity financings and issuance of convertible senior notes and through cash generated by operating activities.

We believe that our existing cash and cash equivalents, our short and long-term investments and our available borrowings under our Credit Agreement will be sufficient to meet our working capital expenditure requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support research and development efforts, the expansion of sales and marketing activities, particularly internationally, the introduction of new and enhanced products and service offerings and the cost of any future acquisitions of technology or businesses. In the event that additional financing is required from outside sources, we may be unable to raise the funds on acceptable terms, if at all. If we are unable to raise additional capital on terms satisfactory to us when we require it, our business, operating results and financial condition could be adversely affected.

The following table shows a summary of our cash flows for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Cash, cash equivalents and restricted cash at beginning of period	$ 123,413	$ 99,565	$ 51,762
Net cash provided by (used in) operating activities	4,887	(1,420)	6,066
Net cash (used in) provided by investing activities	(156,287)	16,811	(193,733)
Net cash provided by financing activities	200,925	8,788	236,164
Effects of exchange rates on cash, cash equivalents and restricted cash	679	(331)	(694)
Cash, cash equivalents and restricted cash at end of period	$ 173,617	$ 123,413	$ 99,565

Uses of Funds

Our historical uses of cash have primarily consisted of cash used for operating activities such as expansion of our sales and marketing operations, research and development activities and other working capital needs, as well as cash used for investing activities such as business acquisitions and purchases of property and equipment.

Operating Activities

Operating activities provided $4.9 million of cash in 2020, which reflects our continued growth in revenue offset by continued investments in our operations and impact of the timing of working capital items. Cash used in operating activities reflected our net loss of $98.8 million and an increase in our net operating assets and liabilities of $3.5 million, offset by $106.7 million of non-cash charges related primarily to depreciation and amortization, stock-based compensation expense, amortization of debt discount and debt issuance costs, provision for doubtful accounts, deferred income taxes and other non-cash charges. The increase in our net operating assets and liabilities was primarily due to a $24.4 million increase in accounts receivable, a $13.4 million increase in deferred contract acquisition and fulfillment costs, a $8.9 million increase in prepaid expenses and other assets, a $2.4 million decrease in accounts payable and a $0.4 million decrease in other liabilities, which each had a negative impact on operating cash flow. These factors were partially offset by a $37.4 million increase in deferred revenue from sales of our products and services and a $8.6 million increase in accrued expenses, which each had a positive impact on operating cash flow.

Operating activities used $1.4 million of cash in 2019, which reflects our continued growth in revenue offset by continued investments in our operations and impact of the timing of working capital items. Cash used in operating activities reflected our net loss of $53.8 million and an increase in our net operating assets and liabilities of $15.2 million, offset by non-cash charges of $67.6 million related primarily to depreciation and amortization, stock-based compensation expense, amortization of debt discount and debt issuance costs, provision for doubtful accounts and other non-cash charges. The increase in our net operating assets and liabilities was primarily due to a $14.8 million increase in accounts receivable, $13.7 million increase in prepaid expenses and other assets and a $11.3 million increase in deferred contract acquisition and fulfillment costs, which each had a negative impact on operating cash flow. These factors were partially offset by a $18.7 million increase in deferred revenue from sales of our products and services, a $4.7 million increase in accrued expenses, a $1.1 million increase in other liabilities, and a $0.1 million increase in accounts payable, which each had a positive impact on operating cash flow.

Operating activities provided $6.1 million of cash in 2018. Cash provided by operating activities reflected our net loss of $55.5 million, offset by a decrease in our net operating assets and liabilities of $18.2 million and non-cash charges of $43.4 million related primarily to depreciation and amortization, stock-based compensation expense, amortization of debt discount and issuance costs, provision for doubtful accounts, and other non-cash charges. The decrease in our net operating assets and liabilities was primarily due to a $18.7 million increase in deferred revenue from sales of our products and services, a $6.0 million increase in accrued expenses, a $3.7 million increase in accounts payable, and a $0.4 million increase in other liabilities, which each had a positive impact on operating cash flow. These factors were offset by a $12.8 million increase in deferred contract acquisition and fulfillment costs, a $1.7 million increase in accounts receivable and a $0.3 million increase in prepaid expenses and other assets, which each had a negative impact on operating cash flow.

Investing Activities

Investing activities used $156.3 million of cash in 2020, consisting of $125.8 million of cash paid for the acquisition of DivvyCloud, net of cash acquired of $5.0 million, $13.8 million in capital expenditures to purchase leasehold improvements, furniture and fixtures and computer equipment, $10.6 million for purchases of investments, net of sales and maturities, and $6.1 million for capitalization of internal-use software costs.

Investing activities provided $16.8 million of cash in 2019, consisting of $66.9 million for investment sales and maturities, net of purchases, $29.4 million in capital expenditures to purchase leasehold improvements and furniture and fixtures, primarily related to office space build-outs including our new corporate headquarters and computer equipment, $14.6 million of cash paid for the acquisition of NetFort and $6.1 million for capitalization of internal-use software costs.

Investing activities used $193.7 million of cash in 2018, consisting of $163.1 million for purchases of investments, net of sales and maturities, $14.5 million of cash paid for the acquisition of tCell, $12.8 million in capital expenditures to purchase computer equipment and leasehold improvements and $3.3 million for the capitalization of internal-use software costs.

Financing Activities

Financing activities provided $200.9 million of cash in 2020, which consisted primarily of $222.8 million in proceeds from the issuance of the 2025 Notes, net of issuance costs paid of $7.2 million, $7.8 million in proceeds from the exercise of stock options and $7.1 million in proceeds from the issuance of common stock purchased by employees under the Rapid7, Inc. 2015 Employee Stock Purchase Plan (ESPP), partially offset by $27.3 million for the purchase of 2025 Capped Calls, $8.9 million in withholding taxes paid for the net share settlement of equity awards, $0.4 million of payments of debt issuance costs and $0.2 million of deferred consideration payments.

Financing activities provided $8.8 million of cash in 2019, which consisted primarily of $10.2 million in proceeds from the exercise of stock options and $5.5 million in proceeds from the issuance of common stock purchased by employees under the ESPP, partially offset by $6.9 million in withholding taxes paid for the net share settlement of equity awards.

Financing activities provided $236.2 million of cash in 2018, which consisted primarily of $223.1 million in net proceeds from the issuance of the 2023 Notes, $30.9 million in net proceeds from a secondary public offering in January 2018, $7.6 million in proceeds from the exercise of stock options and $3.6 million in proceeds from the issuance of common stock purchased by employees under the ESPP, partially offset by $26.9 million for the purchase of 2023 Capped Calls related to the 2023 Notes and $2.1 million in withholding taxes paid for the net share settlement of equity awards.

Contractual Obligations and Commitments

The following table summarizes our commitments to settle contractual obligations as of December 31, 2020:

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
	(in thousands)				
Convertible senior notes principal	$ —	$ 230,000	$ 230,000	$ —	$ 460,000
Convertible senior notes interest	8,050	21,275	2,588	—	31,913
Operating leases	15,035	41,528	34,031	20,480	111,074
Non-cancellable purchase obligations	45,545	92,727	77	—	138,349
Total	$ 68,630	$ 385,530	$ 266,696	$ 20,480	$ 741,336

The commitment amounts in the table above are associated with agreements that are enforceable and legally binding. The table does not include obligations under agreements that we can cancel without a significant penalty.

We lease our office facilities under non-cancellable operating leases. As of December 31, 2020, we have leases that expire at various dates through 2030. Certain of our operating leases require real estate taxes, common area maintenance and insurance payments, which are expensed when incurred and not included in the commitments table noted above.

The non-cancellable purchase obligations in the table above include cloud infrastructure services, including with Amazon Web Services (AWS) and software subscriptions.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts. We therefore believe that we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (GAAP). The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates.

Our significant accounting policies, including those considered to be critical accounting policies are summarized in Note 2, *Summary of Significant Accounting Policies*, in the Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K. The following critical accounting policies reflect significant judgments and estimates used in the preparation of our consolidated financial statements:

- Revenue recognition;
- Deferred contract acquisition and fulfillment costs; and
- Business combinations

Revenue Recognition

We generate revenue primarily from: (1) subscription revenue from the sale of cloud-based subscriptions, managed services and content subscriptions associated with our software licenses, (2) term and perpetual software licenses, (3) maintenance and support associated with the purchase of software licenses and (4) professional services from the sale of our deployment and training services related to our solutions, incident response services, penetration testing and security advisory services.

The majority of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price (SSP) basis. We determine SSP of our products and services based on our overall pricing objectives using all information reasonably available to us, taking into consideration market conditions and other factors, including the geographic locations of our customers, negotiated discounts from price lists and selling method (i.e., partner or direct). When available, we use directly observable stand-alone transactions to determine SSP. When not regularly sold on a stand-alone basis, we estimate SSP for our products and services utilizing historical sales data, including discounts from list price. The historical data is aggregated and analyzed by geographic location and selling method to establish a median or average price. Once SSP is established it is applied consistently to all transactions involving that product or service utilizing a portfolio approach.

Deferred Contract Acquisition and Fulfillment Costs

We capitalize commission expenses paid to internal sales personnel and partner referral fees that are incremental costs to obtaining customer contracts. Costs to obtain a contract for a new customer, up-sell or cross-sell are amortized on a straight-line basis over an estimated period of benefit of five years as sales commissions on initial sales are not commensurate with sales commissions on contract renewals. We determined the estimated period of benefit by taking into consideration the contractual term and expected renewals of customer contracts, our technology and other factors, including the fact that commissions paid on renewals are not commensurate with commissions paid on initial sales transactions. We periodically review the carrying amount of deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit. Commissions paid relating to contract renewals are deferred and amortized on a straight-line basis over the related renewal period. Costs to obtain a contract for professional services arrangements are expensed as incurred in accordance with the practical expedient as the contractual period of our professional services arrangements are one year or less.

Business Combinations

We account for business combinations by recognizing the fair value of acquired assets and liabilities. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Determining the fair value of assets and liabilities assumed requires management to make significant estimates and assumptions, especially with respect to intangible assets. While we use our best estimates and assumptions as part of the purchase price allocation to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement.

Recent Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies*, in the Notes to our Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for a description of recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial conditions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. A majority of our customers enter into contracts that are denominated in U.S. dollars. Our expenses are generally denominated in the currencies of the countries where our operations are located, which is primarily in the United States and to a lesser extent in the United Kingdom, other Euro-zone countries within mainland Europe, Canada, Australia, Singapore and Japan. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign currency exchange rates. During the years ended December 31, 2020 and 2019, the effect of a hypothetical 10% adverse change in foreign currency exchange rates on monetary assets and liabilities would not have been material to our financial condition or results of operations. We enter into forward contracts designated as cash flow hedges to manage the foreign currency exchange rate risk associated with our foreign currency denominated expenditures. The effectiveness of our existing hedging transactions and the availability and effectiveness of any hedging transactions we may decide to enter into in the future may be limited, and we may not be able to successfully hedge our exposure, which could adversely affect our financial condition and operating results. For further information, see Note 10, *Derivatives and Hedging Activities*, in the Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rates.

Interest Rate Risk

As of December 31, 2020, we had cash and cash equivalents of $173.6 million consisting of bank deposits and money market funds and short- and long-term investments of $149.0 million consisting of U.S. Government agencies, commercial paper, corporate bonds, agency bonds and asset-backed securities. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash and cash equivalents and short- and long-term investments are subject to market risk due to changes in interest rates, which may affect our interest income and the fair value of our investments. Due in part to these factors, our future investment income may fluctuate due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our investments as available-for-sale securities, no gains or losses are recognized due to the changes in interest rates unless securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

The fair values of our convertible senior notes are subject to interest rate risk, market risk and other factors due to the conversion feature of the notes. The fair values of the convertible senior notes may increase or decrease for various reasons, including fluctuations in the market price of our common stock, fluctuations in market interest rates and fluctuations in general economic conditions. The interest and market value changes affect the fair values of the convertible senior notes but does not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Based upon the quoted market prices as of December 31, 2020, the fair values of our 2023 Notes and 2025 Notes were $501.8 million and $373.3 million, respectively.

As of December 31, 2020, the effect of a hypothetical 10% increase or decrease in interest rates would not have had a material impact on our financial statements.

Inflation Risk

We do not believe that inflation had a material effect on our business, financial condition or results of operations in the last three years. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Rapid7, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Rapid7, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Update 2016-02, Leases (Topic 842).

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of standalone selling prices of revenue performance obligations

As discussed in Note 2 to the consolidated financial statements, the Company recognized products revenue of $382.9 million and professional services revenue of $28.6 million for the year ended December 31, 2020. The Company allocates value to each distinct performance obligation on a relative standalone selling price basis. The Company determines standalone selling price based on pricing objectives, taking into consideration market conditions and other factors, including the geographic locations of customers, negotiated discounts from price lists and selling method.

We identified the evaluation of standalone selling prices for the Company's products and services as a critical audit matter. Subjective auditor judgment was involved in evaluating the Company's assumptions regarding market conditions and pricing practices, including historical sales data and discounts from list price, where there was no direct observable data available.

