

NEW RELIC, INC.  
Form 10-K  
May 11, 2018

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

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FORM 10-K

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-36766

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

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Delaware 26-2017431  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
188 Spear Street, Suite 1200  
San Francisco, California 94105  
(Address of principal executive offices, including zip code)  
(650) 777-7600  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

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

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a small reporting company) 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 new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on September 30, 2017, based on the closing price of a share of the registrant’s common stock on September 29, 2017 as reported by the New York Stock Exchange on such date, was approximately \$2,171,882,480. Shares of the registrant’s common stock held by each executive officer, director and holder of 10% or more of the outstanding common stock (as determined based on public filings) have been excluded in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose. As of May 3, 2018, there were 55,976,273 shares of the registrant’s common stock, par value \$0.001 per share, outstanding.

Portions of the registrant’s Definitive Proxy Statement relating to the Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant’s fiscal year ended March 31, 2018.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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



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PART I

Item 1. Business

Overview

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

Digital initiatives have become critical to the success of global businesses across industries. Software is driving modern customer experiences and is found in applications and throughout the architectures on which those applications run: servers, websites, operating systems, mobile devices, and other IT assets. The use of this software generates huge volumes of data about the end-user experience and how the application is performing, as well as the health of the underlying infrastructure. Historically, organizations collected and analyzed only a small fraction of this data due to technology and business constraints, including high costs and limited benefits, except for specific use cases such as application performance management, clickstream analysis, and web traffic measurement. Legacy software products were typically customized, expensive, required training, and thus limited to business-critical applications within large organizations. As a result, the vast majority of this data has been underutilized. Fundamental technology and business trends are now enabling continuous improvements to digital environments. First, organizations around the globe are adopting digital transformation strategies to meet the demands of an increasingly digitally savvy customer base. Second, companies are increasingly adopting cloud technologies, utilizing the cloud as a new foundational architecture to support their digital business. Both of these shifts have put tremendous pressure on internal technology teams to adapt to these new business demands. And, as a result, they are adopting new agile processes and software development operations, or DevOps, practices that enable them to move to the cloud faster, and take advantage of modern infrastructure technologies like microservices and containers, in order to accelerate their pace of innovation and responsiveness to business demands.

Amidst all of these changes to purpose, people, process, and technology, we continue to see an even greater opportunity for our New Relic Platform to empower technology and business users to harness data in order to operate their digital business. To do that, we provide customers with our software code, called agents, to add to their applications and infrastructure quickly and easily. These intelligent agents enable our users to identify vast amounts of data they would like to have sent to our cloud-based, big data database. Our database stores and organizes the data that we receive from our users for analysis through dynamic, real-time dashboards that users can easily configure to monitor their key metrics and events and quickly make queries using simple phrases. Our unified platform and intuitive product design results in users being able to quickly receive alerts and insights into their data. With this full-stack visibility, companies can significantly improve the quality of their digital initiatives, understand how their customers are engaging with their digital business in real-time, and scale the performance of their digital initiatives to better meet the demands of their busiest days.

Our New Relic Platform is made up of our integrated suite of products, a powerful big data database, and an open and extensible cloud platform. Our products for technology users focus on software performance management and monitoring and include New Relic APM, or Application Performance Management, New Relic Mobile, New Relic Browser, New Relic Synthetics, and New Relic Infrastructure. Built into the core of our technology platform, New Relic Insights provides big data analytics to both business and technology users that enable them to easily extract actionable information from the massive quantities of data flowing through their software.

In addition to our paid products, we offer key platform capabilities in the form of applied intelligence, alerts, and plugins. New Relic Applied Intelligence consists of Dynamic Baseline Alerts, Error Profiles, and Radar, each of which is designed to analyze customer data and provide actionable results. New Relic's alerting capabilities offer policy management that delivers alerts across our entire suite of products. We also offer plugin architecture including application programming interfaces, or

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APIs, and software development kits, or SDKs, for customers and partners to embed and extend our platform into their products. Today, there are hundreds of plugins to extend our functionality to other applications and infrastructures including Amazon Web Services, Microsoft Azure, Google Cloud Platform, and Pivotal Cloud Foundry.

Our go-to-market strategy centers on creating a frictionless experience for our customers, enabling them to quickly see results and share their insights broadly across their company. We combine grassroots user adoption with both low-touch and high-touch sales approaches. Our products are easy to download and use, which allowed us to build a large base of users within smaller organizations before we even began to grow and develop our enterprise sales organization. Over time, users within larger organizations helped us to grow our footprint within their companies, as they often increase the number of applications monitored and expand their use of our products. This has led many of our top customers to develop into accounts with hundreds of users across multiple roles, each accessing a common set of data through the New Relic Platform to deliver real-time visibility into the operations of their digital business. Today, we have a direct enterprise sales and support operation in order to better market to and service the enterprise market, which now represents a majority of our revenue and revenue growth.

We have achieved rapid customer adoption, high net customer retention, and significant growth since our founding. For our fiscal years ended March 31, 2018, 2017, and 2016, our revenue was \$355.1 million, \$263.5 million, and \$181.3 million, respectively, representing year-over-year growth of 35% from the fiscal year ended March 31, 2017 to the fiscal year ended March 31, 2018, and 45% from the fiscal year ended March 31, 2016 to the fiscal year ended March 31, 2017. We had net losses of \$45.3 million, \$61.1 million, and \$67.5 million for our fiscal years ended March 31, 2018, 2017, and 2016, respectively.

We were formed in Delaware in September 2007 as New Relic Software, LLC. We converted from a Delaware limited liability company to a Delaware corporation and changed our name to New Relic, Inc. in February 2008. Our principal executive offices are located at 188 Spear Street, Suite 1200, San Francisco, California 94105, and our telephone number is (650) 777-7600. Our website address is [www.newrelic.com](http://www.newrelic.com). Information contained on, or that can be accessed through, our website is not intended to be incorporated by reference into this Annual Report on Form 10-K and references to our website address in this Annual Report on Form 10-K are inactive textual references only. We completed our initial public offering in December 2014 and our common stock is listed on the New York Stock Exchange under the symbol “NEWR.” Unless the context requires otherwise, the words “New Relic,” “we,” “Company,” “us,” and “our” refer to New Relic, Inc. and our wholly owned subsidiaries. “New Relic,” the New Relic logo, and other trademarks or service marks of New Relic that may appear in this Annual Report on Form 10-K are our property. This Annual Report on Form 10-K contains additional trade names, trademarks, and service marks of other companies. We do not intend our use or display of other companies’ trade names, trademarks, or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies, and all such third-party trade names, trademarks and service marks are the property of their respective owners.

### Our Solution

We have developed the New Relic Platform suite of products, big data database, and open platform to help technology and business users make real-time, data-driven decisions to improve business and IT performance. In addition, developers and operations teams can quickly build better software, and keep it running optimally across a dynamic infrastructure - ultimately delivering better end-user experiences for their customers. Our platform enables users to collect, store, and analyze vast quantities of data flowing through and about their software.

We currently offer an integrated suite of products and platform capabilities that we continue to seek to enhance and expand, which most notably include:

- ✦ New Relic APM: Application performance monitoring
- ✦ New Relic Mobile: Mobile application performance monitoring
- ✦ New Relic Browser: End-user experience monitoring and performance monitoring
- ✦ New Relic Synthetics: Software testing through simulated usage
- ✦ New Relic Infrastructure: Complete visibility across dynamic infrastructure
- ✦ New Relic Insights: Real-time big data analytics for business managers



This suite of products and platform capabilities use a common infrastructure to enable customers to:

- Collect. Our intelligent agents are software code that developers and operations teams easily deploy into their applications and related IT infrastructure, including physical and virtual servers, browsers, and mobile devices.

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These agents configure automatically to their particular IT environment and securely collect and send event and performance data that is defined by the customer to our proprietary cloud database. The agents are designed to cause minimal latency on the application.

**Store.** Data received from the agents deployed by our customers is stored in our highly secure and scalable cloud-based, big data database. Our database has been crafted so that our customers do not need to build or maintain their own big data solution for digital operations. We have optimized this database to store data as well as handle the analytics and queries that we believe are important to drive decision making. Customers can easily define which data they want to collect and store for analysis.

**Analyze.** Our simple and intuitive user interface consists of a dashboard of graphical charts for key performance indicators, which are easily configurable and enable deep drill-down and root cause analysis. Our New Relic Insights product includes two ways for technical and non-technical users to drill down into their data, diagnose problems, and make more informed decisions. New Relic Insights offers a visual data explorer that enables a user to understand data attributes, and drill down on graphs and attributes utilizing an intuitive point-and-click interface. New Relic Insights also offers a field for queries utilizing the New Relic Query Language, or NRQL, similar to the commonly used Structured Query Language, or SQL. Users can type a simple query into the NRQL field and receive the answer in a range of visual and graphical formats. In addition, New Relic Insights enables users to create and publish a set of customer-curated dashboards, along with an optional search field, for use by non-technical business users.

### Key Elements of Our Solution

**SaaS-Based Delivery Model.** We designed our products based on cloud architecture and a software-as-a-service, or SaaS, delivery model. We are able to provide frequent updates to our software, enabling us to continuously improve it to reflect technology developments. This approach delivers a wide range of technology and financial benefits over on-premise architectures, including potential faster time to market, accelerated return on investment, and lower total cost of ownership for our customers.

**Scalable, Flexible Cloud Architecture.** Our customers can collectively analyze billions of data points every second. Because we built our technology with a multi-tenant cloud architecture, customers can leverage its scale to rapidly run queries and get answers—without having to build their own expensive infrastructure.

**Flexibility to Monitor Cloud, Hybrid, and On-Premise Architectures.** In addition to modern cloud architectures, our SaaS solution can monitor hybrid cloud and heterogeneous architectures, including on-premise software. Users are able to rapidly deploy our agents globally across their IT environment. New Relic Infrastructure includes native integrations with more than 40 of the most popular services from Amazon Web Services, Microsoft Azure, and Google Cloud Platform, as well as an expanded library of integrations with leading infrastructure components including Apache, Cassandra, MySQL, NGINX Plus, RabbitMQ, Redis, and StatsD. The New Relic Infrastructure SDK is designed to make development, customization, and deployment of integrations easy and offer the most flexibility for a customer from their own data centers to public cloud services to hybrid cloud deployments. Health Map brings together New Relic APM and New Relic Infrastructure to deliver insights on application and infrastructure performance into a single, prioritized view.