The following are primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls in the Company's revenue process, including controls over the determination of standalone selling prices, and the assumptions described above. We evaluated the Company's estimated standalone selling prices, including their compliance with the Company's accounting policy, by assessing available, relevant external information and comparing the estimated standalone selling prices to internal historical disaggregated sales data, including discounts from list price, by geographic location and selling method. We selected certain customer agreements and read contract source documents to assess the relevance and reliability of the historical sales data used by the Company to estimate standalone selling prices, and tested the mathematical accuracy of the median or average discount from list price for the products and services.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Boston, Massachusetts

February 26, 2021

RAPID7, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 173,617	$ 123,413
Short-term investments	138,839	116,158
Accounts receivable, net of allowance for doubtful accounts of $3,251 and $1,829 at December 31, 2020 and 2019, respectively	111,599	87,927
Deferred contract acquisition and fulfillment costs, current portion	21,536	17,047
Prepaid expenses and other current assets	27,844	20,051
Total current assets	473,435	364,596
Long-term investments	10,124	22,887
Property and equipment, net	53,114	50,670
Operating lease right-of-use assets	67,178	60,984
Deferred contract acquisition and fulfillment costs, non-current portion	43,103	34,213
Goodwill	213,601	97,866
Intangible assets, net	44,296	28,561
Other assets	8,271	5,136
Total assets	$ 913,122	$ 664,913
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,860	$ 6,836
Accrued expenses	61,677	41,021
Operating lease liabilities, current portion	9,612	7,179
Deferred revenue, current portion	278,585	231,518
Other current liabilities	—	119
Total current liabilities	353,734	286,673
Convertible senior notes, net	378,586	185,200
Operating lease liabilities, non-current portion	75,737	72,294
Deferred revenue, non-current portion	31,365	36,226
Other long-term liabilities	2,164	1,352
Total liabilities	841,586	581,745
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 10,000,000 shares authorized at December 31, 2020 and 2019; 0 shares issued and outstanding at December 31, 2020 and 2019	—	—
Common stock, $0.01 par value per share; 100,000,000 shares authorized at December 31, 2020 and 2019; 52,712,084 and 50,397,922 shares issued at December 31, 2020 and 2019, respectively; 52,225,276 and 49,911,114 shares outstanding at December 31, 2020 and 2019, respectively	522	499
Treasury stock, at cost, 486,808 shares at December 31, 2020 and 2019	(4,764)	(4,764)
Additional paid-in-capital	692,603	605,650
Accumulated other comprehensive loss	454	213
Accumulated deficit	(617,279)	(518,430)
Total stockholders' equity	71,536	83,168
Total liabilities and stockholders' equity	$ 913,122	$ 664,913

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended December 31,		
	2020	2019	2018
Revenue:			
Products	$ 382,922	$ 297,897	$ 210,794
Professional services	28,564	29,050	33,297
Total revenue	411,486	326,947	244,091
Cost of revenue:			
Products	96,864	68,179	47,488
Professional services	24,653	22,967	23,595
Total cost of revenue	121,517	91,146	71,083
Total gross profit	289,969	235,801	173,008
Operating expenses:			
Research and development	108,568	79,364	67,743
Sales and marketing	195,981	157,722	123,310
General and administrative	59,519	44,710	34,993
Total operating expenses	364,068	281,796	226,046
Loss from operations	(74,099)	(45,995)	(53,038)
Other income (expense), net:			
Interest income	1,454	6,014	3,229
Interest expense	(24,137)	(13,389)	(4,934)
Other income (expense), net	(81)	(433)	(336)
Loss before income taxes	(96,863)	(53,803)	(55,079)
Provision for income taxes	1,986	42	466
Net loss	$ (98,849)	$ (53,845)	$ (55,545)
Net loss per share, basic and diluted	$ (1.94)	$ (1.10)	$ (1.20)
Weighted-average common shares outstanding, basic and diluted	51,036,824	48,731,791	46,456,825

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Net loss	$ (98,849)	$ (53,845)	$ (55,545)
Other comprehensive income (loss):			
Change in fair value of investments	(170)	244	8
Adjustment for net losses realized and included in net loss	(21)	—	—
Total change in unrealized gains (losses) on investments	(191)	244	8
Change in unrealized gains on cash flow hedges	432	—	—
Total other comprehensive income	241	244	8
Comprehensive loss	$ (98,608)	$ (53,601)	$ (55,537)

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands)

	Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2017	44,054	$ 441	487	$ (4,764)	$ 463,428	$ (39)	$ (434,913)	$ 24,153
Stock-based compensation expense	—	—	—	—	27,593	—	—	27,593
Cumulative-effect adjustment for the adoption of ASC 606	—	—	—	—	—	—	25,873	25,873
Equity component of convertible senior notes, net	—	—	—	—	52,194	—	—	52,194
Purchase of capped calls related to convertible senior notes	—	—	—	—	(26,910)	—	—	(26,910)
Issuance of common stock related to secondary offering	1,500	15	—	—	30,892	—	—	30,907
Issuance of common stock under employee stock purchase plan	219	2	—	—	3,635	—	—	3,637
Vesting of restricted stock units	973	10	—	—	(10)	—	—	—
Forfeiture of restricted stock awards	(3)	—	—	—	—	—	—	—
Shares withheld for employee taxes	(88)	(1)	—	—	(2,196)	—	—	(2,197)
Issuance of common stock upon exercise of stock options	945	9	—	—	7,597	—	—	7,606
Other comprehensive income	—	—	—	—	—	8	—	8
Net loss	—	—	—	—	—	—	(55,545)	(55,545)
Balance, December 31, 2018	47,600	$ 476	487	$ (4,764)	$ 556,223	$ (31)	$ (464,585)	$ 87,319
Stock-based compensation expense	—	—	—	—	40,664	—	—	40,664
Issuance of common stock under employee stock purchase plan	185	2	—	—	5,519	—	—	5,521
Vesting of restricted stock units	1,292	13	—	—	(13)	—	—	—
Shares withheld for employee taxes	(134)	(2)	—	—	(6,950)	—	—	(6,952)
Issuance of common stock upon exercise of stock options	968	10	—	—	10,207	—	—	10,217
Other comprehensive income	—	—	—	—	—	244	—	244
Net loss	—	—	—	—	—	—	(53,845)	(53,845)
Balance, December 31, 2019	49,911	$ 499	487	$ (4,764)	$ 605,650	$ 213	$ (518,430)	$ 83,168
Stock-based compensation expense	—	—	—	—	61,419	—	—	61,419
Issuance of common stock under employee stock purchase plan	233	2	—	—	7,080	—	—	7,082
Vesting of restricted stock units	1,451	15	—	—	(15)	—	—	—
Shares withheld for employee taxes	(154)	(2)	—	—	(8,919)	—	—	(8,921)
Issuance of common stock upon exercise of stock options	784	8	—	—	7,811	—	—	7,819
Equity component of convertible senior notes, net	—	—	—	—	46,832	—	—	46,832
Purchase of capped called related to convertible senior notes	—	—	—	—	(27,255)	—	—	(27,255)
Other comprehensive income	—	—	—	—	—	241	—	241
Net loss	—	—	—	—	—	—	(98,849)	(98,849)
Balance, December 31, 2020	52,225	$ 522	487	$ (4,764)	$ 692,603	$ 454	$ (617,279)	$ 71,536

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net loss	$ (98,849)	$ (53,845)	$ (55,545)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	22,631	16,528	11,097
Amortization of debt discount and issuance costs	17,518	10,513	3,831
Stock-based compensation expense	63,888	40,664	27,593
Provision for doubtful accounts	1,997	2,241	740
Deferred income taxes	737	(645)	(69)
Foreign currency re-measurement loss	263	255	757
Other non-cash items	168	(1,889)	(506)
Changes in assets and liabilities:			
Accounts receivable	(24,380)	(14,800)	(1,685)
Deferred contract acquisition and fulfillment costs	(13,379)	(11,306)	(12,790)
Prepaid expenses and other assets	(8,956)	(13,691)	(287)
Accounts payable	(2,394)	92	3,675
Accrued expenses	8,640	4,759	6,018
Deferred revenue	37,428	18,686	22,870
Other liabilities	(425)	1,018	367
Net cash provided by (used in) operating activities	4,887	(1,420)	6,066
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(125,826)	(14,607)	(14,460)
Purchases of property and equipment	(13,802)	(29,428)	(12,813)
Capitalization of internal-use software	(6,130)	(6,087)	(3,265)
Purchases of investments	(177,053)	(148,047)	(233,421)
Sales and maturities of investments	166,524	214,980	70,226
Net cash (used in) provided by investing activities	(156,287)	16,811	(193,733)
Cash flows from financing activities:			
Proceeds from issuance of convertible senior notes, net of issuance costs of $7,201 and $6,879 for the years ended December 31, 2020 and 2018, respectively	222,799	—	223,121
Purchase of capped calls related to convertible senior notes	(27,255)	—	(26,910)
Proceeds from follow-on public offering, net of offering costs of $608	—	—	30,907
Deferred business acquisition payment	(150)	—	—
Payment of debt issuance costs	(440)	—	—
Taxes paid related to net share settlement of equity awards	(8,921)	(6,952)	(2,197)
Proceeds from employee stock purchase plan	7,082	5,521	3,637
Proceeds from stock option exercises	7,810	10,219	7,606
Net cash provided by financing activities	200,925	8,788	236,164
Effect of exchange rate changes on cash and cash equivalents	679	(331)	(694)
Net increase in cash and cash equivalents	50,204	23,848	47,803
Cash and cash equivalents, beginning of period	123,413	99,565	51,762
Cash and cash equivalents, end of period	$ 173,617	$ 123,413	$ 99,565
Supplemental cash flow information:			
Cash paid for interest on convertible senior notes	$ 5,463	$ 2,779	$ —
Cash paid for income taxes, net of refunds	$ 312	$ 400	$ 188
Non-cash investing activities:			
Leasehold improvements acquired through tenant improvement allowance	$ —	$ 14,016	$ —

See accompanying notes to consolidated financial statements.

(1) Nature of the Business

Rapid7, Inc. and subsidiaries ("we," "us" or "our") is advancing security with visibility, analytics, and automation delivered through our Insight cloud. Our solutions simplify the complex, allowing security teams to work more effectively with IT and development to reduce vulnerabilities, monitor for malicious behavior, investigate and shut down attacks, and automate routine tasks.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include our results of operations and those of our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The management estimates include, but are not limited to the determination of the estimated economic life of perpetual licenses for revenue recognition, the determination of standalone selling prices in revenue transactions with multiple performance obligations, the estimated period of benefit for deferred contract acquisition and fulfillment costs, the useful lives and recoverability of long-lived assets, the valuation of allowance for doubtful accounts, the valuation of stock-based compensation, the fair value of assets acquired and liabilities assumed in business combinations, the incremental borrowing rate for operating leases, the fair value of the debt component of convertible senior notes and the valuation for deferred tax assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable. Actual results could differ from those estimates.

The COVID-19 pandemic is expected to result in a sustained global slowdown of economic activity that is likely to decrease demand for a broad variety of goods and services, including from our customers. Our operational and financial performance for the year ended December 31, 2020 was negatively impacted by the slowdown in activity associated with the COVID-19 pandemic and we expect that to continue going forward. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. As of the date of issuance of these financial statements, we are not aware of any specific event or circumstance that would require us to update our estimates, assumptions and judgments or revise the carrying value of our assets or liabilities. These estimates may change as new events occur and additional information is obtained and will be recognized in the consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to our financial statements.

(c) Reclassification

Prior to the fiscal year beginning January 1, 2020, we have presented revenue on our consolidated statement of operations as products, maintenance and support and professional services revenue. For the year ended December 31, 2020, we have combined products and maintenance and support revenue as products revenue on our consolidated statement of operations as our customers continue to migrate from our on-premise products to our Insight Platform. Given this continued migration, we believe it is more relevant to categorize maintenance and support revenue together as products revenue. Prior periods have been adjusted to conform with this presentation.

(d) Revenue Recognition

We generate revenue primarily from: (1) subscription revenue from the sale of cloud-based subscriptions, managed services and content subscriptions associated with our software licenses, (2) term and perpetual software licenses, (3) maintenance and support associated with the purchase of software licenses and (4) professional services from the sale of our deployment and training services related to our solutions, incident response services, penetration testing and security advisory services.

We recognize revenue when a customer obtains control of promised products or services. The amount of revenue recognized reflects the consideration that we expect to be entitled to receive in exchange for these products or services. To achieve the core principle of this standard, we apply the following five steps:

1) *Identify the contract with a customer*

We consider the terms and conditions of the contracts and our customary business practices in identifying our contracts. We determine we have a contract with a customer when the contract is approved, we can identify each party's rights regarding the services to be transferred, we can identify the payment terms for the services, and we have determined the customer has the ability and intent to pay and the contract has commercial substance. We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

2) *Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the products and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract.

3) *Determine the transaction price*

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring products or services to the customer. Variable consideration is included in the transaction price if, in our judgment, it is probable that no significant future reversal of cumulative revenue under the contract will occur.

In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

Sales through our channel network of distributors and resellers are generally discounted as compared to the price that we would sell to an end user. Revenue for sales through our channel network is recorded net of any distributor or reseller margin.

4) *Allocate the transaction price to performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP").

5) *Recognize revenue when or as we satisfy a performance obligation*

Revenue is recognized at the time the related performance obligation is satisfied by transferring the promised product or service to a customer. Revenue is recognized when control of the products or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those products or services.

Subscription Revenue

Subscription revenue consists of revenue from our cloud-based subscription, managed services offerings and content subscriptions associated with our software licenses.

- We generate cloud-based subscription revenue primarily from sales of subscriptions to access our cloud platform, together with related support services to our customers. These arrangements do not provide the customer with the right to take possession of our software operating on our cloud platform at any time. Instead, customers are granted continuous access to our cloud platform over the contractual period. Revenue is recognized over time on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our cloud-based subscription contracts generally have annual or multi-year contractual terms which are billed in advance of the annual subscription period and are non-cancellable.
- Managed services offerings consist of fees generated when we operate our software and provide our capabilities on behalf of our customers. Revenue is recognized on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our managed services offerings generally have annual or multi-year contractual terms which are billed in advance of the annual subscription period and are non-cancellable.
- Revenue related to our content subscriptions associated with our software licenses is recognized ratably over the contractual period.

Term and Perpetual Software Licenses

For our perpetual software licenses where the utility to the customer is dependent on the continued delivery of content subscriptions, the content subscription renewal options result in a material right with respect to the perpetual software license. As a result, the revenue attributable to the perpetual software license is recognized ratably over the customer's estimated economic life of five years, which represents a longer period of time in comparison to the initial contractual period of maintenance and support. The estimated economic life of five years represents the period which the customer is expected to benefit from the material right. We estimated this period of benefit by taking into consideration several factors, including the terms and conditions of our customer contracts and renewals and the expected useful life of our technology.

For our term software licenses where the utility to the customer is dependent on the continued delivery of content subscriptions, we recognize the license revenue over the contractual term of the arrangement as a material right does not exist.

For our term and perpetual software licenses which are not dependent on the continued delivery of content subscriptions, the license is considered distinct from the maintenance and support, and we therefore recognize revenue attributable to the license at the time of delivery.

Maintenance and Support

Maintenance and support services are sold with our perpetual and term software licenses. As maintenance and support services are distinct from the perpetual and term software license, revenue attributable to maintenance and support services is recognized ratably over the contractual period.

Professional Services

All of our professional services are considered distinct performance obligations when sold stand alone or with other products. These contracts generally have terms of one year or less. For the majority of these arrangements, revenue is recognized over time based upon the proportion of work performed to date.

Other

Other revenue primarily includes revenue from delivery of appliances and other miscellaneous revenue.

Contracts with Multiple Performance Obligations

The majority of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price (SSP) basis. We determine SSP of our products and services based on our overall pricing objectives using all information reasonably available to us, taking into consideration market conditions and other factors, including the geographic locations of our customers, negotiated discounts from price lists and selling method (i.e., partner or direct). When available, we use directly observable stand-alone transactions to determine SSP. When not regularly sold on a stand-alone basis, we estimate SSP for our products and services utilizing historical sales data, including discounts from list price. The historical data is aggregated and analyzed by geographic location and selling method to establish a median or average price. Once SSP is established it is applied consistently to all transactions including that product or service utilizing a portfolio approach.

Contract Balances

Contract liabilities consist of deferred revenue and include payments received in advance of performance under the contract. Such amounts are recognized as revenue over the contractual period consistent with the above methodology. For the year ended December 31, 2020, we recognized revenue of $225.7 million that was included in the corresponding contract liability balance at the beginning of the period presented. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining deferred revenue is recorded as non-current.

We receive payments from customers based upon contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Unbilled receivables include amounts related to our contractual right to consideration for both completed and partially completed performance obligations that have not been invoiced. If the right to consideration is based on satisfaction of another performance obligation in the contract other than the passage of time, we would record a contract asset. As of December 31, 2020 and 2019, unbilled receivables of $1.2 million and $0.8 million, respectively, are included in prepaid expenses and other current assets in our consolidated balance sheet. As of December 31, 2020 and 2019, we have no contract assets recorded on our consolidated balance sheet.

(e) Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value.

(f) Investments

Our investments consist of commercial paper, corporate bonds, agency bonds, U.S. Government agencies and asset-backed securities. We classify our investments as available-for-sale and record these investments at fair value. When the fair value of an investment declines below its amortized cost basis, any portion of that decline attributable to credit losses, to the extent expected to be nonrecoverable before the sale of the security, is recognized in our consolidated statements of operations. When the fair value of the investment declines below its amortized cost basis due to changes in interest rates, such amounts are recorded in accumulated other comprehensive income (loss), and are recognized in our consolidated statement of operations only if we sell or intend to sell the security before recovery of its cost basis. Realized gains and losses are determined based on the specific identification method, and are reflected in our consolidated statements of operations.

Investments with an original maturity of greater than three months at the date of purchase and less than one year from the date of the balance sheet are classified as short-term and those with maturities of more than one year from the date of the balance sheet are classified as long-term in the consolidated balance sheet. We do not invest in any securities with contractual maturities greater than 24 months.

(g) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts for any potential uncollectible amounts. We maintain an allowance for doubtful accounts for estimated credit losses resulting from the inability of our customers to make required payments. Management regularly reviews the adequacy of the allowance based upon historical collection experience, the age of the receivable, an evaluation of each customer's expected ability to pay and current and future economic and market conditions. Accounts receivable are charged against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. Additions to the allowance for doubtful accounts are recorded in general and administrative expense in the consolidated statement of operations. We do not have any off-balance sheet credit exposure related to our customers. The following table displays the changes in our allowance for doubtful accounts:

		Amount
		(in thousands)
Balance at December 31, 2017	$	1,478
Additions, net of recoveries		740
Less write-offs		(594)
Balance at December 31, 2018		1,624
Additions, net of recoveries		2,241
Less write-offs		(2,036)
Balance at December 31, 2019		1,829
Additions, net of recoveries		1,997
Less write-offs		(575)
Balance at December 31, 2020	$	3,251

(h) Concentration of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, short-term and long-term investments and derivative financial instruments.

Management believes that the financial institutions that hold our investments are financially sound and, accordingly, are subject to minimal credit risk. Deposits held with banks may exceed the amount of insurance provided on such deposits.

We provide credit to customers in the normal course of business. Collateral is not required for accounts receivable, but ongoing credit evaluations of customers' financial condition are performed. We maintain reserves for potential credit losses. No single customer, including channel partners, accounted for 10% or more of our total revenues in 2020, 2019 or 2018 or accounts receivable as of December 31, 2020 or 2019.

Our derivative financial instruments expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the arrangement. We mitigate this credit risk by transacting with major financial institutions with high credit ratings.

(i) Deferred Contract Acquisition and Fulfillment Costs

We capitalize commission expenses paid to internal sales personnel and partner referral fees that are incremental costs to obtaining customer contracts. These costs are recorded as deferred contract acquisition costs on the consolidated balance sheets. Costs to obtain a contract for a new customer, up-sell or cross-sell are amortized on a straight-line basis over an estimated period of benefit of five years as sales commissions on initial sales are not commensurate with sales commissions on contract renewals. We determined the estimated period of benefit by taking into consideration the contractual term and expected renewals of customer contracts, our technology and other factors, including the fact that commissions paid on renewals are not commensurate with commissions paid on initial sales transactions. Commissions paid relating to contract renewals are deferred and amortized on a straight-line basis over the related renewal period. Costs to obtain a contract for professional services arrangements are expensed as incurred in accordance with the practical expedient as the contractual period of our professional services arrangements are one year or less. We periodically review the carrying amount of deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit.

Amortization expense associated with deferred contract acquisition costs is recorded to sales and marketing expense in our consolidated statements of operations.

We capitalize costs incurred to fulfill our contracts that relate directly to the contract, are expected to generate resources that will be used to satisfy our performance obligations and are expected to be recovered through revenue generated under the contract. Contract fulfillment costs are amortized on a straight-line basis over the estimated period of benefit and recorded as cost of products in our consolidated statement of operations.

(j) Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The following table presents the useful lives of our property and equipment:

	Useful Lives
Computer equipment and software	3 years
Furniture and fixtures	3 - 5 years
Leasehold improvements	Shorter of the useful life of the asset or the lease term

Repairs and maintenance costs are expensed as incurred.

(k) Software Development Costs

Software development costs associated with the development of products for sale are recorded to research and development expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for release to customers. To date, the software development costs have not been capitalized as the cost incurred and time between technological feasibility and product release was insignificant. As such, these costs are expensed as incurred and recognized in research and development expenses in our consolidated statements of operations.

Costs related to software developed, acquired or modified for internal use are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during the post implementation stages of the project are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. These capitalized costs consist of internal compensation related costs and external direct costs. Costs related to software developed for internal use are amortized over an useful life of 3 years. We capitalized \$6.1 million, \$6.1 million and \$3.3 million of costs related to software developed for internal use in the years ended December 31, 2020, 2019 and 2018, respectively.

(l) Leases

We determine whether an arrangement is or contains a lease at inception based on the unique facts and circumstances present. We evaluate the classification of a lease at inception and, as necessary, at modification. Operating leases are recognized on the consolidated balance sheet as right-of-use (ROU) assets, lease liabilities and, if applicable, long-term lease liabilities.

Operating lease ROU assets and liabilities are recognized at the present value of future lease payments at the lease commencement date. The implicit rate within our operating leases are generally not determinable and therefore we use the incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of our incremental borrowing rate requires judgment. We determine our incremental borrowing rate for each lease using our estimated borrowing rate, adjusted for various factors including level of collateralization, term and currency to align with the terms of the lease. The operating lease ROU asset also includes any lease prepayments and initial direct costs, offset by lease incentives. Certain of our leases include options to extend or terminate the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain we will exercise that option. An option to terminate is considered unless it is reasonably certain we will not exercise the option.

We have elected not to recognize on the balance sheet leases with terms of one year or less. For contracts with lease and non-lease components, we have elected not to allocate the contract consideration and to account for the lease and non-lease components as a single lease component.

(m) Impairment of Long-Lived Assets

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. When such events or changes in circumstances occur, recoverability of these assets is measured by a comparison of the carrying value of the assets to the future net undiscounted cash flows directly associated with the assets. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the assets. For the year ended December 31, 2020, there was no impairment of our long-lived assets.

(n) Business Combinations

We account for business combinations by recognizing the fair value of acquired assets and liabilities. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Determining the fair value of assets and liabilities assumed requires management to make significant estimates and assumptions, especially with respect to intangible assets. While we use our best estimates and assumptions as part of the purchase price allocation to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the fair value of these assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the final determination of the fair value of assets acquired or liabilities assumed any subsequent adjustments are recorded to the consolidated statements of operations. Acquisition-related transaction costs are expensed as incurred.

(o) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized but is tested for impairment at least annually or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred.

We perform an annual goodwill impairment test on the last day of each fiscal year and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. For our goodwill impairment analysis, we operate with a single reporting unit. To test goodwill impairment, we perform a single-step goodwill impairment test to identify potential goodwill impairment. The single-step impairment test begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when the net assets of a reporting unit exceed its fair value. In performing the single step of the goodwill impairment testing and measurement process, we estimated the fair value of our single reporting unit using our market capitalization. Based upon our assessment performed as of December 31, 2020, we concluded the fair value of our single reporting unit exceeded its' carrying value and there was no impairment of goodwill.

(p) Foreign Currency

The functional currency of our foreign subsidiaries is the U.S. dollar. We translate all monetary assets and liabilities denominated in foreign currencies into U.S. dollars using the exchange rates in effect at the balance sheet dates and non-monetary assets and liabilities using historical exchange rates. Foreign currency denominated expenses are re-measured using the average exchange rates for the period. Foreign currency transaction and re-measurement gains and losses are included in other income (expense), net. In 2020, 2019 and 2018, foreign currency transactional gains (losses) and foreign currency re-measurement gains (losses) were not material.

(q) *Derivative and Hedging Activities*

As a global business, we are exposed to currency exchange rate risk. Although the majority of our revenue is denominated in U.S. dollars, a portion of our operating expenses are denominated in foreign currencies, making them subject to fluctuations in foreign currency exchange rates. We enter into foreign currency derivative contracts, which we designate as cash flow hedges, to manage the foreign currency exchange risk associated with these expenses.

Derivative financial instruments are recorded at fair value and reported as either an asset or liability on our consolidated balance sheets. Gains or losses related to our cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) in our consolidated balance sheets and are reclassified into the financial statement line item associated with the underlying hedged transaction in our consolidated statement of operations when the underlying hedged transaction is recognized in our consolidated statement of operations. If it becomes probable that the hedged transaction will not occur, the cumulative unrealized gain or loss is reclassified immediately from accumulated other comprehensive income (loss) into the financial statement line item associated with the underlying hedged transaction in our consolidated statement of operations. Derivatives designated as cash flow hedges are classified in our consolidated statements of cash flow in the same manner as the underlying hedged transaction, primarily within cash flow from operating activities.

(r) ***Stock-Based Compensation***

Stock-based compensation expense related to our stock options, restricted stock units (RSUs), performance-based restricted stock units (PSUs) and purchase rights issued under our 2015 Employee Stock Purchase Plan (ESPP) is calculated based on the estimated fair value of the award on the grant date.

The fair values of RSUs and PSUs are based on the value of our common stock on the date of grant. The fair values of stock options and ESPP purchase rights are estimated on the grant date using the Black-Scholes option pricing model which requires management to make a number of assumptions, including the expected life of the option, the volatility of the underlying stock, the risk-free interest rate and expected dividends. The assumptions used in our Black-Scholes option-pricing model represent management’s best estimates at the time of grant. These estimates involve a number of variables, uncertainties and assumptions and the application of management’s judgment, as they are inherently subjective. If any assumptions change, our stock-based compensation expense could be materially different in the future.