**Built for Modern Software.** We support a broad range of software development languages from the widely used Java and .NET, to more modern languages such as Python, Go, and Node.js, frameworks including AngularJS, React, Ember, Backbone.js, as well as mobile operating systems, including iOS and Android. Our agents are easily embedded into applications built using all of these languages, without the need for customized coding.

**Mobile Enabled.** We provide a native mobile version of our products with nearly all functionality accessible and usable through mobile devices. Our products are designed to anticipate and handle the complexity of mobile architectures, such as mobile carrier performance and user location.

**Big Data Database and Analytics.** Our proprietary, cloud-based database leverages modern big data technologies, including in-memory storage and distributed clustering techniques, which enable our users to collect and store billions of events and data points each day. Our database structure allows customers to easily build dashboards or make queries to deliver real-time insights.

Easy and Intuitive. We design our products to be simple, intuitive, and user-friendly. Users are able to learn, deploy, and can begin using our products often within a few minutes. This is important for developers and operations teams who do not need to do extra coding or configuration to use our products. It is also important for

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business and technical users who can leverage our products to augment their existing knowledge of applications and infrastructure.

**Low Total Cost of Ownership.** We price our products on a subscription basis, with flexible pricing plans so each customer is only paying for the products and usage they are consuming. Our customers do not need to invest in additional hardware, infrastructure, or services to utilize our products.

**Integrated Suite.** Our products and platform capabilities share a common design and user interface, and access the same cloud-based database structure. Users can move seamlessly among different analytic categories and use cases for their data. Users are able to easily add additional products to extend their ability to obtain insights from their same or new portions of their data.

**Extensible Platform.** We provide APIs and SDKs for customers, partners, and developers to easily build applications that integrate with and embed our product functionality into other applications. Today, there are hundreds of plugins developed internally or by third parties making it even easier to embed our products into specific use cases. This enables our users to tailor our products to specific use cases and industries beyond the programming languages, frameworks, and operating systems that we support.

**Enterprise Grade Security.** Our products are designed to be secure. By default, our data transmissions are encrypted in transit and stored in our secure tier 3 SSAE-16 certified data center. We also perform an annual SOC-2 type 2 audit. In addition, our management tools provide administrators with highly granular security controls including user provisioning, access, and privileges.

### Benefits of Our Solution

**Software Developers.** Software developers and modern DevOps teams can use our products to monitor a broad range of traditional and modern development languages and frameworks. With our suite of products, they can better monitor software performance to continuously improve it as well as fix and prevent problems. Developers can build better software, build it faster, and keep it running optimally for better end-user experiences.

**IT Operations Users.** Technology users can easily deploy our products across their IT architectures to monitor overall health and performance. They can more rapidly identify problems, isolate root causes, and address problems. Our analytics tools also enable them to prevent future issues.

**Business Users.** Line of business managers can use our products to obtain deep real-time analytics about their business. They are able to access, interact, and analyze various dimensions of massive amounts of application, customer experience, and business data to drive business outcomes when traditional on-premise solutions have struggled to keep up with the scale and variety of data. Business users are also able to easily configure their graphical dashboards of key performance indicators, or quickly make queries, without needing to wait for a data scientist to design a new report or program a new query.

### Limitations of Existing Solutions

A number of legacy and emerging companies provide products to collect and analyze data for business and technology managers. However, these suffer from a range of limitations including:

**Difficult and Time-Consuming.** Existing solutions typically require developers and technology and business users to undergo upfront and ongoing user training to learn. The solutions are often customized and provisioned over the course of several months through the central IT function. Any changes to the collection, storage, or analyses of data needs to go through the IT group or specialized data scientists.

**High Total Cost of Ownership.** Traditional products have been deployed on-premise, requiring substantial upfront investments in IT infrastructure and extensive implementation, customization, maintenance, and training costs. Organizations increasingly choose not to deploy these products, or postpone implementations of upgraded versions, due to concerns relating to the substantial costs involved.

**On-Premise Architectures.** Solutions built for legacy, on-premise architectures are highly customized, expensive to purchase and operate, and require frequent upgrades and maintenance. In addition, they are fundamentally unable to adapt to cloud architectures and SaaS models. They typically rely on systems to collect, store, and analyze data which are highly specific to the particular customer's software applications and environment at a point in time. For example,

the agents for collecting data need to be highly customized and typically involve significant latency to send data.

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Support Limited to Legacy Software. Developers using new languages and frameworks to build modern software need solutions that understand them. Most legacy solutions were built to understand COBOL, C++, Java, and .NET. However, modern languages and frameworks such as Python, Go, and Node.js represent a large and growing proportion of applications and websites. Companies of all sizes, from start-ups to the largest enterprises, require an APM solution that can monitor both legacy and modern applications.

Lack of Support for Mobile Devices and Applications. Legacy solutions were typically designed for business or technology users sitting at their desktop. Today’s users increasingly expect and need to be able to do their jobs outside their office, wherever and whenever they want, on a variety of mobile devices. In addition, both legacy applications running on mobile devices and native mobile applications involved different architectures and are very difficult to be managed by systems designed to work on-premise.

Lack of Big Data and Analytics. Existing solutions typically use structured transactional data, representing a small and shrinking portion of performance and event data. This significantly limited the types, timeliness, and flexibility of analyses they could support. Big data analytics are typically cost prohibitive for all but the largest organizations.

Fragmented Point Solutions. Existing solutions were built for a wide range of specific use cases which had to be business or technology critical, such as traditional application performance management, CRM or ERP analytics, or clickstream analysis. These products addressed limited use cases and were not integrated with other applications, forcing businesses to select and integrate solutions from a variety of vendors, resulting in siloed analytics.

Our Technology

Intelligent Software Agents

We have developed a library of purpose-built intelligent software agents that supports a wide variety of programming languages, mobile platforms, and operating systems. Our agent software code is deployed easily and quickly onto application servers, browsers, mobile devices, and operating systems. We currently provide intelligent software agents that support the following:

Programming Languages	Mobile Platforms	Operating Systems
.NET	Android	Linux
Java	iOS	Windows
JavaScript		
Node.js		
PHP		
Python		
Ruby		
Go		

Once integrated, our agents quickly recognize their IT environment and configure themselves automatically. They then enable our users to collect performance and event data that is defined by the customer and report it to our cloud-based database for storage and analysis.

Big Data Database and Analytics

Our cloud-based, big data database can store and prepare massive amounts of data for rapid analysis and flexible querying. Our New Relic Insights application, which utilizes a flexible and schema-less database architecture optimized for event data, allows seamless storage of new data types including data collected by agents and through our APIs, does not require indexing, and runs in a super-cluster with massive amounts of computing resources to query billions of events in real-time.

We provide a “single pane of glass” view into all of our applications with diagnostic capabilities including transaction details, database details, error details, topology maps, code deployment reports, and service level reports. Our user interfaces were built internally using modern web and mobile technologies, including HTML5 and JavaScript to deliver interactive and actionable data visualization such as charts and graphs that continuously refresh to provide real-time visibility. Users can interact with New Relic Insights through an easy-to-use, point and click data explorer or by using NRQL, which is a modified



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version of SQL, a language with which developers and many business analysts are already familiar. Users also have the choice of electing to integrate data received from the intelligent software agents they deploy and stored by us into other analytics applications and user interfaces of their choice.

### Our Products and Platform Capabilities

The New Relic Platform is an integrated suite of SaaS-based products and platform capabilities built on top of a common technology platform. We offer flexible pricing options for our products to service customers of all sizes to fit their company's needs. Subscription levels (Lite, Essentials, and Pro) offer increasing functionality, retention of data, and customer support, while the product pricing (such as host-based or compute units for New Relic APM) offers customers flexibility in their monthly usage.

### New Relic Platform Products

#### New Relic APM

New Relic APM provides visibility into the performance and usage of server-based applications, such as data pertaining to response time, transaction throughput, error rates, top transactions, and user satisfaction. Other elements of New Relic APM include:

**Comprehensive Diagnostics.** New Relic APM provides a comprehensive set of features, including transaction tracing, x-ray sessions, cross application tracing, thread profiling, database diagnostics, and slow SQL traces. These give users visibility into the underlying source code which can significantly reduce the time needed to identify and fix the root cause of a problem by helping users pinpoint the exact lines of code causing the problem.

**Reporting and Alerts.** New Relic APM provides reporting and alerts functionality through standard configurations as well as customer-defined policy configurations. These alerts include application performance degradation, falling traffic, and declining user satisfaction metrics. Alerts can be delivered through a variety of channels including email, text messages, push notifications, and social channels and can be integrated with bug tracking systems and group chat applications.

**Business Transaction Monitoring.** Within New Relic APM, our key transactions feature enables business users to collect and analyze data generated by business transactions separately from data about application performance.

#### New Relic Mobile

New Relic Mobile provides code-level visibility into the performance and health of mobile applications running on the iOS and Android mobile operating systems. Other elements of New Relic Mobile include:

**End-to-End Visibility.** When combined with New Relic APM, New Relic Mobile provides end-to-end visibility into the IT infrastructure affecting mobile application performance. Native mobile applications depend on code running on the device and on communications with backend services, such as mobile application servers, both internal and third party. New Relic Mobile provides code-level diagnostics for native app code running on the mobile device and enables performance, throughput, crash reporting, and error analysis for the interactions between the mobile application and the supporting backend services.

**Mobile Device Metrics.** New Relic Mobile provides detail on usage of mobile device resources, including CPU, memory, and network bandwidth from actual user devices. This visibility helps developers understand how their applications affect their customers' devices, and how to optimize them.

**User Interactions.** The User Interactions feature provides detailed breakdowns of time spent in the code running on the device, including view loading, method calls, and data store activity. Mobile application developers leverage this feature to pinpoint problematic code and resolve problems.

#### New Relic Browser

New Relic Browser monitors the page view experiences of actual end-users for desktop and mobile browser-based applications and provides code-level diagnostics for JavaScript code running directly in the browser. Other elements of New Relic Browser include:





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**End-User Experience Monitoring.** New Relic Browser monitors the page load time for user interactions, providing data on how time is spent during each page load, including network time, request queuing, document object model processing, and page rendering. Customers utilize this data to improve the user experience by implementing caching techniques, reducing asset sizes, and leveraging content delivery network services. New Relic Browser supports the next generation of web applications built with current and future single-page application, or SPA, frameworks and libraries, including AngularJS, React, Ember, and Backbone.js.

**JavaScript Code Diagnostics.** Web applications increasingly embed application logic into JavaScript code running within the user's browser to build richer, browser-based applications. New Relic Browser provides developers with code-level visibility into the performance of JavaScript code within users' browsers.

**Browser Comparison.** Developers can compare how their software performs on various desktop and mobile browsers and versions, in order to identify browser-specific problems.

**Geographic Performance.** New Relic Browser can automatically identify, track, and analyze the geographic location of each page view to provide performance analytics by geography, including response time, user satisfaction, application adoption, and usage trends.

### **New Relic Synthetics**

New Relic Synthetics simulates usage and reproduces business-critical functionality that enables our users to test their software throughout the entire development life cycle. Users benefit from enhanced visibility, availability, and reliability of their software without depending on interactions from real users. Other elements of New Relic Synthetics include:

**Standards-Based.** New Relic Synthetics uses open standards, including the open source scripting language Selenium, to make it easy to quickly get started and automate tests.

**Integrated with New Relic Platform.** New Relic's platform enables customers to link Synthetics monitoring when leveraging our other products, including New Relic APM, New Relic Browser, New Relic Infrastructure, New Relic Mobile, and New Relic Insights.

**Global Test Locations.** Users can select what region they want their test scripts to run from, giving them visibility into the regional performance of their web application.

**Private Locations.** Users can also run test scripts on their own systems, offering even more choice for users to test the performance of their applications from around the globe.

**Preemptive Visibility.** Users can resolve issues with business-critical transactions before end-users experience them.

### **New Relic Infrastructure**

New Relic Infrastructure is designed to provide a complete view of the health and configuration changes for an enterprise's entire host ecosystem across all environments—from their own data centers to public cloud services to hybrid cloud deployments. Additionally, because New Relic Infrastructure is part of a unified cloud monitoring platform, every infrastructure component and service can be analyzed with performance and health metrics for the applications they support to create alerts and be displayed in New Relic Insights dashboards. Elements of New Relic Infrastructure include:

**Precise Picture of Dynamically-Changing Systems.** New Relic Infrastructure delivers real-time health metrics correlated with recent configuration changes, allowing operations teams to quickly resolve issues, scale rapidly, and deploy intelligently.

**Move Fast and Deploy with Confidence.** New Relic Infrastructure allows customers to move fast and deploy with confidence by correlating configuration changes with health metrics in real time. New Relic Infrastructure is designed with a powerful infrastructure-wide search across every host in order to enable teams to find inconsistent configurations to detect and resolve issues quickly.

**Scale and Adapt.** New Relic Infrastructure is designed to scale and adapt to diverse environments with any combination of cloud instances, microservices, containers, or traditional servers.

### **New Relic Insights**

New Relic Insights enables technology and business users to perform real-time analysis in order to make faster, data-driven decisions about their organizations.

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New Relic Insights is an integrated platform feature included with paid subscriptions of our New Relic APM, New Relic Infrastructure, New Relic Browser, and New Relic Mobile products. Users can query their data in either a curated or ad hoc fashion. For predictable queries that provide visibility into application performance, we offer a curated experience directly within New Relic APM, New Relic Browser and New Relic Mobile. And, to perform ad hoc, deeper investigations into an issue, we enable users to uncover the root cause through the New Relic Insights product interface.

Other elements of New Relic Insights include:

- Iterative Business Analytics. New Relic Insights is built on a proprietary event database, which is our purpose-built event database that runs in a cloud-hosted, highly distributed super-cluster. The database was built to query billions of data points in less than a second, enabling users to perform ad-hoc analytics of business data in real time through a point and click Data Explorer or through a NRQL query. It collects and stores this data from software sources including our New Relic APM, New Relic Infrastructure, New Relic Browser, New Relic Synthetics, and New Relic Mobile products.

New Relic Query Language. We developed NRQL as a SQL-like query language optimized for real-time analytics. Users with experience with SQL can use NRQL immediately. The language is also easy to learn for non-technical users and users with no SQL experience. NRQL has autocomplete capabilities that assist users by providing proper syntax as they type, suggesting built-in analytics functions, and can list the attributes and event types available for querying.

Data Visualizations and Dashboards. New Relic Insights produces intuitive data visualizations with every query, with pre-built charts and graphs to make the analysis easier to understand and share. Dashboards automatically update and refresh in real-time by continuously executing NRQL queries. New Relic's real-time dashboards enable teams to instantly visualize performance for a specific incident time window as well as increase the depth of information available in a single dashboard, providing for more intelligent monitoring. Additionally, hundreds of pre-built charts from across the platform can be added to any New Relic Insights dashboard with a few clicks, and as a result teams do not have to start with a blank slate. Company-wide dashboards unlock even more power for New Relic's customers, by providing a master view of any number of business units or subsidiaries, helping teams more quickly share data across their organization and up to their executive leadership.

### New Relic Platform Capabilities

#### New Relic Applied Intelligence

New Relic Applied Intelligence, or NRAI, includes the features we refer to as Radar, NRQL Baseline Alerting, and New Relic APM Error Profiles, which work together to enable engineering and operations teams to intelligently spot abnormal behavior across billions of pieces of data, predict where problems may arise, and ultimately provide prescriptive recommendations for problems before they impact customers. Elements of NRAI include:

- Radar. A new user experience leveraging the NRAI engine, New Relic Radar is a personalized feed designed to provide engineering and operations teams with predictive and prescriptive insights into the critical services they are responsible for within their company's software ecosystem. Radar analyzes the data from these services to identify patterns and potential issues-which may have been previously undetectable-and provide actionable ways to resolve the issue. Learning from user engagement and actions, Radar is designed to constantly improve to ensure the most relevant recommendations are surfaced to meet user needs.

- Dynamic Baseline Alerting. New Relic's Dynamic Baseline Alerting enables customers to set threshold alerting conditions which are modeled from historical application metric data by NRAI. Adding baseline capabilities to NRQL Alerting, New Relic enables customers to set dynamic alert thresholds on anomalous behavior for any of the billions of events New Relic processes daily. NRQL Baseline Alerting offers virtually endless possibilities for customers to be alerted on any event data collected by New Relic's products or custom event data they insert into our database and be tailored to a particular team or company needs.

New Relic APM Error Profiles. New Relic APM's Error Profiles leverage NRAI, allowing customers to better manage and analyze errors in their production applications. Using statistical measures, Error Profiles analyzes the attributes associated with the set of errors that happen in a particular time period and compares the values in that set against historical values, highlighting the error attributes that are different. Error Profiles enables DevOps teams to quickly understand the cause of an error, where to focus their attention, and prioritize resolving the error.

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### New Relic's Alerts

New Relic's alerting platform is a centralized notification system that delivers alerts from across the products that make up the New Relic Platform. It allows users to manage alert policies and alert conditions in order to receive early notification to identify potential performance issues and take action. Other elements of New Relic's alerts include:

**Integration with Tools.** New Relic's alerting platform is designed to integrate easily with communication and collaboration applications like PagerDuty, Campfire, HipChat, and Slack, allowing software teams to quickly understand when critical issues arise and take action.

**Centralized UI.** New Relic's alerting platform provides a dedicated user interface for alert configuration and incident management across New Relic products.

**More Powerful Alerts.** New Relic's alerting platform is designed to automatically apply existing alert conditions and policies for dynamic infrastructure, in order to remove the need for manual configuration. With the ability to craft precise alerts from NRQL queries, organizations can benefit from nearly limitless flexibility and baseline alerts powered by New Relic's cloud platform.

### New Relic's Plugins Architecture

New Relic's plugins architecture, which is currently included with New Relic APM, provides customers, partners, and third-party developers with APIs and SDKs to build plugins that extend our functionality and data into other application or IT environments. For example, while our focus is on supporting modern programming languages and frameworks with our agents, some customers and developers have built plugins to address custom or legacy on-premise applications and architectures. In addition, plugins can also extend the functionality and data from other applications and sources into our databases. The New Relic plugin architecture allows for hundreds of easily downloadable plugins to users. Other elements include:

**Extensibility.** We provide APIs and SDKs to allow developers to easily and quickly integrate and embed the functionality of our products and data with other applications and data sources. We also offer a click and drag dashboard creation tool that allows users to customize their user experience.

**Plugins.** Plugins have been built to monitor IT architecture elements including databases, networks, queuing systems, and communication tools, enabling customers to monitor their entire application stack. In general, data from sources other than our agents is presented in the same dashboard alongside the monitoring data from our agents. Many plugins are built and used within the workday. Plugins can be kept proprietary or shared with the broader public community.

### Employees

As of March 31, 2018, we had 1,284 employees, including temporary employees. We also engage consultants. We consider our relations with our employees to be good.

### Operations

We host our applications and serve all our customers from data centers located in the Chicago, Illinois area and, to a lesser extent, a combination of cloud hosting providers. We utilize third parties to manage the infrastructure at our Chicago data centers. We have also announced our intention to open a European Region in Germany in calendar year 2018. We maintain a formal and comprehensive security program designed to ensure the security and integrity of our data, protect against security threats or data breaches, and prevent unauthorized access to the data of our customers. Our technology uses multi-tenant architecture, enabling all our customers to share the same version of our products and platform capabilities while securely partitioning their data.

### Research and Development

Our research and development organization is responsible for the design, development, and testing of all aspects of the New Relic Platform suite of products and platform capabilities. We invest heavily in these efforts to continuously improve, innovate, and add new features to our solutions.

We deploy new features, functionality, and technologies through daily and weekly software releases or updates in order to minimize disruption and provide for constant improvement. Our product managers regularly engage with customers, partners, and industry analysts, as well as other stakeholders, in functions such as sales, customer success, marketing, and business



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development to understand customer needs as well as general trends in our industry. Once product improvements are identified, the development organization works closely together to design, develop, test, and launch a solution. The majority of our research and development team is based in our Portland, Oregon office, but also has a presence in our offices in San Francisco, California and Barcelona, Spain. To foster rapid innovation, our team is further apportioned into smaller, agile development teams.

As of March 31, 2018, we had 325 employees in our research and development organization. Our research and development expenses were \$74.3 million, \$61.1 million, and \$46.4 million for the fiscal years ended March 31, 2018, 2017, and 2016, respectively.

### Sales and Marketing

Our sales and marketing organizations work together closely to drive market awareness, create and manage user and customer leads, provide qualified leads to our sales pipeline, and build customer relationships to drive revenue growth. As of March 31, 2018, we had 609 employees in our sales and marketing organization.

### Sales

We sell our products to businesses of all sizes largely through our direct sales organization, with our primary focus on large enterprise companies. Our direct sales organization is organized by size of customer and geography and is focused on growing accounts and usage so as to provide our customers with a broader set of our product solutions. Our sales organization has separate teams focused on mid-market organizations and large enterprises. Our specific sales strategy is based on the size of account and the target user at an organization—software developers, business or product managers, or IT managers.