The fair value is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period of the respective award. The actual number of PSUs earned and eligible to vest are determined based on the performance conditions defined when the awards are granted. We recognize share-based compensation expense for the PSUs on a straight-line basis over the requisite service period for each separately vesting portion of the award when it is probable that the performance conditions will be achieved. We reassess the probability of vesting at each reporting period for awards with performance conditions and adjust stock-based compensation cost based on its probability assessment. We recognize forfeitures as they occur and do not estimate a forfeiture rate when calculating the stock-based compensation expense.

(s) ***Advertising***

Advertising costs are expensed as incurred, and are recorded in sales and marketing expense in our consolidated statement of operations. We incurred $16.4 million, $12.8 million and $8.9 million in advertising expense in 2020, 2019 and 2018, respectively.

(t) ***Income Taxes***

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for differences between the consolidated financial statements carrying amounts of assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards using enacted tax rates expected to apply to taxable income in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

We recognize tax benefits from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Interest and penalties associated with such uncertain tax positions are classified as a component of income tax expense.

(u) ***Net Loss per Share***

We calculate basic net loss per share by dividing our net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by giving effect to all potentially dilutive securities, including stock options, RSUs, PSUs, the impact of our ESPP and the impact of the conversion spread of our convertible senior notes (Notes). Basic and diluted net loss per share was the same for all periods presented as the inclusion of all potentially dilutive securities outstanding was anti-dilutive.

(v) ***Recent Accounting Pronouncements***

Accounting Pronouncements Recently Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's*

Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, which aligns the requirements for capitalizing implementation costs in cloud computing arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. We adopted this standard on January 1, 2020 using the prospective adoption approach. The impact to our consolidated financial statements as a result of the adoption was not material.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, modifies and adds disclosure requirements for fair value measurements. We adopted this standard on January 1, 2020 and there was no impact to our consolidated financial statements as a result of the adoption.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which introduced a new methodology for accounting for credit losses on financial instruments. The standard establishes a new forward looking expected loss model that requires entities to estimate current expected credit losses on accounts receivable and other financial instruments by using all practical and relevant information. We adopted this standard in the first quarter of 2020. The impact to our consolidated financial statements as a result of the adoption was not material.

Accounting Pronouncements Not Yet Effective

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The standard eliminates beneficial conversion feature and cash conversion models resulting in more convertible instruments being accounted for as a single unit; and simplifies classification of debt on the balance sheet and earnings per share calculation. The standard is effective for us in the first quarter of fiscal 2022 and can be adopted on a full or modified retrospective basis. We plan to adopt this standard in the first quarter of 2021 under the modified retrospective basis. Adopting this guidance will reduce non-cash interest expense, and thereby increase net income, in our consolidated financial statements. Additionally, the treasury stock method for calculating earnings per share will no longer be allowed for convertible debt instruments whose principal amount may be settled using shares. Rather, the if-converted method will be required. Application of the "if converted" method may reduce our reported diluted earnings per share.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to GAAP guidance on contract modifications to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) to alternative reference rates. We may elect to apply the amendments prospectively through December 31, 2022. The impact to our consolidated financial statements from the adoption of this standard is expected to be immaterial.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This standard is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. The new standard will be effective for us in the first quarter of 2021. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

(3) Revenue from Contracts with Customers

The following table summarizes revenue from contracts with customers for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Subscription revenue	$ 304,737	$ 220,589	$ 137,442
Term and perpetual software licenses	45,959	38,931	28,200
Maintenance and support	31,567	36,778	42,223
Professional services	28,564	29,050	33,297
Other	659	1,599	2,929
Total revenue	$ 411,486	$ 326,947	$ 244,091

The following table summarizes the revenue by region based on the shipping address of customers who have contracted to use our product or service for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
United States	$ 329,753	$ 264,852	$ 199,852
All other	81,733	62,095	44,239
Total revenue	$ 411,486	$ 326,947	$ 244,091

Transaction Price Allocated to the Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied as of December 31, 2020. The estimated revenues do not include unexercised contract renewals.

	Next Twelve Months	Thereafter
	(in thousands)	
Subscription revenue	$ 242,115	$ 64,433
Term and perpetual software licenses	33,041	12,851
Maintenance and support	18,011	4,222

The amounts presented in the table above primarily consist of fixed fees which are typically recognized ratably as the performance obligation is satisfied.

As of December 31, 2020, the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied associated with professional services was $15.3 million. We will recognize this revenue as the professional services are completed, which is expected to occur within the next 12 months or less.

(4) Business Combinations

DivvyCloud Corporation

On May 1, 2020, we acquired Divvy Cloud Corporation (DivvyCloud), a Cloud Security Posture Management (CSPM) company, for a purchase price with an aggregate fair value of $137.8 million. The purchase consideration consisted of $130.8 million in cash paid at closing, $7.4 million in deferred cash payments and $0.1 million in working capital and other purchase price adjustments. The deferred cash payments will be held by us to satisfy indemnification obligations and certain post-closing purchase price adjustments. The deferred cash payments for post-closing purchase price adjustments was payable three months from the acquisition date in the amount of $0.2 million and the remaining $7.2 million is payable on the fifteenth month anniversary of the acquisition date. We have determined the fair value of the deferred cash payments was $6.9 million as of the acquisition date. During the third quarter of 2020, we made a $0.2 million payment for the first deferred cash payment and final working capital and other purchase price adjustments.

In addition, in connection with the acquisition, we will issue an aggregate of 200,596 shares of Rapid7's common stock to the founders of DivvyCloud in three equal annual installments beginning on the first anniversary of the closing date. The 200,596 shares of common stock were accounted for as stock-based compensation expense as continued service was required. The fair value of the 200,596 shares of common stock was $8.9 million.

In the year ended December 31, 2020, we recorded $1.1 million of acquisition-related costs in general and administrative expense.

The following table summarizes the preliminary allocation of purchase price to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Consideration:		
Cash	$	130,865
Deferred cash consideration		6,917
Fair value of total consideration transferred	$	137,782
Recognized amount of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents		5,039
Operating lease right-of-use assets		3,320
Other assets		2,206
Deferred revenue		(4,779)
Operating lease liabilities		(3,297)
Other liabilities		(1,642)
Intangible assets		21,200
Total identifiable net assets assumed		22,047
Goodwill		115,735
Net purchase price	$	137,782

The fair value of identifiable intangible assets was based on valuations using the income approach. The estimated fair value and useful life of identifiable intangible assets are as follows:

		Amount	Weighted Average Amortization Life
		(in thousands)	(in years)
Developed technology	$	18,600	6
Customer relationships		1,700	6
Trade name		900	5
Total identifiable intangible assets	$	21,200	

The excess of the purchase price over the tangible assets acquired, identifiable intangible assets acquired and assumed liabilities was recorded as goodwill. We believe the goodwill is attributable to expanded product offerings resulting from the integration of the technology acquired with our existing product offerings and increased opportunities to successfully market and sell these new products and features to our customer base. The goodwill was allocated to our one reporting unit. The acquired goodwill and intangible assets were not deductible for tax purposes.

These preliminary amounts are subject to subsequent adjustment as we obtain additional information to finalize certain components of working capital.

Following the acquisition, we granted to certain retained employees of DivvyCloud restricted stock units (RSUs) for an aggregate of 153,643 shares of our common stock, which will vest over three years subject to continued service. In addition, we granted certain retained employees of DivvyCloud performance-based restricted stock units (PSUs) for an aggregate of 109,760 shares of our common stock, which will vest over a maximum of three years based upon achievement of certain performance conditions and continued service. The RSUs and PSUs are expensed as stock-based compensation expense over the required service periods, assuming the service and performance conditions are achieved.

Our revenue and net loss attributable to the DivvyCloud business for the year ended December 31, 2020 was $6.3 million and $18.5 million, respectively.

Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of our operations and DivvyCloud, on a pro forma basis, as though we had acquired DivvyCloud on January 1, 2019. The unaudited pro forma financial information for all periods presented also includes the effects of business combination accounting resulting from the acquisition, including an adjustment to revenue for the deferred revenue fair value adjustment, amortization expense from acquired intangibles assets, reversal of acquisition-related expenses and the stock-compensation expense recorded to retain certain employees.

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Revenue	$ 416,999	$ 332,392
Net loss	$ (102,766)	$ (78,258)

NetFort Technologies Limited

On April 1, 2019, we acquired NetFort Technologies Limited (NetFort), a provider of end-to-end network traffic visibility and analytics across cloud, virtual and physical platforms for a purchase price of $16.1 million. The $16.1 million purchase price was funded with cash. We expensed the related acquisition costs of $0.5 million in general and administrative expense.

The assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The excess of the purchase price over the assets acquired and liabilities assumed was recorded as goodwill. The fair value of net assets acquired, goodwill and intangible assets were $0.6 million, $9.4 million and $6.1 million, respectively.

The goodwill was allocated to our one reporting unit. The acquired goodwill and intangible asset will not be deductible for tax purposes. Accordingly, a $0.8 million deferred tax benefit was recorded resulting from a partial release of our valuation allowance to account for the creation of a deferred tax liability for the developed technology intangible asset acquired.

Following the acquisition, certain retained employees and non-employee contractors of NetFort received an aggregate of 123,623 RSUs, which vest over a maximum of three years. The vesting of the RSUs is subject to the employee's continued service with us. Accordingly, the compensation expense associated with the RSUs is expensed as incurred in our post-acquisition financial statements.

tCell.io, Inc.

On October 15, 2018, we acquired tCell.io, Inc. (tCell) for total cash consideration of $15.4 million.

The assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The excess of the purchase price over the assets acquired and liabilities assumed was recorded as goodwill. The fair value of net assets acquired, goodwill and intangible assets were $0.9 million, $5.3 million and $9.2 million, respectively. The goodwill was allocated to our one reporting unit. The acquired goodwill and intangible asset were not deductible for tax purposes.

(5) Investments

Our investments, which are all classified as available-for-sale, consisted of the following:

	As of December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Description:				
U.S. Government agencies	$ 83,596	$ 3	$ (12)	$ 83,587
Corporate bonds	24,162	31	(1)	24,192
Commercial paper	34,766	—	—	34,766
Agency bonds	3,998	1	—	3,999
Asset-backed securities	2,419	—	—	2,419
Total	$ 148,941	$ 35	$ (13)	$ 148,963

	As of December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Description:				
U.S. Government agencies	$ 36,880	$ 99	$ —	$ 36,979
Commercial paper	19,965	1	—	19,966
Corporate bonds	60,803	77	(2)	60,878
Agency bonds	12,198	44	—	12,242
Asset-backed securities	8,986	1	(7)	8,980
Total	$ 138,832	$ 222	$ (9)	$ 139,045

As of December 31, 2020 and 2019, our available-for-sale investments had maturities ranging from 1 to 16 months and from 3 months to 2 years, respectively.

For all of our investments for which the amortized cost basis was greater than the fair value at December 31, 2020 and 2019, we have concluded that there is no plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating and the time to maturity.

(6) Fair Value Measurements

We measure certain financial assets and liabilities at fair value. Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers.

The following table presents our financial assets measured and recorded at fair value on a recurring basis using the above input categories:

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description:				
Assets:				
Money market funds	$ 152,570	$ —	$ —	$ 152,570
U.S. Government agencies	83,587	—	—	83,587
Commercial paper	—	34,766	—	34,766
Corporate bonds	—	24,192	—	24,192
Agency bonds	—	3,999	—	3,999
Asset-backed securities	—	2,419	—	2,419
Foreign currency forward contracts designated as cash flow hedges	—	432	—	432
Total assets	$ 236,157	$ 65,808	$ —	$ 301,965

	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description:				
Assets:				
Money market funds	$ 106,781	$ —	$ —	$ 106,781
Corporate bonds	—	60,878	—	60,878
U.S. Government agencies	36,979	—	—	36,979
Commercial paper	—	19,966	—	19,966
Agency bonds	—	12,242	—	12,242
Asset-backed securities	—	8,980	—	8,980
Total assets	$ 143,760	$ 102,066	$ —	$ 245,826

As of December 31, 2020, the fair value of our 1.25% and 2.25% convertible senior notes due 2023 and 2025, respectively, as further described in Note 11, *Debt,* was $501.8 million and $373.3 million, respectively, based upon quoted market prices. We consider the fair value of the notes to be a Level 2 measurement due to limited trading activity of the notes. We had no financial liabilities measured and recorded at fair value on a recurring basis as of December 31, 2020 and 2019.

(7) Property and Equipment

Property and equipment are recorded at cost and consist of the following:

	As of December 31,	
	2020	2019
	(in thousands)	
Computer equipment and software	$ 13,438	$ 13,106
Furniture and fixtures	9,655	7,522
Leasehold improvements	50,336	44,050
Total	73,429	64,678
Less accumulated depreciation	(20,315)	(14,008)
Property and equipment, net	$ 53,114	$ 50,670

In 2020, we disposed of $3.6 million, $0.7 million and $0.4 million of computer equipment and software, leasehold improvements and furniture and fixtures, respectively, of fully depreciated assets which were no longer in use.

We recorded depreciation expense of $11.0 million, $9.0 million and $6.5 million in 2020, 2019 and 2018, respectively.

(8) Goodwill and Intangible Assets

Goodwill was $213.6 million and $97.9 million as of December 31, 2020 and 2019, respectively. There were no goodwill impairment charges in 2020, 2019 or 2018. The following table displays the changes in the gross carrying amount of goodwill:

	Amount
	(in thousands)
Balance at December 31, 2018	$ 88,420
NetFort acquisition	9,446
Balance at December 31, 2019	$ 97,866
DivvyCloud acquisition	115,735
Balance at December 31, 2020	$ 213,601

The following table presents details of our intangible assets which include acquired identifiable intangible assets and capitalized internal-use software costs:

	Weighted-Average Estimated Useful Life (years)	As of December 31, 2020			As of December 31, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
		(in thousands)					
Intangible assets subject to amortization:							
Developed technology	5.6	$ 54,455	$ (24,780)	$ 29,675	$ 35,855	$ (16,080)	$ 19,775
Customer relationships	6.3	2,700	(958)	1,742	1,000	(641)	359
Trade names	5.4	1,419	(639)	780	519	(519)	—
Non-compete agreements	2.0	40	(40)	—	40	(40)	—
Total acquired intangible assets	3.0	58,614	(26,417)	32,197	37,414	(17,280)	20,134
Internal-use software		16,002	(3,903)	12,099	9,873	(1,446)	8,427
Total intangible assets		$ 74,616	$ (30,320)	$ 44,296	$ 47,287	$ (18,726)	$ 28,561

Intangible assets are expensed on a straight-line basis over the useful life of the asset. We recorded amortization expense of $11.6 million, $7.5 million and $4.6 million in 2020, 2019 and 2018, respectively.

Estimated future amortization expense of the acquired identifiable intangible assets and completed capitalized internal-use software costs as of December 31, 2020 is as follows (in thousands):

2021	$ 13,039
2022	10,168
2023	7,283
2024	3,868
2025	3,443
2026 and thereafter	1,128
Total	$ 38,929

The table above excludes the impact of $5.4 million of capitalized internal-use software costs for projects that have not been completed as of December 31, 2020, and therefore, we have not determined the useful life of the software, nor have all the costs associated with these projects been incurred.

(9) Deferred Contract Acquisition and Fulfillment Costs

The following table summarizes the activity of the deferred contract acquisition and fulfillment costs for the years ended December 31, 2020 and 2019:

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Beginning balance	$ 51,260	$ 39,955
Capitalization of contract acquisition and fulfillment costs	33,525	26,109
Amortization of deferred contract acquisition and fulfillment costs	(20,146)	(14,804)
Ending balance	$ 64,639	$ 51,260

(10) Derivatives and Hedging Activities

To mitigate our exposure to foreign currency fluctuations resulting from certain expenses denominated in certain foreign currencies, we enter into forward contracts that are designated as cash flow hedging instruments. These forward contracts have contractual maturities of twelve months or less, and as of December 31, 2020, outstanding forward contracts had a total notional value of $12.5 million. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. During the year ended December 31, 2020, all cash flow hedges were considered effective.

The fair values of outstanding derivative instruments were as follows (in thousands):

	Consolidated Balance Sheet Location	As of December 31, 2020
Derivative assets:		
Foreign currency forward contracts designated as cash flow hedges	Prepaid expenses and other current assets	$ 432
Total derivative assets		$ 432

During the year ended December 31, 2020, amounts reclassified from accumulated other comprehensive income (loss) on our consolidated balance sheet to the financial statement line item associated with the underlying hedged transaction on our consolidated statement of operations for our cash flow hedges were not material.

(11) Debt

Convertible Senior Notes

In August 2018, we issued $230.0 million aggregate principal amount of convertible senior notes due August 1, 2023 (the 2023 Notes) and in May 2020, we issued $230.0 million aggregate principal amount of convertible senior notes due May 1, 2025 (the 2025 Notes) (collectively, the Notes). The 2023 Notes bear interest at a fixed rate of 1.25% per annum, payable semi-annually in arrears on February 1 and August 1 of each year. The 2025 Notes bear interest at a fixed rate of 2.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2020. The 2023 Notes and the 2025 Notes mature on August 1, 2023 and May 1, 2025, respectively unless earlier converted, redeemed or repurchased. The 2023 Notes and 2025 Notes are senior unsecured obligations, do not contain any financial covenants and are governed by an indenture between the Company, as issuer, and U.S. Bank National Association, as trustee (the 2023 Indenture and the 2025 Indenture, respectively).

The total net proceeds from the 2023 Notes and the 2025 Notes offerings, after deducting initial purchase discounts and estimated debt issuance costs, were $223.1 million and $222.8 million, respectively.

Terms of the 2023 Notes and the 2025 Notes

The holders of the Notes may convert their respective Notes at their option at any time prior to the close of business on the business day immediately preceding their respective convertible dates only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2018 for the 2023 Notes and September 30, 2020 for the 2025 Notes (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the respective Notes on each applicable trading day;

- during the five business day period after any five consecutive trading day period (measurement period) in which the trading price (as defined in the Indenture) per $1,000 principal amount of the applicable series of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate of the respective Notes on each such trading day;
- if we call any or all of the respective Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the respective redemption date; or
- upon the occurrence of specified corporate events (as set forth in the Indenture).

During the three months ended December 31, 2020, the conversion feature of the 2023 Notes was triggered as the last reported price of our common stock was more than or equal to 130% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter, and therefore the 2023 Notes are currently convertible, in whole or in part, at the option of the holders from January 1, 2021 through March 31, 2021. Whether the 2023 Notes will be convertible following such period will depend on the continued satisfaction of this condition or another conversion condition in the future. We had not received any conversion notices through the issuance date of our consolidated financial statements. Since we may elect to repay the 2023 Notes in cash, shares of our common stock, or a combination of both, we have continued to classify the 2023 Notes as long-term debt on our consolidated balance sheet as of December 31, 2020. As of December 31, 2020, the 2025 Notes are not convertible at the option of the holder.

The following table presents details of the Notes (number of shares in millions):

	Initial Conversion Price per $1,000 Principal	Initial Conversion Price	Initial Number of Shares
2023 Notes	24.0460	$ 41.59	5.5
2025 Notes	16.3875	$ 61.02	3.8

The holders may convert the 2023 Notes and 2025 Notes at any time on or after February 1, 2023 and November 1, 2024, respectively, until the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, in the manner and subject to the terms and conditions provided in the Indenture.

If we undergo a fundamental change (as set forth in the Indentures) at any time prior to the maturity date, holders of the Notes will have the right, at their option, to require us to repurchase for cash all or any portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, following certain corporate events that occur prior to the maturity date or following our issuance of a notice of redemption, in each case as described in the Indentures, we will increase the conversion rate for a holder of the Notes who elects to convert its Notes in connection with such a corporate event or during the related redemption period in certain circumstances.

We may not redeem the 2023 Notes or 2025 Notes prior to August 6, 2021 and May 6, 2023 (Redemption Dates), respectively. On or after the respective Redemption Dates, we may redeem for cash all or any portion of the 2023 Notes or 2025 Notes, at our option, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including the trading day immediately preceding, the date on which we provide the redemption notice at a redemption price equal to 100% principal amount of the 2023 Notes or 2025 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

Accounting for the 2023 Notes and the 2025 Notes

In accounting for the transactions, the 2023 Notes and the 2025 Notes have been separated into liability and equity components. The initial carrying amounts of the liability components were calculated by measuring the fair value of similar debt instruments that do not have an associated convertible feature. The initial carrying amounts of the equity components representing the option to convert the Notes was $53.8 million and $48.3 million for the 2023 Notes and the 2025 Notes, respectively, and were determined by deducting the fair values of the liability components from the par value of the 2023 Notes and 2025 Notes. The equity components were recorded as an increase to additional paid-in capital and are not remeasured as long as they continue to meet the conditions for equity classification. The excess of the principal amount of the 2023 Notes and the 2025 Notes over their respective carrying amount of the liability component, or debt discount, are amortized to interest expense using the effective interest method over the contractual terms of the respective Notes.

In accounting for the debt issuance costs of $6.9 million and $7.2 million related to the 2023 Notes and the 2025 Notes, respectively, we allocated the total amount incurred to the liability and equity components of the 2023 Notes and 2025 Notes based on their relative values. Issuance costs attributable to the liability component were $5.3 million and $5.7 million, for the 2023 Notes and the 2025 Notes, respectively, and will be amortized to interest expense using the effective interest method over the contractual term of the 2023 Notes and 2025 Notes, respectively. Issuance costs attributable to the equity component of $1.6 million and $1.5 million for the 2023 Notes and the 2025 Notes, respectively, were netted with the equity component in additional paid-in capital.

The effective interest rates for the 2023 Notes and the 2025 Notes were 7.36% and 7.85%, respectively.

The net carrying amount of the liability components of the 2023 Notes and the 2025 Notes were as follows (in thousands):

	As of December 31, 2020			As of December 31, 2019
	2023 Notes	2025 Notes	Total	2023 Notes
Principal	$ 230,000	$ 230,000	$ 460,000	$ 230,000
Unamortized debt discount	(30,425)	(42,930)	(73,355)	(40,768)
Unamortized issuance costs	(3,009)	(5,050)	(8,059)	(4,032)
Net carrying amount	$ 196,566	$ 182,020	$ 378,586	$ 185,200

The net carrying amount of the equity component as of December 31, 2020 and 2019 (for the 2023 Notes only) was as follows (in thousands):

	2023 Notes	2025 Notes	Total
Debt discount for conversion option	$ 53,820	$ 48,346	$ 102,166
Issuance costs	(1,626)	(1,514)	(3,140)
Net carrying amount	$ 52,194	$ 46,832	$ 99,026

Interest expense related to the 2023 Notes and the 2025 Notes was as follows (in thousands):

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	2023 Notes	2025 Notes	Total	2023 Notes	2025 Notes	Total
Contractual interest expense	$ 2,875	$ 3,450	$ 6,325	$ 2,875	$ —	$ 2,875
Amortization of debt discount	10,342	5,417	15,759	9,567	—	9,567
Amortization of issuance costs	1,023	637	1,660	946	—	946
Total interest expense	$ 14,240	$ 9,504	$ 23,744	$ 13,388	$ —	$ 13,388

The future payments of the principal and contractual interest related to the Notes as of December 31, 2020 are as follows (in thousands):

	Principal	Interest	Total
2021	$ —	$ 8,050	$ 8,050
2022	—	8,050	8,050
2023	230,000	8,050	238,050
2024	—	5,175	5,175
2025	230,000	2,588	232,588
Total	$ 460,000	$ 31,913	$ 491,913

Capped Calls

In connection with the offering of the 2023 Notes and the 2025 Notes, we entered into privately negotiated capped call transactions with certain counterparties (the 2023 Capped Calls and 2025 Capped Calls). The initial strike prices for the 2023 Capped Calls and the 2025 Capped Calls are $41.59 and $61.02 per share, respectively, subject to certain adjustments, which correspond to the initial conversion price of the 2023 Notes and the 2025 Notes. The initial cap prices for the 2023 Capped Calls and the 2025 Capped Calls are $63.98 and $93.88 per share, respectively, subject to certain adjustments. The 2023 Capped Calls and the 2025 Capped Calls are expected to offset potential dilution to our common stock upon conversion of the respective 2023 Notes or the 2025 Notes, with such offset subject to a cap based on the cap price. The 2023 Capped Calls and the 2025 Capped Calls cover, subject to anti-dilution adjustments, approximately 5.5 million and 3.8 million shares of our common stock, respectively. For accounting purposes, the 2023 Capped Calls and the 2025 Capped Calls are separate transactions, and not part of the terms of the 2023 Notes and the 2025 Notes. The 2023 Capped Calls and the 2025 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. Accordingly, the cost of $26.9 million and $27.3 million, respectively, for the 2023 Capped Calls and 2025 Capped Calls was recorded as a reduction to additional paid-in capital.

The net impact to our stockholders' equity, included in additional paid-in capital, of the above components of the 2023 Notes and the 2025 Notes was as follows (in thousands):

	2023 Notes	2025 Notes
Conversion option	$ 53,820	$ 48,346
Purchase of capped calls	(26,910)	(27,255)
Issuance costs	(1,626)	(1,514)
Total	$ 25,284	$ 19,577

Credit Agreement

On April 23, 2020, we entered into a Credit and Security Agreement (the Credit Agreement), with KeyBank National Association that provides for a $30.0 million revolving credit facility, with a letter of credit sublimit of $15.0 million and an accordion feature under which we can increase the credit facility to up to $70.0 million. We incurred fees of $0.4 million in connection with entering into the Credit Agreement. The fees are recorded in other current assets on the consolidated balance sheet and are amortized on a straight-line basis over the contractual term of the arrangement. The commitment fee of 0.2% per annum on the unused portion of the credit facility is expensed as incurred and included within interest expense on the consolidated statement of operations. The Credit Agreement matures on April 23, 2023 and contains certain financial covenants including a requirement that we maintain specified minimum recurring revenue and liquidity amounts. In May 2020, we utilized the accordion feature to increase the credit facility to $50.0 million.