We have experienced increased seasonality in our sales and operating results as mid-market and enterprise customers have become a larger percentage of our revenues. The first two quarters of each fiscal year usually have lower or potentially negative sequential deferred revenue growth than the third and fourth fiscal quarters, during which we generally benefit from a larger renewal base and opportunity to up-sell existing customers. Over time that could lead to stronger sequential revenue results in our fourth and first fiscal quarters as our deferred revenue is recognized.

### Marketing

Our marketing strategy targets software developers, IT leaders, and technology executives across many industries and regions. Additionally, our events, demand generation, customer programs, corporate communications, and product marketing teams focus on building brand, engagement, and demand with our target markets. We utilize both online and offline marketing initiatives, including search engine and email marketing, online banner and video advertising, blogs, corporate communications, whitepapers, case studies, user events, sponsorships, and webinars. We believe an effective method to market our suite of products is for users to actively use and explore its capabilities. We encourage free trials of one or more of our products in order to successfully convert those accounts to paid subscriptions.

### Customer Support

Our products and platform capabilities are designed to minimize the need for customer support, as users can easily download, install, and deploy our software agents without needing support. However, as we increase our customer account base with larger enterprises, these customers typically expect and require more support and accountability. We offer a range of customer support options with multiple levels of support. These include free community support, email support, and phone support, up to our enterprise customer support organization that provides dedicated customer success representatives, onsite support, with global capabilities and is available at all hours of the day.

### Partnerships and Strategic Relationships

We have built marketing relationships with a number of technology companies to help promote and grow our user base and footprint. We also have developed relationships with several cloud providers including Amazon Web Services, Google Cloud Platform, Microsoft Azure, IBM Cloud, Pivotal Cloud Foundry, and others where we collaborate to ensure our products and platform capabilities work well on applications running on their clouds. These providers offer access to our products and platform capabilities through links on their websites, refer developers and other potential users to us, and expand our marketing



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reach. Additionally, a growing number of system integrators, consultants, and value added resellers are using the New Relic Platform to help their customers make the resourcing and prioritization decisions necessary for successful cloud migrations and transformation projects.

### Competition

We operate in a highly competitive industry that is characterized by constant change and innovation. Changes in the applications and the programming languages used to develop applications, devices, operating systems, and technology landscape result in evolving customer requirements.

Our competitors fall into four primary categories:

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

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

• large enterprise software and service companies such as BMC Software, Inc. and CA, Inc.; and

• companies offering analytics products competing with our New Relic Insights product, including Amazon Web Services, Inc., and Google Inc.

The principal competitive factors in our market include:

• product and platform features, architecture, reliability, security, performance, effectiveness, and supported environments;

• product extensibility and ability to integrate with other technology infrastructures;

• digital operations expertise;

• ease of use of products and platform capabilities;

• total cost of ownership;

• adherence to industry standards and certifications;

• strength of sales and marketing efforts;

• brand awareness and reputation; and

• focus on customer success.

We believe we generally compete favorably with our competitors on the basis of these factors. Many of our competitors have substantially greater financial, technical, and other resources, greater name recognition, larger sales and marketing budgets, broader distribution, and larger and more mature intellectual property portfolios.

### Intellectual Property

We rely on federal, state, common law, and international rights, as well as contractual restrictions, to protect our intellectual property. We control access to our proprietary technology and algorithms by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties.

In addition to these contractual arrangements, we also rely on a combination of trade secrets, copyrights, trademarks, service marks, and domain names to protect our intellectual property. As of March 31, 2018, we had one issued patent, fourteen patent applications pending, and two trademark registrations for “New Relic” in the United States, as well as two Patent Cooperation Treaty applications and four trademark registrations and two trademark applications for “New Relic” outside of the United States.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which we operate. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is



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costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and harm our operating results.

Companies in Internet-related industries may own large numbers of patents, copyrights, and trademarks and may frequently request license agreements, threaten litigation, or file suit against us based on allegations of infringement or other violations of intellectual property rights. We are currently subject to, and expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents, and other intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more claims of infringement.

**Geographic Information**

For a description of our revenue and long-lived assets by geographic location, see note 13 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

**Available Information**

Our website is located at [www.newrelic.com](http://www.newrelic.com), and our investor relations website is located at <http://ir.newrelic.com/>. Copies of our Annual Report on Form 10-K, Quarterly Report on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our investor relations website as soon as reasonably practicable after we file such material electronically with or furnish it to the Securities and Exchange Commission, or the SEC. The SEC also maintains a website that contains our SEC filings. The address of the site is [www.sec.gov](http://www.sec.gov). Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website. New Relic has used, and intends to continue to use, our investor relations website, as well as our Twitter account (@newrelic), as means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD. Further corporate governance information, including our corporate governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the subheading "Corporate Governance." The contents of our website or our Twitter account are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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### Item 1A. Risk Factors

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

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

We have incurred net losses in each fiscal period since our inception, including net losses of \$45.3 million, \$61.1 million, and \$67.5 million in the fiscal years ended March 31, 2018, 2017, and 2016, respectively. At March 31, 2018, we had an accumulated deficit of \$305.5 million. We expect to continue to expend substantial financial and other resources on, among other things:

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

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

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

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

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

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

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

effectively attracting, training, integrating, and retaining a large number of new employees, particularly members of our sales and marketing teams and employees and consultants in jurisdictions outside of the United States;

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- further improving our key business systems, processes, and information technology infrastructure, including our and third-party hosted data centers, to support our business needs;
- enhancing our information, training, and communication systems to ensure that our employees are well-coordinated and can effectively communicate with each other and our customers; and
- improving our internal control over financial reporting and disclosure controls and procedures to ensure timely and accurate reporting of our operational and financial results.

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

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

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

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

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

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

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

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

Most of our customers currently use our products to support application performance management functions, and the majority of our revenue to date has been from our application performance management products. Our ability to grow our business depends in part on our ability to persuade current and future customers to expand their use of our software to additional use cases, such as infrastructure monitoring and customer usage analytics. If we fail to achieve market acceptance of our software, or if a competitor establishes a more widely adopted solution, our ability to grow

our business and financial results will be adversely affected. In addition, as the amount of data stored for a given customer grows, that customer may have to agree to higher subscription fees for certain of our software or limit the amount of data stored in order to stay within the

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limits of its existing subscription. If their fees grow significantly, customers may react adversely to this pricing model, particularly if they perceive that the value of our software has become eclipsed by such fees or otherwise.

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

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

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

Our ability to increase our customer adoption and achieve broader market acceptance of our products will depend to a significant extent on our ability to expand our marketing and sales operations, with an emphasis on continuing to improve our ability to target sales to large enterprise organizations. We plan to continue expanding our sales force, both domestically and internationally. We also dedicate significant resources to sales and marketing programs, including online advertising and field marketing programs. For example, during the fiscal year ended March 31, 2018, sales and marketing expenses represented 58% of our revenue. The effectiveness of our marketing programs has varied over time and may vary in the future due to competition. All of these efforts have required and will continue to require us to invest significant financial and other resources. If we are unable to hire, develop, and retain talented sales personnel, if our sales personnel are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective, our ability to increase our customer adoption and achieve broader market acceptance of our products could be harmed.

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

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

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

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



Our operations involve protection of our intellectual property, along with the storage and transmission and processing of our customers' proprietary data, which customers might choose to have include some personally identifiable information, and security breaches, computer malware, and computer hacking attacks could expose us to a risk of loss of this information, loss of business, severe reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, and

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significant costs for remediation and incentives offered to customers or other business partners in an effort to maintain business relationships after a breach and other liabilities.

Cyber-attacks and other malicious Internet-based activity continue to increase generally. If our products or security measures are perceived as weak or actually compromised as a result of third-party action, employee or customer error, malfeasance, stolen or fraudulently obtained log-in credentials, or otherwise, our customers may curtail or stop using our products, our reputation could be damaged, our business may be harmed, and we could incur significant liability.

We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because they change frequently and generally are not detected until after an incident has occurred. As we increase our customer adoption and our brand becomes more widely known and recognized, we may become more of a target for third parties seeking to compromise our security systems or gain unauthorized access to our customers' data.

Moreover, if a high-profile security breach occurs with respect to another cloud platform provider, our customers and potential customers may lose trust in the security of cloud platforms generally, which could adversely impact our ability to retain existing customers or attract new ones.

If we are not able to detect and indicate activity on our platform that might be nefarious in nature, our customers could suffer harm. In such cases, we could face exposure to legal claims, particularly if the customer suffered actual harm.

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

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

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

Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply, including but not limited to the European Union, or EU. The EU's data protection landscape is currently unstable, resulting in possible significant operational costs for internal compliance and risk to our business. While we have taken steps to mitigate the impact on us, such as implementing standard contractual clauses and self-certifying under the EU-US Privacy Shield, the efficacy and longevity of these mechanisms remains uncertain. In addition, the EU has adopted the General Data Protection Regulation, or GDPR, which is scheduled to go into effect on May 25, 2018 and contains numerous requirements and changes from existing EU law, including more robust obligations on data processors and heavier documentation requirements for data protection compliance programs by companies. Specifically, the GDPR will introduce numerous privacy-related changes for companies operating in the EU, including greater control for data subjects (e.g., the "right to be forgotten"), increased data portability for EU consumers, data breach notification requirements, and increased fines. In particular,

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

In addition to the GDPR, the European Commission also has another draft regulation in the approval process that focuses on a person's right to conducting a private life (in contrast to GDPR, which focuses on protection of personal data). The proposed legislation, known as the Regulation on Privacy and Electronic Communications, or e-Privacy Regulation, would

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replace the current ePrivacy Directive. Originally planned to be adopted and implemented at the same time as the GDPR, the ePrivacy Regulation will likely be enacted sometime in the latter part of 2018. While the new legislation contains protections for those using communications services (for example, protections against online tracking technologies), the timing of its enactment following the GDPR means that additional time and effort may need to be spent addressing differences between the ePrivacy Regulation and the GDPR. New rules related to the e-Privacy Regulation are likely to include enhanced consent requirements in order to use communications content and communications metadata, which may negatively impact our product offerings and our relationships with our customers.

Complying with the GDPR and the ePrivacy Regulation (when it becomes effective) may cause us to incur substantial operational costs or require us to change our business practices. Despite our efforts to bring practices into compliance before the effective date of the GDPR and ePrivacy Regulation, we may not be successful either due to internal or external factors such as resource allocation limitations or a lack of vendor cooperation. Non-compliance could result in proceedings against us by governmental entities, customers, data subjects, or others. We may also experience difficulty retaining or obtaining new European or multi-national customers due to the legal requirements, compliance cost, potential risk exposure, and uncertainty for these entities, and we may experience significantly increased liability with respect to these customers pursuant to the terms set forth in our engagements with them. We may find it necessary to establish systems to maintain personal data originating from the EU in the European Economic Area or protect a person's privacy, which may involve substantial expense and distraction from other aspects of our business. In the meantime, there could be uncertainty as to how to comply with EU privacy law.

Domestic laws in this area are also complex and developing rapidly. Many state legislatures have adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches. Laws in 49 states require businesses to provide notice to customers whose personally identifiable information has been disclosed as a result of a data breach, including North Dakota, whose data breach notification law goes into effect in July 2018 and follows the enactment of New Mexico's law, which went into effect in April 2017. The laws are not consistent, and compliance in the event of a widespread data breach is costly. Further, states are constantly amending existing laws, requiring attention to frequently changing regulatory requirements. For example, Oregon recently updated its data breach notification law such that the duty to notify applies not only to entities that own or license information and use it in the course of their business, but also to those that "otherwise possess" information and use it in the course of their business. This update will become effective in June 2018. Additionally, in August 2017, Delaware amended its data breach notification law in order to expand what constitutes "personal information", to require breach notification to the Delaware Attorney General, and to require the provision of credit monitoring in certain circumstances. In October 2017, a new Nevada law took effect that requires website and online service operators to post a privacy notice on their websites regarding the company's privacy practices. Nevada is the third state to have such a privacy policy requirement.

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

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

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

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

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

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

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

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

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

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

large enterprise software and service companies such as BMC Software, Inc. and CA, Inc.; and

companies offering analytics products competing with our New Relic Insights product, including Amazon Web Services, Inc. and Google Inc.

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

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

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

We generally recognize revenue from customers ratably over the terms of their subscriptions. A portion of the revenue we report in each quarter is derived from the recognition of revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter may have a small impact on our revenue for that quarter. However, such a decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant

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downturns in sales and market acceptance of our solutions, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods. In addition, a significant majority of our costs are expensed as incurred, while revenue is recognized over the life of the agreement with our customer. As a result, increased growth in the number of our customers could continue to result in our recognition of more costs than revenue in the earlier periods of the terms of our agreements. Beginning with the first quarter of fiscal 2019, we expect that the way in which we recognize this revenue will be impacted by Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers,” or Topic 606. Please see the risk factor under the heading “The nature of our business requires the application of complex revenue recognition rules. Significant changes in U.S. generally accepted accounting principles, or GAAP, from the adoption of recently issued accounting standards could materially affect our financial position and results of operations.” for more information.

Seasonality may cause fluctuations in our sales and operating results.

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

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

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



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

Our customers use our products and platform capabilities for important aspects of their businesses, and any errors, defects, or disruptions to our products and platform capabilities or other performance problems with our products and platform capabilities could hurt our brand and reputation and may damage our customers' businesses. We provide regular product updates, which may contain undetected errors when first introduced or released. In the past, we have discovered software errors, failures, vulnerabilities, and bugs in our products and platform capabilities after they have been released and new errors in our existing products and platform capabilities may be detected in the future. Real or perceived errors, failures, or bugs in

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our products and platform capabilities could result in negative publicity, loss of or delay in market acceptance of our products, loss of competitive position, delay of payment to us, lower renewal rates, or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. In addition, we may not carry insurance sufficient to compensate us for the any losses that may result from claims arising from defects or disruptions in our products and platform capabilities. As a result, we could lose future sales and our reputation and our brand could be harmed.

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

We have made and will continue to make substantial investments in new equipment to support growth at our Chicago area data center hosting facilities and the launch a new European Region in Germany in calendar year 2018, provide enhanced levels of products and platform capabilities to our customers, and potentially reduce future costs of subscription revenue. In addition, we may need to add additional data centers or similar resources to support our growth or as a result of regulatory requirements that may be applicable to us. We have also invested in a combination of cloud hosting providers to serve our customers for certain portions of our service. Ongoing or future improvements to our cloud infrastructure may be more expensive than we anticipate, and may not yield the expected savings in operating costs or the expected performance benefits. We may not be able to maintain or achieve cost savings from our investments, which could harm our financial results.

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

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

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

- changes in a specific country's or region's political or economic conditions;
- unexpected changes in regulatory requirements, taxes, or trade laws;
- regional data security and privacy laws and regulations and the unauthorized use of, or access to, commercial and personal information;
- differing labor regulations where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems, and regulatory systems;
- significant reliance upon, and potential disputes with, local business partners;
- increased travel, real estate, infrastructure, and legal compliance costs associated with international operations;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- limitations on our ability to repatriate earnings;
- laws and business practices favoring local competitors, or general preferences for local vendors;

limited or insufficient intellectual property protection;

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exposure to liabilities under anti-corruption, export controls and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act, and similar laws and regulations in other jurisdictions; and adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash or create other collection difficulties.

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

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

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

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel in the San Francisco Bay Area and the Portland area, where our headquarters and the majority of our research and development personnel are located, respectively, and in other locations where we maintain offices, is intense, especially for engineers experienced in designing and developing software and SaaS applications and experienced sales professionals. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached their legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, or experiences significant volatility, it may adversely affect our ability to recruit and retain key employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

If we fail to enhance our brand, or to do so in a cost-effective manner, our ability to expand our customer adoption will be impaired and our financial condition may suffer.

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

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

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

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

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

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

There is considerable patent, copyright, trademark, trade secret, and other intellectual property development activity in our industry. Our success depends in part on not infringing upon the intellectual property rights of others and how we prepare for and handle claims of infringement. From time to time, our competitors or other third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. For example, we are currently party to a suit brought against us by CA, Inc. that alleges, among other things, that we have infringed on certain patents held by CA, Inc. For more information about these proceedings, see Part I, Item 3 “Legal Proceedings.” In the future, we may receive claims that our products, platform capabilities, and underlying technology infringe or violate the claimant’s intellectual property rights. Any claims or litigation, regardless of merit, could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our products and platform capabilities, or require that we comply with other unfavorable terms.

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

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

Our success depends to a significant degree on our ability to protect our proprietary technology and our brand. We rely on a combination of trademarks, trade secret laws, patent, copyrights, service marks, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology and our business may be harmed. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks, or other intellectual property rights that we obtain may be challenged by others or invalidated through administrative process or litigation. As of March 31, 2018, we had one issued patent,

fourteen patent applications pending, and two trademark registrations for “New Relic” in the United States, as well as two Patent Cooperation Treaty applications and four trademark registrations and two trademark applications for “New Relic” outside of the United States. Despite our issued patent and pending patent applications, we may be unable to maintain or obtain patent protection for our technology. In addition, our existing patent and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our products and platform

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capabilities and use information that we regard as proprietary to create products and services that compete with ours. Effective patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our products is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our international activities, our exposure to unauthorized copying and use of our products and platform capabilities and proprietary information will likely increase. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

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

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our products and platform capabilities, impair the functionality of our products and platform capabilities, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our products, or injure our reputation. Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

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

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

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

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

The market for SaaS business software is less mature than traditional on-premise software applications, and the adoption rate of SaaS business software may be slower among subscribers in industries with heightened data security interests or business practices requiring highly-customizable application software. Our success will depend to a substantial extent on the widespread adoption of SaaS business software in general, but we do not know to what extent the trend of adoption of SaaS solutions will continue in the future. In particular, many organizations have invested

substantial personnel and financial resources to integrate legacy software into their businesses over time, and some have been reluctant or unwilling to migrate to SaaS. It is difficult to predict customer adoption rates and demand for our products, the future growth rate and size of the SaaS business software market, or the entry of competitive applications. The expansion of the SaaS business software market depends on a number of factors, including the cost, performance, and perceived value associated with SaaS, as well as the

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ability of SaaS providers to address data security and privacy concerns. If SaaS business software does not continue to achieve market acceptance, or there is a reduction in demand for SaaS business software caused by a lack of customer acceptance, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, competing technologies and products, or decreases in information technology spending, it would result in decreased revenue and our business would be adversely affected.

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

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

- third-party developers may not continue developing or supporting the plugins that they share on our community website;

- we cannot provide any assurance that these plugins meet the same quality standards that we apply to our own development efforts, and, to the extent they contain bugs, defects, or security risks, they may create disruptions in our customers' use of our software or negatively affect our brand;

- we do not currently provide support for plugins developed by third-party software developers, and users may be left without support and potentially cease using our products if the third-party software developers do not provide support for these plugins; and

- these third-party software developers may not possess the appropriate intellectual property rights to develop and share their plugins.

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

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

We may in the future require additional capital to operate our business and respond to business opportunities that may arise, including the need to develop new products and platform capabilities or enhance our existing products and platform capabilities, enhance our operating infrastructure, protect our intellectual property, possible acquisitions of complementary businesses and technologies, a decline in the level of subscriptions for our products, or other circumstances. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Any debt financing obtained by us could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions, and could require us to use a portion of our cash flows to make debt service payments, which could place us at a competitive disadvantage relative to our less leveraged peers. If we raise additional funds through further issuances of equity, convertible debt securities, or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our common stock, including registration rights. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to support our business and to respond to business challenges could be significantly limited, and our business, operating results, financial condition, and prospects could be harmed.

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

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

We are subject to income taxes in the United States and foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our effective tax rate could be adversely

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by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, the valuation of deferred tax assets and liabilities, and changes in federal, state, or international tax laws and accounting principles.

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

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

In addition, the application of the tax laws of various jurisdictions, including the United States, to our international business activities is subject to interpretation and depends on our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business does not achieve the intended tax consequences. As we operate in numerous taxing jurisdictions, the application of tax laws can also be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. For instance, it is not uncommon for taxing authorities in different countries to have conflicting views, with respect to, among other things, the manner in which the arm's length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property.

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

We prepare our financial statements in accordance with GAAP, which is subject to interpretation or changes by the Financial Accounting Standards Board, or FASB, the SEC, and other various bodies formed to promulgate and interpret appropriate accounting principles. New accounting pronouncements and changes in accounting principles have occurred in the past and are expected to occur in the future, which may have a significant effect on our financial results. For example, in May 2014, the FASB issued Topic 606, which, together with subsequently issued guidance, supersedes nearly all existing revenue recognition guidance under GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This new standard is effective for our interim and annual periods beginning April 1, 2018, and we anticipate the new standard to have a significant impact on our deferred commissions asset and the related amortization expense. We are continuing to evaluate the impact of the adoption of this standard on our consolidated financial statements and our preliminary assessments are subject to change. Refer to Note 1 in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information on the new guidance and its potential

impact on us. Adoption of this standard and any difficulties in implementation of changes in accounting principles, including the ability to modify our accounting systems, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us. In addition, certain choices in the method of implementation of the standard may have an adverse impact on our potential as an acquirer or an acquiree in a business combination.