The borrowings under the Credit Agreement bear interest, at our option, at a rate equal to either the London Interbank Offered Rate (LIBOR) rate (subject to a 1.00% floor), plus an applicable margin equal to 2.50% per annum or the alternate base rate (subject to a floor), plus an applicable margin equal to 0% per annum. As of December 31, 2020, we did not have any outstanding borrowings and we were in compliance with all covenants under the Credit Agreement.

As of December 31, 2020, we had a total of $8.1 million in letters of credit outstanding as collateral for certain office space leases and corporate credit card programs which reduce the amount of borrowing available under our Credit Agreement.

(12) Leases

Our leases primarily relate to office facilities that have remaining terms of up to 9.9 years, some of which include one or more options to renew with renewal terms of up to 5 years and some of which include options to terminate the leases within the next 6.7 years. All of our leases are classified as operating leases.

The components of lease expense were as follows:

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Operating lease costs	$ 14,881	$ 11,299
Short-term lease costs	1,033	1,140
Variable lease costs	4,870	3,388
Total lease costs	$ 20,784	$ 15,827

Supplemental balance sheet information related to the operating leases was as follows:

	As of December 31,	
	2020	2019
	(in thousands, except lease term and discount rate)	
Operating ROU assets	$ 67,178	$ 60,984
Operating lease liabilities, current portion	$ 9,612	$ 7,179
Operating lease liabilities, non-current portion	75,737	72,294
Total operating lease liabilities	$ 85,349	$ 79,473
Weighted average remaining lease terms (in years) - operating leases	7.9	8.7
Weighted average discount rate - operating leases	7.7 %	7.6 %

Supplemental cash flow information related to leases was as follows:

	As of December 31,	
	2020	2019
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities	$ 16,159	$ 11,720
ROU assets obtained in exchange for new lease obligations	$ 15,838	$ 65,873

Maturities of operating lease liabilities as of December 31, 2020 were as follows (in thousands):

2021	$ 15,035
2022	13,887
2023	14,177
2024	13,464
2025	12,552
Thereafter	41,958
Total lease payments	$ 111,073
Less: imputed interest	(25,724)
Total	$ 85,349

(13) Stock-Based Compensation

(*a*) *General*

In connection with our IPO, our board of directors resolved not to make future grants under our 2011 Stock Option and Grant Plan (the 2011 Plan). The 2011 Plan will continue to govern outstanding awards granted thereunder. The 2011 Plan provided for the grant of qualified incentive stock options and nonqualified stock options or other awards such as restricted stock awards (RSAs) to our employees, officers, directors and outside consultants.

In July 2015, our board of directors adopted and our stockholders approved our 2015 Equity Incentive Plan (the 2015 Plan). We initially reserved 800,000 shares of our common stock for the issuance of awards under the 2015 Plan plus the number of shares of common stock reserved for issuance under the 2011 Plan at the time the 2015 Plan became effective. The 2015 Plan also provides that (i) any shares subject to awards granted under the 2011 Plan that would have otherwise returned to the 2011 Plan (such as upon the expiration or termination of a stock award prior to vesting) will be added to, and available for issuance under, the 2015 Plan and (ii) the number of shares reserved and available for issuance under the 2015 Plan automatically increases each January 1, beginning on January 1, 2016, by 4% of the outstanding number of shares of our common stock on the immediately preceding December 31 (known as the “evergreen” provision) or such lesser number of shares as determined by our board of directors. Additionally, on October 8, 2015, our board of directors amended, effective as of the acquisition of Logentries, the 2015 Plan to reserve an additional 1,500,000 shares of our common stock for issuance of inducement awards.

In February 2020, March 2019, March 2018, March 2017 and March 2016, we registered the increase in the number of shares authorized to be issued under the 2015 Plan by 1,996,444, 1,904,017 1,762,149, 1,702,187 and 1,661,616 shares, respectively, which represents the amount automatically added pursuant to the annual evergreen provision contained therein. As of December 31, 2020, the shares of common stock authorized to be issued under the 2015 Plan totaled 15,788,542 and there were 2,305,220 shares of common stock available for grant.

We recognize stock-based compensation expense for all awards on a straight-line basis over the applicable vesting period, which is generally four years.

Stock-based compensation expense for restricted stock, restricted stock units (RSUs), performance-based restricted stock units (PSUs), stock options and purchase rights issued under our employee stock purchase plan was classified in the accompanying consolidated statements of operations as follows:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Stock-based compensation expense:			
Cost of revenue	$ 4,298	$ 2,580	$ 1,692
Research and development	24,423	15,670	10,822
Sales and marketing	16,826	11,883	7,569
General and administrative	18,341	10,531	7,510
Total stock-based compensation expense	$ 63,888	$ 40,664	$ 27,593

In the first quarter of 2020, our Compensation Committee adopted and approved the performance goals, targets and payout formulas for 2020 under our bonus plans, including permitting our executive officers and other employees the opportunity to receive payment of their earned bonuses for fiscal year 2020 in the form of common stock (in lieu of cash). For the year ended December 31, 2020, we recognized stock-based compensation expense related to such bonuses in the amount of $2.5 million, based on the performance attainment of the pre-established corporate financial objectives as of December 31, 2020. For all employees, including executive officers, who elected to receive their 2020 bonuses in the form of common stock (in lieu of cash), the payouts are expected to be made in the form of fully vested stock awards in the first quarter of 2021 pursuant to our 2015 Equity Incentive Plan, as amended. The number of shares underlying such awards shall be determined by dividing the dollar value of the actual bonus award payment by the closing price per share of our common stock on the date of grant.

(b) Restricted Stock, Restricted Stock Units and Performance-Based Restricted Stock Units

Restricted stock, restricted stock unit and performance-based restricted stock unit activity during 2020, 2019 and 2018 was as follows:

	Restricted Stock		RSUs and PSUs	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 31, 2017	210,083	$ 18.00	1,988,509	$ 14.77
Granted	—	—	2,099,394	25.19
Vested	(187,706)	18.80	(973,443)	17.41
Forfeited	(700)	23.01	(340,687)	18.96
Unvested balance as of December 31, 2018	21,677	10.88	2,773,773	21.21
Granted	—	—	1,740,299	43.34
Vested	(21,677)	10.88	(1,291,932)	24.42
Forfeited	—	—	(285,216)	26.14
Unvested balance as of December 31, 2019	—	—	2,936,924	32.43
Granted	—	—	1,725,531	57.57
Vested	—	—	(1,451,618)	33.66
Forfeited	—	—	(268,923)	40.56
Unvested balance as of December 31, 2020	—	$ —	2,941,914	$ 45.86

As of December 31, 2020, the unrecognized compensation cost related to shares of unvested RSUs and PSUs expected to vest was $121.9 million. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 2.3 years.

(c) Stock Options

The following table summarizes information about stock option activity during the reporting periods:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2017	4,684,954	$ 9.68		
Granted	107,850	24.44		
Exercised	(944,658)	8.05		$ 19,982
Forfeited/cancelled	(134,967)	15.20		
Outstanding as of December 31, 2018	3,713,179	10.32		
Granted	—	—		
Exercised	(968,057)	10.55		$ 39,526
Forfeited/cancelled	(9,730)	13.53		
Outstanding as of December 31, 2019	2,735,392	10.10		
Granted	—	—		
Exercised	(783,645)	9.98		$ 39,095
Forfeited/cancelled	(18,734)	17.87		
Outstanding as of December 31, 2020	1,933,013	$ 10.07	4.05	$ 154,816
Vested and exercisable as of December 31, 2020	1,844,721	$ 9.75	3.94	$ 148,339

As of December 31, 2020, the unrecognized compensation cost related to our unvested stock options expected to vest was $0.5 million. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 0.5 years.

The total fair value of stock options vested in 2020, 2019 and 2018 was $2.2 million, $3.7 million and $5.1 million, respectively. The weighted-average grant date fair value per share of stock options granted in 2018 was $11.86 per share.

(d) Employee Stock Purchase Plan

On July 17, 2015, we filed a registration statement on Form S-8 with the Securities and Exchange Commission registering 800,000 shares of our common stock reserved under our 2015 Employee Stock Purchase Plan (ESPP). In February 2020, February 2019, March 2018, March 2017 and March 2016, we increased the number of shares to be authorized under the ESPP by 499,111, 476,004, 440,537, 425,547 and 415,404 shares, respectively, which represents the amount automatically added pursuant to the annual evergreen provision of the ESPP. As of December 31, 2020, the shares of common stock authorized to be issued under the ESPP totaled 3,056,603 and there were 1,824,947 shares of common stock available for grant.

Under the ESPP, employees may set aside up to 15% of their gross earnings, on an after-tax basis, to purchase our common shares at a discounted price, which is calculated at 85% of the lesser of: (i) the market value of our common stock at the beginning of each offering period and (ii) the market value of our common stock on the applicable purchase date.

The fair value of shares issued under our ESPP are estimated on the grant date using the Black-Scholes option pricing model. The expected term represents the term from the first day of the offering period to the purchase dates within each offering period. The expected volatility is based on the historical volatilities of our own common stock. The risk-free interest rate is based on U.S. Treasury zero-coupon securities with maturities consistent with the estimated expected term. We have not paid dividends on our common stock nor do we expect to pay dividends in the foreseeable future.

The following table reflects the assumptions used in the Black-Scholes option pricing model to calculate the expense related to the ESPP:

	Year Ended December 31,		
	2020	2019	2018
Expected term (in years)	0.5 - 1.0	0.5 - 1.0	0.5 - 1.0
Expected volatility	47 - 53%	44 - 55%	37%
Risk-free interest rate	0.1 – 0.3%	1.9 – 2.5%	2.0 – 2.6%
Expected dividend yield	—	—	—
Grant date fair value per share	$9.63 – 22.30	$14.17 –17.94	$6.62 – 10.95

On March 15, 2018, we issued 123,607 shares of common stock to employees, with purchase prices of $12.96 and $14.78 per share, for aggregate proceeds of $1.6 million.

On September 14, 2018, we issued 96,108 shares of common stock to employees, with purchase prices of $21.96 and $14.78 per share, for aggregate proceeds of $2.0 million.

On March 15, 2019, we issued 110,822 shares of common stock to employees, with purchase prices of $30.46 and $21.96 per share, for aggregate proceeds of $2.6 million.

On September 13, 2019, we issued 74,221 shares of common stock to employees, with purchase prices of $30.46 and $42.22 per share, for aggregate proceeds of $2.9 million.

On March 15, 2020, we issued 101,806 shares of common stock to employees, with a purchase price of $32.87 per share, for aggregate proceeds of $3.3 million.

On September 15, 2020, we issued 131,585 shares of common stock to employees, with a purchase price of the shares was $28.39 per share, for aggregate proceeds of $3.7 million.

(14) Income Taxes

Loss before income taxes included in the consolidated statements of operations was as follows:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
United States	$ (72,846)	$ (41,111)	$ (39,754)
Foreign	(24,017)	(12,692)	(15,325)
Loss before income taxes	$ (96,863)	$ (53,803)	$ (55,079)

Income tax expense included in the consolidated statements of operations was as follows:

	Year Ended December 31, 2020	2019	2018
		(in thousands)	
Current:			
Federal	$ 8	$ 260	$ 124
State and local	122	109	126
Foreign	1,149	255	228
Total current tax expense	1,279	624	478
Deferred:			
Federal	9	9	(285)
State and local	2	2	16
Foreign	696	(593)	257
Total deferred tax expense (benefit)	707	(582)	(12)
Income tax expense	$ 1,986	$ 42	$ 466

The reconciliation of the federal statutory rate of 21% to the effective income tax rate for the years ended December 31, 2020, 2019 and 2018 was as follows:

	Year Ended December 31, 2020	2019	2018
Federal statutory rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	(0.1)	(0.2)	(0.2)
Permanent differences	(4.0)	(2.8)	0.2
Stock-based compensation	12.1	22.3	9.3
Federal research and development credit	1.1	1.3	1.2
Foreign rate differential	(1.4)	(1.4)	(1.1)
Change in valuation allowance	(30.0)	(41.0)	(32.8)
Other	(0.8)	0.7	1.5
Effective income tax rate	(2.1)%	(0.1)%	(0.9)%

Net deferred tax assets and liabilities, as set forth in the table below, reflect the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws:

	As of December 31,	
	2020	2019
	(in thousands)	
Deferred tax assets:		
Accruals and reserves	$ 1,272	$ 323
Net operating loss carryforwards	117,478	85,969
Deferred revenue	7,951	14,401
Depreciation	3,330	2,335
Research and development credits	6,201	4,665
Operating lease liabilities	20,967	19,657
Stock-based compensation	4,755	3,806
Tax credits	1,148	1,181
Other	2,105	61
Gross deferred tax assets	165,207	132,398
Valuation allowance	(110,350)	(94,581)
Total deferred tax assets	54,857	37,817
Deferred tax liabilities:		
Intangible assets	(5,717)	(2,249)
Operating lease ROU assets	(16,233)	(14,792)
Convertible senior notes	(17,961)	(9,959)
Deferred contract acquisition and fulfillment costs	(15,908)	(11,565)
Other	(543)	(20)
Total deferred tax liabilities	(56,362)	(38,585)
Net deferred tax liabilities	$ (1,505)	$ (768)

As of December 31, 2020, we have evaluated the need for a valuation allowance on deferred tax assets. In assessing whether the deferred tax assets are realized, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to our history of generating losses in the United States, the United Kingdom and Ireland, we continue to record a full valuation allowance against our deferred tax assets in these jurisdictions. If we achieve future profitability, a significant portion of these deferred tax assets could be available to offset future income taxes.

The valuation allowance increased by $15.8 million for the year ended December 31, 2020, primarily due to additional operating losses generated during the year.

We plan to permanently reinvest the undistributed earnings of our foreign subsidiaries. If we repatriate these earnings, we may be required to pay U.S. state and local taxes, as well as foreign withholding taxes.

As of December 31, 2020, we had federal and state net operating loss carryforwards of $376.7 million and $290.2 million, respectively. Of our federal net operating losses, $257.2 million will carry forward indefinitely. The remaining federal and state net operating loss carryforwards expire at various dates beginning in 2021. As of December 31, 2020, we had foreign net operating loss carryforwards of $157.8 million that can be carried forward indefinitely. We also had federal, state and international research and development credit carryforwards of $4.0 million, $1.9 million and $0.3 million as of December 31, 2020, respectively. These credit carryforwards expire at various dates beginning in 2023.

We are currently subject to the annual limitation under Sections 382 and 383 of the Internal Revenue Code. We will not be precluded from realizing the net operating loss carryforwards and tax credits but may be limited in the amount we could utilize in any given tax year in the event that the federal and state taxable income exceeds the limitation imposed by Section 382. The amount of the annual limitation is determined based on our value immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years.

We file income tax returns in all jurisdictions in which we operate. In the normal course of business, we are subject to examination by federal, state, and foreign tax authorities, where applicable. The statute of limitations for these jurisdictions is generally three to seven years. However, to the extent we utilize net operating losses or other similar carryforward attributes such as credits, the statute remains open to the extent of the net operating losses or credits that are utilized. We have no tax returns under examination as of December 31, 2020. As of December 31, 2020 and 2019, we had no reserves for unrecognized tax benefits.

(15) Net Loss Per Share

The following table summarizes the computation of basic and diluted net loss per share of our common stock for 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands, except share and per share data)		
Numerator:			
Net loss	$ (98,849)	$ (53,845)	$ (55,545)
Denominator:			
Weighted-average common shares outstanding, basic and diluted	51,036,824	48,731,791	46,456,825
Net loss per share, basic and diluted	$ (1.94)	$ (1.10)	$ (1.20)

The shares underlying the conversion options in the 2023 Notes and the 2025 Notes were not considered in the calculation of diluted net loss per share as the effect would have been anti-dilutive. Based on the initial conversion prices, the entire outstanding principal amount of the 2023 Notes and the 2025 Notes as of December 31, 2020 would have been convertible into approximately 5.5 million and 3.8 million shares, respectively. We expect to settle the principal amount of the 2023 Notes and the 2025 Notes in cash. As a result, only the amount by which the conversion value exceeds the aggregate principal amount of the 2023 Notes and the 2025 Notes is considered in the diluted earnings per share computation under the treasury stock method. The conversion spread has a dilutive impact on diluted net income per share when the average market price of our common stock for a given period of time exceeds the initial conversion prices of $41.59 per share for the 2023 Notes and $61.02 per share for the 2025 Notes. In connection with the issuance of the 2023 Notes and the 2025 Notes, we entered into 2023 Capped Calls and 2025 Capped Calls, which were not included for the purpose of calculating the number of diluted shares outstanding, as their effect would have been anti-dilutive.

During the three months ended December 31, 2020, the conversion feature of the 2023 Notes was triggered as the last reported price of our common stock was more than or equal to 130% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter, and therefore the Notes are currently convertible, in whole or in part, at the option of the holders. We had not received any conversion notices through the issuance date of our audited consolidated financial statements. For disclosure purposes, we have calculated the potentially dilutive effect of the conversion spread, which is included in the table below.

The following potentially dilutive securities outstanding, prior to the use of the treasury stock method, have been excluded from the computation of diluted weighted-average shares outstanding for the respective periods below because they would have been anti-dilutive:

	Year Ended December 31,		
	2020	2019	2018
Options to purchase common stock	1,933,013	2,705,458	3,713,179
Unvested restricted stock	—	—	21,677
Unvested restricted stock units	2,941,914	2,936,924	2,773,773
Shares to be issued under ESPP	101,658	53,167	74,634
Convertible senior notes	9,299,432	5,530,176	5,530,176
Total	14,276,017	11,225,725	12,113,439

(16) Commitments and Contingencies

(a) Purchase Obligations

As of December 31, 2020, we have non-cancellable firm purchase commitments relating to cloud infrastructure services, including with Amazon Web Services (AWS), and software subscriptions.

The following table presents details of the future non-cancellable purchase commitments under these agreements as of December 31, 2020 (in thousands):

2021	$ 45,545
2022	42,017
2023	50,649
2024	61
2025	77
Total	$ 138,349

(b) Warranty

We provide limited product warranties. Historically, any payments made under these provisions have been immaterial.

(c) Litigation and Claims

In October 2018, Finjan, Inc. (Finjan) filed a complaint against us and our wholly-owned subsidiary, Rapid7 LLC, in the United States District Court, District of Delaware, alleging patent infringement of seven patents held by them. In the complaint, Finjan sought unspecified damages, attorneys' fees and injunctive relief. We intend to vigorously contest Finjan's claims. The final outcome, including our liability, if any, with respect to Finjan's claims, is uncertain. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

In addition, from time to time, we may be a party to litigation or subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

(d) Indemnification Obligations

We agree to standard indemnification provisions in the ordinary course of business. Pursuant to these provisions, we agree to indemnify, hold harmless and reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally our customers, in connection with any United States patent, copyright or other intellectual property infringement claim by any third party arising from the use of our products or services in accordance with the agreement or arising from our gross negligence, willful misconduct or violation of the law (provided that there is not gross or willful misconduct on the part of the other party) with respect to our products or services. The term of these indemnification provisions is generally perpetual from the time of execution of the agreement. We carry insurance that covers certain third-party claims relating to our services and limits our exposure. We have never incurred costs to defend lawsuits or settle claims related to these indemnification provisions.

As permitted under Delaware law, we have entered into indemnification agreements with our officers and directors, indemnifying them for certain events or occurrences while they serve as officers or directors of the company.

(17) Employee Benefit Plan

In December 2008, we established a discretionary 401(k) plan in which all full-time U.S. employees above the age 18 are eligible to participate after they have been employed for us for 90 days following the applicable date of hire. Matching contributions to the 401(k) plan can be made at our discretion. In 2020, 2019 and 2018, we made discretionary contributions of $2.9 million, $2.8 million and $2.0 million, respectively, to the plan.

(18) Segment Information and Information about Geographic Areas

We operate in one segment. Our chief operating decision maker is our Chief Executive Officer, who makes operating decisions, assesses performance and allocates resources on a consolidated basis.

Net revenues by geographic area presented based upon the location of the customer are as follows:

	Year Ended December 31, 2020	2019	2018
	(in thousands)		
United States	$ 329,753	$ 264,852	$ 199,852
Other	81,733	62,095	44,239
Total	$ 411,486	$ 326,947	$ 244,091

Property and equipment, net by geographic area as of December 31, 2020 and 2019 is presented in the table below:

	As of December 31, 2020	2019
	(in thousands)	
United States	$ 40,101	$ 42,570
Other	13,013	8,100
Total	$ 53,114	$ 50,670

(19) Subsequent Event

On January 28, 2021, we acquired Alcide.IO Ltd., a leading provider of Kubernetes security for a total purchase price of approximately $50 million in cash, subject to certain adjustments.

Supplementary Data

The following table sets forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters presented. We have prepared the quarterly financial data on the same basis as the audited consolidated financial statements included in this Annual Report on Form 10-K. In our opinion, the quarterly financial data reflects all adjustments, consisting only of normal recurring adjustment that we consider necessary for a fair presentation of this data. This quarterly financial data should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future.

	Three Months Ended December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
	(in thousands, unaudited)							
Consolidated Statements of Operations Data:								
Revenue:								
Products	$ 104,384	$ 98,559	$ 92,430	$ 87,549	$ 82,997	$ 76,476	$ 72,579	$ 65,845
Professional services	8,775	6,516	6,482	6,791	8,651	6,679	6,380	7,340
Total revenue	113,159	105,075	98,912	94,340	91,648	83,155	78,959	73,185
Cost of revenue:								
Products	27,295	25,196	23,118	21,256	19,470	17,703	16,637	14,369
Professional services	6,399	5,832	5,963	6,458	5,892	5,927	5,544	5,604
Total cost of revenue	33,694	31,028	29,081	27,714	25,362	23,630	22,181	19,973
Operating expenses:								
Research and development	29,737	28,509	26,120	24,202	21,719	20,154	19,626	17,865
Sales and marketing	54,429	48,448	44,959	48,145	44,508	39,904	38,172	35,138
General and administrative	15,930	15,006	14,484	14,099	12,374	11,223	11,160	9,953
Total operating expense	100,096	91,963	85,563	86,446	78,601	71,281	68,958	62,956
Loss from operations	(20,631)	(17,916)	(15,732)	(19,820)	(12,315)	(11,756)	(12,180)	(9,744)
Interest income	111	87	208	1,048	1,253	1,448	1,582	1,731
Interest expense	(7,429)	(7,328)	(5,917)	(3,462)	(3,449)	(3,399)	(3,312)	(3,229)
Other income (expense), net	12	143	210	(447)	294	(492)	(29)	(206)
Loss before income taxes	(27,937)	(25,014)	(21,231)	(22,681)	(14,217)	(14,199)	(13,939)	(11,448)
Provision for (benefit from) income taxes	981	527	235	243	129	207	(519)	225
Net loss	$ (28,918)	$ (25,541)	$ (21,466)	$ (22,924)	$ (14,346)	$ (14,406)	$ (13,420)	$ (11,673)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2020. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, means controls and other procedures of a company 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 the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2020, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on this assessment, management concluded that as of December 31, 2020, our internal control over financial reporting was effective.

This Annual Report on Form 10-K includes an attestation report of our independent registered public accounting firm regarding internal control over financial reporting, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

Inherent Limitations of Internal Controls

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls 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. 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, within the company 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 control. 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 the 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.

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 Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

As part of our system of corporate governance, our board of directors has adopted a code of business conduct and ethics. The code applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), agents and representatives, including our independent directors and consultants, who are not employees of ours, with regard to their Company-related activities. Our code of business conduct and ethics is available on our website at www.rapid7.com. We intend to post on this section of our website any amendment to our code of business conduct and ethics, as well as any waivers of our code of business conduct and ethics, that are required to be disclosed by the rules of the SEC or the Nasdaq Stock Market.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2020.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2020.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2020.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2020.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements

See Index to Consolidated Financial Statements on page 61 of this Annual Report on Form 10-K, which is incorporated into this item by reference.

(a)(2) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(b) Exhibits

The following list of exhibits includes exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and others incorporated by reference to other filings.

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of Rapid7, Inc., as of June 3, 2020.
3.2(2)	Amended and Restated Bylaws of Rapid7, Inc., as of June 3, 2020.
4.1(3)	Form of common stock certificate of Rapid7, Inc.
4.2(4)	Amended and Restated Investors' Rights Agreement by and among Rapid7, Inc. and certain of its stockholders, dated December 9, 2014.
4.3(5)	Amendment No. 1 to Investors' Rights Agreement, dated October 13, 2015.
4.4(6)	Indenture, dated as of August 13, 2018, between Rapid7 Inc. and U.S. Bank National Association, as trustee.
4.5	Form of 1.25% Convertible Senior Notes due 2023 (included in Exhibit 4.4).
4.6*	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
4.7 (7)	Indenture, dated as of May 1, 2020, by and between Rapid7, Inc. and U.S. Bank National Association, as Trustee.
4.8	Form of Global Note, representing Rapid7, Inc.'s 2.25% Convertible Senior Notes due 2025 (included in Exhibit 4.7).
10.1(8)	Form of Confirmation for Capped Call Transactions.
10.2(9)	Purchase Agreement, dated April 28, 2020, by and between Rapid7, Inc. and Barclays Capital Inc.
10.3(10)	Form of Confirmation for Capped Call Transactions.
10.4(11)	Credit and Security Agreement, dated as of April 23, 2020, by and among Rapid7, Inc., Rapid7 LLC, KeyBank National Association, and the lenders party thereto.
10.5(12)	Merger Agreement, dated as of April 24, 2020, by and between Rapid7, Inc., Rapid7 LLC, Stratus Acquisition, Inc., Divvy Cloud Corporation and Fortis Advisors LLC.
10.6(13)	First Amendment Agreement, dated as of May 29, 2020, by and among Rapid7, Inc., Rapid7 LLC, KeyBank National Association, and the lenders party thereto.
10.7+(14)	2011 Stock Option and Grant Plan and Forms of Stock Option Agreement, Stock Option Exercise Notice and Restricted Stock Agreement thereunder.
10.8+(15)	Rapid7, Inc. 2015 Equity Incentive Plan, as amended.
10.9+(16)	Forms of Stock Option Agreement, Notice of Exercise, Stock Option Grant Notice and Restricted Stock Unit Agreement under the Rapid7, Inc. 2015 Equity Incentive Plan, as amended.
10.10+(17)	Rapid7, Inc. 2015 Employee Stock Purchase Plan.
10.11+(18)	Form of Indemnification Agreement by and between Rapid7, Inc. and each of its directors and executive officers.
10.12(19)	Lease dated November 16, 2017 between Podium Developer LLC and Rapid7, Inc.
10.13(20)	Lease dated July 19, 2019 between Office Tower Developer LLC and Rapid7, Inc.
10.14 (21)	First Amendment to Lease, dated as of September 9, 2020 by and between Office Tower Developer LLC and Rapid7, Inc.
10.15*	Second Amendment to Lease, dated as of November 9, 2020 by and between Office Tower Developer LLC and Rapid7, Inc.
10.16*	Third Amendment to Lease, dated as of February 5, 2021 by and between Office Tower Developer LLC and Rapid7, Inc.
10.17+(22)	Rapid7, Inc. Executive Incentive Bonus Plan.
10.18+(23)	Employment Agreement, dated as of January 3, 2013, by and between Rapid7, Inc. and Corey Thomas.
10.19+(24)	Amendment to Employment Agreement, dated as of April 4, 2016, by and between Rapid7, Inc. and Corey Thomas.
10.20+(25)	Second Amendment to Employment Agreement, dated as of March 24, 2017, by and between Rapid7, Inc. and Corey Thomas.
10.21+(26)	Employment Agreement, dated as of November 28, 2016, by and between Rapid7, Inc. and Jeffrey Kalowski.
10.22+(27)	Offer Letter Agreement, dated as of October 3, 2016, by and between Rapid7, Inc. and Andrew Burton.
10.23+(28)	Severance and Equity Award Vesting Acceleration Letter, dated as of March 28, 2017, by and between Rapid7, Inc. and Andrew Burton.
10.24+(29)	Form of Severance and Equity Award Vesting Acceleration Letter.