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

As of our fiscal year ended March 31, 2018, we had U.S. federal and state net operating losses of approximately \$406.0 million and \$211.0 million, respectively. The federal and state net operating loss carryforwards will begin to expire, if not utilized, beginning in 2028. These net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities. Under the newly enacted federal income tax law, federal net operating losses incurred in tax years beginning after December 31, 2017 may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. It is uncertain if and to what extent various states will conform to the newly enacted federal tax law. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, if a corporation undergoes an “ownership change,” which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income or taxes may be limited. We may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which may be outside of our control. If an ownership change occurs and our ability to use our net operating loss carryforwards is materially limited, it would harm our future operating results by effectively increasing our future tax obligations.

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

We may face exposure to foreign currency exchange rate fluctuations.

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

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

Our overall performance depends in part on worldwide economic conditions. Global financial developments and downturns seemingly unrelated to us or the information technology industry may harm us. The United States and other key international economies have been impacted in the past by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies, and overall uncertainty with respect to the economy. In particular, the decision by voters in the United Kingdom to leave the EU has resulted in significant and wide-ranging economic effects across multiple markets. A withdrawal could, among other outcomes, disrupt the free movement of goods, services, and

people between the United Kingdom and the EU, undermine bilateral cooperation in key policy areas, and significantly disrupt trade between the United Kingdom and the EU. In addition, a withdrawal could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which EU laws to replace or replicate. Given the lack of comparable precedent, it is unclear what financial, trade, and legal implications the withdrawal of the United Kingdom from the EU would have and how such withdrawal would affect us.

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

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

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

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

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

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

adversely affected.

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

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

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

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

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

The market price of our common stock is subject to wide fluctuations in response to various factors, some of which are beyond our control. Since shares of our common stock were sold in our IPO in December 2014 at a price of \$23.00 per share, the reported high and low sales prices of our common stock has ranged from \$79.08 to \$20.39 through March 31, 2018. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this report, factors that could cause fluctuations in the market price of our common stock include the following:

- actual or anticipated fluctuations in our operating results;
- the financial projections we may provide to the public, any changes in these projections, or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates and publication of other news by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market from time to time, including as a result of trends in the economy as a whole;
- changes in accounting standards, policies, guidelines, interpretations, or principles, such as the adoption of FASB issued Topic 606, the new revenue recognition standard;
- actual or anticipated developments in our business or our competitors’ businesses or the competitive landscape generally;
- developments or disputes concerning our intellectual property or our products and platform capabilities, or third-party proprietary rights;
- cybersecurity attacks or incidents;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws, or regulations applicable to our business;
- changes in our board of directors or management;
- announced or completed equity or debt transactions involving our securities;
- sales of shares of our common stock by us, our officers, directors, or other stockholders;



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lawsuits filed or threatened against us; and

other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

In addition, the market for technology stocks and the stock markets in general have experienced extreme price and volume fluctuations. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business, results of operations, financial condition, and cash flows. A decline in the value of our common stock, including as a result of one or more factors set forth above, may result in substantial losses for our stockholders.

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

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

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

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline. In addition, independent industry analysts, such as Gartner and Forrester, often provide reviews of our products and platform capabilities, as well as those of our competitors, and perception of our offerings in the marketplace may be significantly influenced by these reviews. We have no control over what these industry analysts report, and because industry analysts may influence current and potential customers, our brand could be harmed if they do not provide a positive review of our products and platform capabilities or view us as a market leader.

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

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

authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our common stock;

require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;

specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of our board of directors, or our Chief Executive Officer;

• establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;

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provide that our board of directors is divided into three classes, with each class serving three-year staggered terms;

prohibit cumulative voting in the election of directors;

provide that our directors may be removed only for cause;

provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and

require the approval of our board of directors or the holders of at least seventy-five percent (75%) of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

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

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

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

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

This exclusive-forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find this exclusive-forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business.

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

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### Item 2. Properties

Our corporate headquarters is located in San Francisco, California and consists of approximately 73,391 square feet of space under a lease that expires in July 2027. In addition to our headquarters, we lease approximately 42,201 square feet of additional office space in San Francisco under a lease that expires in October 2023. In addition to our San Francisco offices, we lease space in Portland, Oregon as our primary research and development office under a lease that expires in June 2023.

We do not own any real property and we lease or otherwise rent all of our facilities. We intend to procure additional space as we add employees and expand geographically. We believe our facilities are adequate and suitable for our current needs and that, should it be needed, suitable additional or alternative space will be available to accommodate any such expansion of our operations.

### Item 3. Legal Proceedings

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

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

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

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

### Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

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

## Market Information for Common Stock

Our common stock is listed on the New York Stock Exchange under the symbol "NEWR". The following table sets forth the high and low sales price per share of our common stock as reported on the New York Stock Exchange for trading days during the periods indicated:

Fiscal Year Ended March 31, 2017	High	Low
First Quarter	\$32.71	\$23.55
Second Quarter	\$38.72	\$28.76
Third Quarter	\$38.47	\$27.85
Fourth Quarter	\$40.10	\$28.40
Fiscal Year Ended March 31, 2018	High	Low
First Quarter	\$45.32	\$36.72
Second Quarter	\$51.31	\$42.48
Third Quarter	\$60.85	\$49.50
Fourth Quarter	\$79.08	\$56.01

## Holders of Record

As of May 3, 2018, there were 57 holders of record of our common stock. 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.

## Dividend Policy

We have never declared or paid any cash dividend on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common stock in the foreseeable future, if at all. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, operating results, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant.

## Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the period covered by this Annual Report on Form 10-K, other than those previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

## Use of Proceeds from Registered Securities

On December 17, 2014, we closed our initial public offering, or IPO, of 5,750,000 shares of our common stock, including 750,000 shares of common stock from the full exercise of the option to purchase additional shares granted to the underwriters, at a price to the public of \$23.00 per share. The offer and sale of all of the shares in our IPO were registered under the Securities Act of 1933, as amended, or the Securities Act, pursuant to a registration statement on Form S-1 (File No. 333-200078), which was declared effective by the SEC on December 11, 2014.

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

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## Stock Performance Graph

This performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of New Relic, Inc. under the Securities Act.

The following graph compares the cumulative total return to stockholders on our common stock relative to the cumulative total returns of the Standard & Poor’s 500 Index, or S&P 500, and the Standard & Poor’s Composite 1500 Information Technology Index, or S&P 1500 IT. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on December 12, 2014, the date our common stock began trading on the NYSE, and its relative performance is tracked through March 31, 2018. The returns shown are based on historical results and are not intended to suggest future performance.

## Comparison of Cumulative Total Return

Among New Relic, Inc., the S&P 500 Index, and the S&P Composite 1500 IT Index

	Base Period	3/31/15	9/30/15	3/31/16	9/30/16	3/31/17	9/30/17	3/31/18
	12/12/14							
New Relic, Inc.	\$ 100.00	\$ 102.09	\$ 112.12	\$ 76.73	\$ 112.74	\$ 109.06	\$ 146.51	\$ 218.06
S&P 500	\$ 100.00	\$ 103.27	\$ 95.89	\$ 102.87	\$ 108.29	\$ 118.00	\$ 125.82	\$ 131.89
S&P Composite 1500 Information Technology	\$ 100.00	\$ 103.12	\$ 98.19	\$ 108.77	\$ 118.74	\$ 134.40	\$ 150.62	\$ 168.30

## Issuer Purchases of Equity Securities

No shares of our common stock were repurchased during the three months ended March 31, 2018.



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## Item 6. Selected Financial Data

We have derived the selected consolidated statements of operations data for the fiscal years ended March 31, 2018, 2017, and 2016, and the consolidated balance sheet data as of March 31, 2018 and 2017 from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the fiscal years ended March 31, 2015 and 2014 and the consolidated balance sheet data as of March 31, 2016, 2015, and 2014 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. The selected consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this report. The selected consolidated financial data in this section are not intended to replace our consolidated financial statements and the related notes, and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this report. Our historical results are not necessarily indicative of the results that may be expected for any period in the future.

	Year Ended March 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue	\$355,058	\$263,479	\$181,309	\$110,391	\$63,174
Cost of revenue (1)	62,725	49,990	37,183	21,802	10,780
Gross profit	292,333	213,489	144,126	88,589	52,394
Operating expenses:					
Research and development (1)	74,332	61,054	46,394	24,024	16,496
Sales and marketing (1)	207,021	168,163	129,677	89,162	58,156
General and administrative (1)	57,788	45,615	35,693	25,319	17,178
Total operating expenses	339,141	274,832	211,764	138,505	91,830
Loss from operations	(46,808 )	(61,343 )	(67,638 )	(49,916 )	(39,436 )
Other income (expense):					
Interest income	2,190	1,189	647	176	16
Interest expense	(86 )	(87 )	(68 )	(104 )	(64 )
Other income (expense), net	343	(572 )	(126 )	(390 )	(741 )
Loss before income taxes	(44,361 )	(60,813 )	(67,185 )	(50,234 )	(40,225 )
Income tax provision (benefit)	959	264	302	(85 )	—
Net loss	\$(45,320 )	\$(61,077 )	\$(67,487 )	\$(50,149 )	\$(40,225 )
Net loss per share, basic and diluted (2)	\$(0.83 )	\$(1.18 )	\$(1.39 )	\$(1.98 )	\$(2.58 )
Weighted-average shares used to compute net loss per share, basic and diluted (2)	54,814	51,715	48,410	25,290	15,596

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

	Year Ended March 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Cost of revenue	\$2,440	\$1,847	\$1,238	\$591	\$159
Research and development	12,176	9,975	6,659	2,055	1,425
Sales and marketing	16,925	13,042	9,258	5,108	1,373
General and administrative	9,057	7,082	6,113	3,912	3,263
Total stock-based compensation expense	\$40,598	\$31,946	\$23,268	\$11,666	\$6,220

(2)

See notes 1 and 10 of the notes to our consolidated financial statements for a description of how we compute net loss per share, basic and diluted.