Exhibit Number	Description
21.1*	List of subsidiaries of Rapid7, Inc.
23.1*	Consent of KPMG, LLP.
24.1	Power of Attorney (incorporated by reference to the signature pages of this Annual Report on Form 10-K).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the inline XBRL document.
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.
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)

(1) Previously filed as Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on August 10, 2020, and incorporated herein by reference.
(2) Previously filed as Exhibit 3.2 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on August 10, 2020, and incorporated herein by reference.
(3) Previously filed as Exhibit 4.1 to the Registrant’s Registration Statement on Form S-1/A (File No. 333-204874), filed with the Securities and Exchange Commission on July 6, 2015, and incorporated herein by reference.
(4) Previously filed as Exhibit 4.2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(5) Previously filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on October 13, 2015, and incorporated herein by reference.
(6) Previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (file No. 001-37496), filed with the Securities and Exchange Commission on August 13, 2018, and incorporated herein by reference.
(7) Previously filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on May 4, 2020, and incorporated herein by reference, and included as Exhibit A to the Indenture filed as Exhibit 4.7 hereto).
(8) Previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (file No. 001-37496), filed with the Securities and Exchange Commission on August 13, 2018, and incorporated herein by reference.
(9) Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on May 4, 2020, and incorporated herein by reference.
(10) Previously filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on May 4, 2020, and incorporated herein by reference.
(11) Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on April 28, 2020, and incorporated herein by reference.
(12) Previously filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on April 28, 2020, and incorporated herein by reference.
(13) Previously filed as Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on August 10, 2020, and incorporated herein by reference.
(14) Previously filed as Exhibit 10.2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(15) Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on October 13, 2015, and incorporated herein by reference.

(16) Previously filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1/A (File No. 333-204874), filed with the Securities and Exchange Commission on July 6, 2015, and incorporated herein by reference.
(17) Previously filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-1/A (File No. 333-204874), filed with the Securities and Exchange Commission on July 6, 2015, and incorporated herein by reference.
(18) Previously filed as Exhibit 10.5 to the Registrant's Annual Report on Form 10-K (File No. 001-37496), filed with the Securities and Exchange Commission on March 10, 2016, and incorporated herein by reference.
(19) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on November 16, 2017, and incorporated herein by reference.
(20) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File no. 001-37496), filed with the Securities and Exchange Commission on July 25, 2019, and incorporated herein by reference.
(21) Previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on November 5, 2020, and incorporated herein by reference.
(22) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on February 2, 2017, and incorporated herein by reference.
(23) Previously filed as Exhibit 10.9 to the Registrant's Registration Statement on Form S-1(File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(24) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on April 5, 2016, and incorporated herein by reference.
(25) Previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on May 10, 2017, and incorporated herein by reference.
(26) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on November 28, 2016, and incorporated herein by reference.
(27) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on October 4, 2016, and incorporated herein by reference.
(28) Previously filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on May 10, 2017, and incorporated herein by reference.
(29) Previously filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K (File No. 001-37496), filed with the Securities and Exchange Commission on March 8, 2018, and incorporated herein by reference.

* Filed herewith.

** This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

\+ Indicates management contract or compensatory plan.

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized**.**

RAPID7, INC.

Date: February 26, 2021	By:	/s/ Corey E. Thomas
		Name: Corey E. Thomas
		Title: Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Corey E. Thomas and Jeff Kalowski, and each of them, as his true and lawful attorneys-in-fact and agents, each with the full power of substitution, for him and in his name, place or stead, in any and all capacities, to sign any and all amendments to this report, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their, his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Corey E. Thomas **Corey E. Thomas**	Chief Executive Officer and Director (*Principal Executive Officer*)	February 26, 2021
/s/ Jeff Kalowski **Jeff Kalowski**	Chief Financial Officer (*Principal Financial Officer and Principal Accounting Officer*)	February 26, 2021
/s/ Michael Berry **Michael Berry**	Director	February 26, 2021
/s/ Marc Brown **Marc Brown**	Director	February 26, 2021
/s/ Judy Bruner **Judy Bruner**	Director	February 26, 2021
/s/ Benjamin Holzman **Benjamin Holzman**	Director	February 26, 2021
/s/ Christina Kosmowski **Christina Kosmowski**	Director	February 26, 2021
/s/ J. Benjamin Nye **J. Benjamin Nye**	Director	February 26, 2021
/s/ Thomas Schodorf **Thomas Schodorf**	Director	February 26, 2021
/s/ Reeny Sondhi **Reeny Sondhi**	Director	February 26, 2021

RAPID7 TEAM

EXECUTIVE LEADERSHIP

Corey Thomas
Chairman and
Chief Executive Officer

Jeff Kalowski
Chief Financial Officer

Andrew Burton
President and
Chief Operating Officer

Tas Giakouminakis
Co-Founder and
Chief Technology Officer

Peter Kaes
General Counsel & Secretary

Christina Luconi
Chief People Officer

Lee Weiner
Chief Innovation Officer

BOARD OF DIRECTORS

Corey Thomas
Chairman and
Chief Executive Officer

Michael Berry
Executive Vice President and Chief
Financial Officer for NetApp

Marc Brown
Global Head of EQT AB's Growth
Equity Fund

Judy Bruner
Board Member

Ben Holzman
Chief Financial Officer of
Artemis Health

Christina Kosmowski
President of LogicMonitor

Ben Nye
Chief Executive Officer of Turbonomic

Tom Schodorf
Board Member

Reeny Sondhi
Chief Security Officer of Autodesk

COMMON STOCK LISTING

Listed: NASDAQ Global Market
Symbol: RPD

TRANSFER AGENT AND REGISTRAR

Computershare, Inc.
462 South 4th Street, Suite 1600
Louisville, KY 40202
https://www.computershare.com/
investor

LEGAL COUNSEL

Cooley LLP
500 Boylston Street, 14th Floor
Boston, MA 02116

INDEPENDENT ACCOUNTANTS

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

INVESTOR RELATIONS

For copies of this report or other financial information, please visit our website or contact:

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+1 857.990.4074

Website: investors.rapid7.com

CORPORATE HEADQUARTERS

Rapid7
120 Causeway St
#400
Boston, MA 02114
+1 617.247.1717

Website: www.rapid7.com

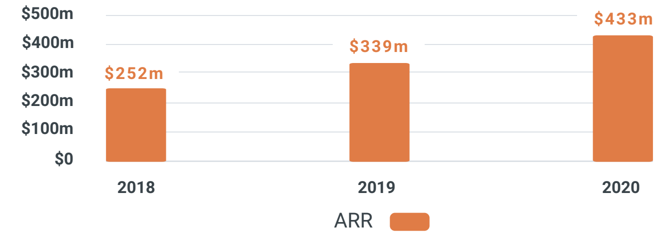
This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and our future results that are based on our current expectations, estimates, forecasts, and projections about our business, our results of operations, the industry in which we operate and the beliefs and assumptions of our management. All statements contained herein, other than statements of historical fact, could be deemed forward-looking including, but are not limited to, statements regarding our growth strategy, our future market opportunities and demand for our offerings, the evolution of our solutions and product portfolio and impact of Divvy Cloud Corporation on SecOps practices, and ability to create value for our society, as well as plans for future offerings and delivery to customers. Our expectations and beliefs regarding these matters may not materialize, and actual results in future periods are subject to risks and uncertainties that could cause actual results to differ materially from those projected. We urge investors to review in detail the risks and uncertainties listed or described in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K for the year ended December 31, 2020. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, except as required by law.

DRIVING DURABLE GROWTH

31%

ARR CAGR

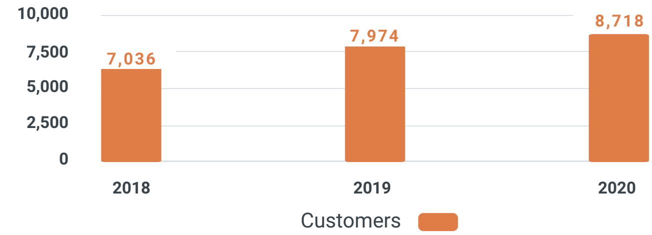
2018-2020



11%

CUSTOMERS CAGR

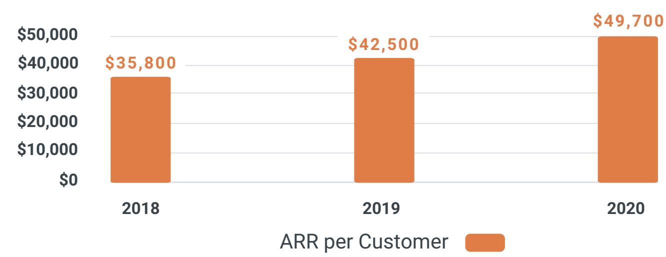
2018-2020



18%

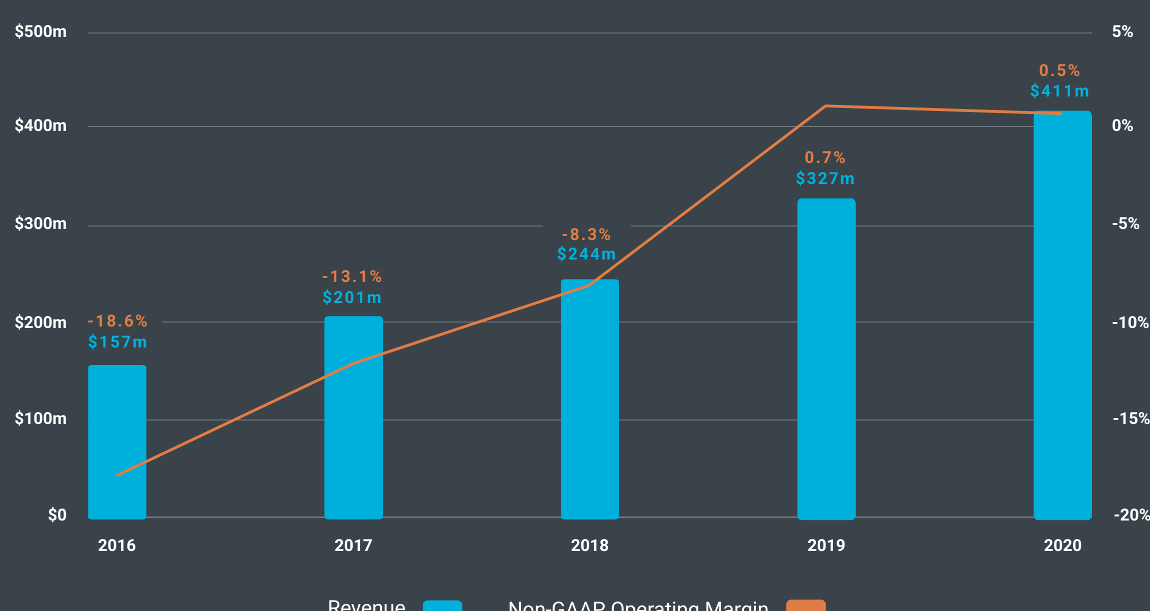
ARR PER CUSTOMER CAGR

2018-2020



Number of customers and ARR per customer, along with the customers CAGR 2018-2020 and ARR per customer CAGR 2018-2020, are based on the new customer count methodology provided at our virtual investor day on March 10, 2021.

SCALING EFFICIENTLY



*2018 to 2020 numbers are under ASC 606 and prior periods are under ASC 605

Non-GAAP operating margin is a non-GAAP metric, which is our non-GAAP income (loss) from operations divided by revenue. See the reconciliation of non-GAAP income (loss) from operations in our Annual Report on Form 10-K for the year ended December 31, 2020 included herein to its comparable GAAP measure.