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	As of March 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$132,479	\$88,305	\$65,914	\$105,257	\$19,453
Short-term investments	115,441	118,101	125,414	95,503	—
Working capital	144,348	121,274	136,748	174,807	8,026
Total assets	443,326	352,269	294,444	264,711	55,208
Deferred revenue	190,282	126,404	74,723	29,309	10,359
Convertible preferred stock warrant liability	—	—	—	—	830
Total liabilities	228,222	165,425	101,211	49,841	23,956
Convertible preferred stock	—	—	—	—	95,917
Total stockholders' equity (deficit)	215,104	186,844	193,233	214,870	(64,665 )

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

## Overview

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

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

We sell our products to businesses of all sizes largely through our direct sales organization utilizing a wide range of online and offline sales and marketing activities. The majority of our users visit our website, create an account, and

deploy our software. Many users initially subscribe to one of our products to address a particular use case and broaden the usage of our products as they become more familiar with our products. For larger mid-market and enterprise organizations, our sales team focuses on leveraging users in existing accounts to expand our product users and usage across the organization. Although

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enterprise organizations constitute a minority of our total paid business accounts, the revenue we receive from enterprise companies now represents a majority of our revenue and revenue growth.

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

We have grown rapidly in recent periods, with revenue for the year ended March 31, 2018, 2017, and 2016 of \$355.1 million, \$263.5 million, and \$181.3 million, respectively, representing 35% growth from 2017 to 2018 and 45% growth from 2016 to 2017. We expect that the rate of growth in our revenue will continue to decline over the long term as our business scales, even if our revenue continues to grow in absolute terms. We have continued to make significant expenditures and investments, including in personnel-related costs, sales and marketing, infrastructure and operations, and have incurred net losses in each period since our inception, including net losses of \$45.3 million, \$61.1 million, and \$67.5 million for the years ended March 31, 2018, 2017, and 2016, respectively. Our accumulated deficit as of March 31, 2018 was \$305.5 million.

Internationally, we currently offer our products in Europe, Middle East, and Africa, or EMEA; Asia-Pacific, or APAC; and other non-U.S. locations, as determined based on the billing address of our customers, and our revenue from those regions constituted 18%, 7%, and 6%, respectively, of our revenue for the year ended March 31, 2018, 19%, 8%, and 6%, respectively, of our revenue for the year ended March 31, 2017, and 19%, 8%, and 6%, respectively, of our revenue for the year ended March 31, 2016. We believe there is further opportunity to increase our international revenue overall and as a proportion of our revenue, and we are increasingly investing in our international operations and intend to invest in further expanding our footprint in international markets.

Our employee headcount has increased to 1,284 employees as of March 31, 2018 from 1,088 as of March 31, 2017 and we plan to continue to invest aggressively in the growth of our business to take advantage of our market opportunity. For example, we intend to continue to increase our investment in sales and marketing, including further expanding our sales teams, increasing our marketing activities, and growing our international operations, particularly as we increase our sales to larger organizations. In addition, we plan to continue to invest in research and development to enhance and further develop our products and platform capabilities.

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

#### Factors Affecting Our Performance

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

Increasing the Number of Paid Business Accounts. Our future growth is dependent on our ability to increase the number of accounts that pay us to use our products. Many users experience our products with a free trial after which they have the

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option to purchase one or more of our subscription plans. We believe that we have a significant competitive advantage as our users experience the ease of installation and the full set of features that our products deliver during the free trial period.

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

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

**Key Operating Metrics**

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

**Number of Paid Business Accounts and Number of Paid Business Accounts with Annual Recurring Revenue over \$100,000.** We believe that our ability to increase our number of paid business accounts is one indicator of our market penetration, the growth of our business, and our potential future prospects. We define the number of paid business accounts at the end of any particular period as the number of accounts at the end of the period as identified by a unique account identifier for which we have recognized revenue on the last day of the period indicated. A single organization or customer may have multiple paid business accounts for separate divisions, segments, or subsidiaries. We round the number of total paid business accounts that we report as of a particular date down to the nearest hundred. We expect the growth rate at which we add paid business accounts to decrease over time as we scale our business, but it may fluctuate from period to period as a result of the introduction of alternative pricing options for our products or other factors. The following table summarizes the number of paid business accounts at each quarter end presented:

	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017
Paid Business Accounts	17,000	16,600	15,900	15,400

As a subset of our paid business accounts metric, we believe that our number of paid business accounts with annual recurring revenue over \$100,000 is another indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. For this purpose, we define annual recurring revenue as the revenue we would contractually expect to receive from those customers over the following 12 months, without any increase or reduction in any of their subscriptions. The following table summarizes the number of paid business accounts with annual recurring revenue over \$100,000 at each quarter end presented:

	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017
Paid Business Accounts > \$100,000	703	629	586	555

We had 703 paid business accounts with annual recurring revenue over \$100,000 as of March 31, 2018, which was a 36.0% increase compared to 517 paid business accounts with annual recurring revenue over \$100,000 as of March 31, 2017. We believe this increase reflects our continued sales and marketing focus on larger mid-market and enterprise

customers. As with our total paid business accounts, we expect the rate at which we add paid business accounts with annual recurring revenue over \$100,000 to decrease over time as a result of deeper penetration into the enterprise market.



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Percentage of Annualized Recurring Revenue from Enterprise Paid Business Accounts. We believe that our ability to increase the percentage of annualized recurring revenue from enterprise paid business accounts relative to our overall business is an important indicator of our success with respect to our focus in recent periods to improve our market penetration with enterprise companies. We define an enterprise paid business account as a paid business account that we measure to have over 1,000 employees. Growth or reduction reflected in this figure would include, in addition to the acquisition, loss, or consolidation of enterprise paid business accounts, any changes we make to the categorization of existing paid business accounts, for example to reflect that they have expanded beyond the employee threshold, which we review periodically. The following table summarizes the percentages of annualized recurring revenue from enterprise paid business accounts at each quarter end presented:

	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017
Percentage of Annualized Recurring Revenue from Enterprise Paid Business Accounts	54 %	52 %	51 %	49 %

Our percentage of annualized recurring revenue from enterprise paid business accounts was 54% as of March 31, 2018 compared to 46% as of March 31, 2017. We expect the percentage of annualized recurring revenue from enterprise paid business accounts to increase over time. However, because of the size of our large installed base and potential seasonality in regard to selling into enterprise customers, we believe the percentage may not move significantly from quarter to quarter.

Annualized Revenue per Average Paid Business Account. We believe that our annualized revenue per average paid business account is another indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. We define our annualized revenue per average paid business account as the annualized revenue for the current period divided by the average of the number of paid business accounts at the end of the current period and the end of the prior period. We round down our annualized revenue per average paid business account to the nearest \$500.

Our annualized revenue per average paid business account for the quarter ended March 31, 2018 grew to over \$23,000, an increase of 21.1% compared to over \$19,000 for the quarter ended March 31, 2017. We believe this increase reflects our continued focus on larger mid-market and enterprise customers. We have experienced a decrease in the rate of growth of our annualized revenue per average paid business account and we expect the decrease to continue over time as our business scales and we introduce alternative pricing options for our products.

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

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

The following table summarizes our annualized dollar-based net expansion rate for each quarter:

Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017
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Annualized Dollar-Based Net Expansion Rate 141.2 % 125.2 % 122.9 % 112.5 %

The quarterly fluctuations in our dollar-based net expansion rate are primarily driven by transactions within a particular quarter in which certain paid business accounts from larger subscription customers either significantly upgrade or significantly

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downgrade their subscriptions and by increased sales to existing customers in particular quarters due to sales and marketing campaigns in a particular quarter. In addition, we believe that the composition of our customer base also has an impact on the net expansion rate, such that a relative increase in the number of paid business accounts from larger enterprises versus small to medium-sized organizations will tend to increase our quarterly net expansion rate and a relative increase in the number of paid business accounts from small to medium-sized organizations versus larger enterprises will tend to decrease the quarterly net expansion rate, as smaller businesses tend to cancel subscriptions more frequently than larger enterprises. This rate is also impacted by factors including, but not limited to, new product introductions, promotional activity, mix of customer size, and the variable timing of renewals. Our annualized dollar-based net expansion rate increased to 141.2% for the three-month period ending March 31, 2018 from 132.9% for the three-month period ending March 31, 2017. In the period ending March 31, 2018, we saw a greater amount of upsell activity relative to our total installed base than the comparable period in the prior year. We also experienced improved churn rates relative to the comparable period in the prior year with more of our business coming from mid-market and enterprise customers.

### Key Components of Results of Operations

#### Revenue

We offer access to our products under subscription plans that include service and support for one or more of our products. For our paying customers, we offer a variety of pricing plans based on the particular product purchased by an account, number of servers monitored, number of applications monitored, or number of mobile devices monitored. Our plans typically have terms of one year, although some of our customers commit for shorter or longer periods. Historically, most of our customers have paid us on a monthly basis. As a result, our deferred revenue at any given period of time had been relatively low. In recent periods we have secured an increased percentage of longer duration commitments, largely because we have sold more to larger organizations. Because we generally invoice many of these larger organizations less frequently, our deferred revenue has increased over time, and we expect it to continue to increase on a year-over-year basis.

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

#### Cost of Revenue

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

#### Gross Profit and Margin

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

#### Operating Expenses

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



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

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

**Sales and Marketing.** Sales and marketing expenses consist of personnel costs for our sales, marketing, and business development employees and executives. Commissions are expensed in the period when a customer contract is executed. Sales and marketing expenses also include the costs of our marketing and brand awareness programs. We plan to continue investing in sales and marketing globally by increasing the number of our sales personnel, expanding our domestic and international marketing activities, building brand awareness, and sponsoring additional marketing events. We expect our sales and marketing expenses to continue to increase in absolute dollars and continue to be our largest operating expense category for the foreseeable future. However, we expect our sales and marketing expenses to decrease as a percentage of our revenue over the long term, although our sales and marketing expenses may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our sales and marketing expenses.

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

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

**Other Income**

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

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## Results of Operations For Fiscal Years Ended March 31, 2018, 2017, and 2016

The following tables summarize our consolidated statements of operations data for the periods presented and as a percentage of our revenue for those periods. The period to period comparison of results is not necessarily indicative of results for future periods.

	Year Ended March 31,		
	2018	2017	2016
	(in thousands)		
Consolidated Statements of Operations Data:			
Revenue	\$355,058	\$263,479	\$181,309
Cost of revenue (1)	62,725	49,990	37,183
Gross profit	292,333	213,489	144,126
Operating expenses:			
Research and development (1)	74,332	61,054	46,394
Sales and marketing (1)	207,021	168,163	129,677
General and administrative (1)	57,788	45,615	35,693
Total operating expenses	339,141	274,832	211,764
Loss from operations	(46,808 )	(61,343 )	(67,638 )
Other income (expense):			
Interest income	2,190	1,189	647
Interest expense	(86 )	(87 )	(68 )
Other income (expense), net	343	(572 )	(126 )
Loss before income taxes	(44,361 )	(60,813 )	(67,185 )
Income tax provision	959	264	302
Net loss	\$(45,320 )	\$(61,077 )	\$(67,487 )

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

	Year Ended March 31,		
	2018	2017	2016
	(in thousands)		
Cost of revenue	\$2,440	\$1,847	\$1,238
Research and development	12,176	9,975	6,659
Sales and marketing	16,925	13,042	9,258
General and administrative	9,057	7,082	6,113
Total stock-based compensation expense	\$40,598	\$31,946	\$23,268

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	Year Ended March 31,		
	2018	2017	2016
	(as a percentage of revenue)		
Revenue	100 %	100 %	100 %
Cost of revenue (1)	18	19	20
Gross profit	82	81	80
Operating expenses:			
Research and development (1)	21	23	25
Sales and marketing (1)	58	64	72
General and administrative (1)	17	17	20
Total operating expenses	96	104	117
Loss from operations	(14 )	(23 )	(37 )
Other income (expense):			
Interest income	1	—	—
Interest expense	—	—	—
Other income (expense), net	—	—	—
Loss before income taxes	(13 )	(23 )	(37 )
Income tax provision	—	—	—
Net loss	(13 %)	(23 %)	(37 %)

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

	Year Ended March 31,		
	2018	2017	2016
	(as a percentage of revenue)		
Cost of revenue	1 %	1 %	1 %
Research and development	3	4	4
Sales and marketing	5	5	5
General and administrative	2	2	3
Total stock-based compensation expense	11 %	12 %	13 %

## Revenue

	Year Ended March 31,		Change		Year Ended March 31,		Change	
	2018	2017	Amount	%	2017	2016	Amount	%
	(dollars in thousands)							
United States	\$242,898	\$178,727	\$64,171	36%	\$178,727	\$121,588	\$57,139	47%
EMEA	65,540	49,825	15,715	32%	49,825	34,602	15,223	44%
APAC	26,554	19,887	6,667	34%	19,887	14,118	5,769	41%
Other	20,066	15,040	5,026	33%	15,040	11,001	4,039	37%
Total revenue	\$355,058	\$263,479	\$91,579	35%	\$263,479	\$181,309	\$82,170	45%

Revenue increased \$91.6 million, or 35%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017. The increase was primarily due to an increase in product adoption by existing paid business accounts, and to a lesser extent from an increase in number of paid business accounts. Our revenue from EMEA increased \$15.7 million, or 32%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017, and our revenue from APAC increased \$6.7 million, or 34%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017, as a result of an increase in the number of paid business accounts and an increase in product adoption by existing paid business accounts located in these geographic regions.

Revenue increased \$82.2 million, or 45%, in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016. The increase was primarily due to an increase in product adoption by existing paid business accounts, and to a lesser extent from an increase in number of paid business accounts. Our revenue from EMEA increased \$15.2

million, or 44%,

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in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016, and our revenue from APAC increased \$5.8 million, or 41%, in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016, as a result of an increase in the number of paid business accounts and an increase in product adoption by existing paid business accounts located in these geographic regions.

## Cost of Revenue

Year Ended		Change		Year Ended		Change	
March 31,				March 31,			
2018	2017	Amount	%	2017	2016	Amount	%

(dollars in thousands)

Cost of revenue \$62,725 \$49,990 \$12,735 25% \$49,990 \$37,183 \$12,807 34%

Cost of revenue increased \$12.7 million, or 25%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017. The increase was primarily a result of an increase in personnel-related costs and hosting-related costs necessary to support our growth, as well as an increase in payment processing costs due to the increase in revenue. Personnel-related costs increased by \$5.7 million, driven by higher headcount, and hosting-related costs and payment processing fees increased by \$3.6 million, primarily due to increased operating costs to support revenue growth. Depreciation expense and amortization expense increased by \$3.4 million.

Cost of revenue increased \$12.8 million, or 34%, in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016. The increase was primarily a result of an increase in personnel-related costs and hosting-related costs necessary to support our growth, as well as an increase in payment processing costs due to the increase in revenue. Personnel-related costs increased by \$6.5 million, driven by higher headcount, and hosting-related costs and payment processing fees increased by \$3.1 million, primarily due to increased operating costs to support revenue growth. Depreciation expense and amortization expense increased by \$2.7 million, and software costs and other miscellaneous expenses increased by \$0.5 million.

## Research and Development

Year Ended		Change		Year Ended		Change	
March 31,				March 31,			
2018	2017	Amount	%	2017	2016	Amount	%

(dollars in thousands)

Research and development \$74,332 \$61,054 \$13,278 22% \$61,054 \$46,394 \$14,660 32%

Research and development expenses increased \$13.3 million, or 22%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017. The increase was primarily a result of an increase in personnel-related costs of \$11.7 million driven by an increase in headcount, an increase of \$1.4 million in software subscription expenses and depreciation expenses, and \$0.2 million in other miscellaneous expenses.

Research and development expenses increased \$14.7 million, or 32%, in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016. The increase was primarily a result of an increase in personnel-related costs of \$13.0 million driven by an increase in headcount, an increase of \$0.8 million in software subscription expenses and depreciation expenses, and \$0.9 million in other miscellaneous expenses.

## Sales and Marketing

Year Ended March		Change		Year Ended March		Change	
31,				31,			
2018	2017	Amount	%	2017	2016	Amount	%

(dollars in thousands)

Sales and marketing \$207,021 \$168,163 \$38,858 23% \$168,163 \$129,677 \$38,486 30%

Sales and marketing expenses increased \$38.9 million, or 23%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017. The increase was primarily a result of an increase of personnel-related costs of \$36.2 million, allocated costs, including facilities, of \$3.6 million, and travel expenses of \$1.9 million, driven by higher headcount and an increase of sales commissions due to revenue growth. The remaining increase was due to software subscription expenses of \$1.1 million. The increase was offset by a decrease of \$3.9 million in marketing

programs.

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Sales and marketing expenses increased \$38.5 million, or 30%, in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016. The increase was primarily a result of an increase of personnel-related costs of \$32.3 million, allocated costs, including facilities, of \$5.5 million, and travel expenses of \$3.2 million, driven by higher headcount and an increase of sales commissions due to revenue growth. The remaining increase was due to software subscription expenses of \$1.5 million. The increase was offset by a decrease of \$4.0 million in marketing programs.

## General and Administrative

Year Ended		Change		Year Ended		Change	
March 31,				March 31,			
2018	2017	Amount	%	2017	2016	Amount	%

(dollars in thousands)

General and administrative \$57,788 \$45,615 \$12,173 27% \$45,615 \$35,693 \$9,922 28%

General and administrative expenses increased \$12.2 million, or 27%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017. The increase was primarily a result of an increase in personnel-related costs of \$6.0 million, driven by an increase in headcount, \$3.1 million increase related to outside services due to our growing operations and infrastructure, a \$0.6 million increase in software subscription expenses, a \$2.5 million increase in facilities expenses.

General and administrative expenses increased \$9.9 million, or 28%, in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016. The increase was primarily a result of an increase in personnel-related costs of \$9.6 million, driven by an increase in headcount, and a \$0.3 million increase related to outside services due to our growing operations and infrastructure.

## Other Income

Year Ended		Change		Year		Change	
March 31,				Ended			
2018	2017	Amount	%	2017	2016	Amount	%

(dollars in thousands)

Other income \$2,447 \$530 \$1,917 362% \$530 \$453 \$77 17%

Other income increased by \$1.9 million, or 362%, in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017. The increase was primarily a result of an increase in interest income due to higher yields on our investment balances.

Other income increased by \$77,000, or 17%, in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016. The increase was primarily a result of an increase in interest income.

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## Quarterly Results of Operations

The following tables set forth selected unaudited quarterly consolidated statements of operations data for each of the eight quarters in the period ended March 31, 2018, as well as the percentage that each line item represents of our revenue for each quarter. The information for each of these quarters has been prepared on the same basis as the audited annual consolidated financial statements included elsewhere in this report and, in the opinion of management, includes all adjustments of a normal, recurring nature that are necessary for the fair presentation of the results of operations for these periods in accordance with generally accepted accounting principles in the United States. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this report. These quarterly operating results are not necessarily indicative of our operating results for a full fiscal year or any future period.

	Three Months Ended							
	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016
	(in thousands, except per share data)							
Revenue	\$98,448	\$91,827	\$84,685	\$80,098	\$73,336	\$68,096	\$63,440	\$58,607
Cost of revenue (1)	16,383	15,671	15,694	14,977	13,930	12,627	11,778	11,655
Gross profit	82,065	76,156	68,991	65,121	59,406	55,469	51,662	46,952
Operating expenses:								
Research and development (1)	19,646	18,154	18,266	18,266	15,967	14,377	14,741	15,969
Sales and marketing (1)	55,006	51,393	51,261	49,361	45,537	43,458	40,382	38,786
General and administrative (1)	14,945	14,596	14,305	13,942	12,968	11,578	10,833	10,236
Total operating expenses	89,597	84,143	83,832	81,569	74,472	69,413	65,956	64,991
Loss from operations	(7,532 )	(7,987 )	(14,841 )	(16,448 )	(15,066 )	(13,944 )	(14,294 )	(18,039 )
Other income (expense):								
Interest income	687	534	512	457	393	325	250	221
Interest expense	(22 )	(21 )	(21 )	(22 )	(24 )	(21 )	(21 )	(21 )
Other income (expense), net	226	(45 )	(152 )	314	(55 )	(280 )	(126 )	(111 )
Loss before income taxes	(6,641 )	(7,519 )	(14,502 )	(15,699 )	(14,752 )	(13,920 )	(14,191 )	(17,950 )
Income tax provision (benefit)	325	210	189	235	241	(37 )	(61 )	121
Net loss	\$(6,966 )	\$(7,729 )	\$(14,691 )	\$(15,934 )	\$(14,993 )	\$(13,883 )	\$(14,130 )	\$(18,071 )
Net loss per share, basic and diluted (2)	\$(0.13 )	\$(0.14 )	\$(0.27 )	\$(0.30 )	\$(0.28 )	\$(0.27 )	\$(0.28 )	\$(0.36 )
Weighted-average shares used to compute net loss per share, basic and diluted (2)	55,669	55,196	54,699	53,697	52,991	52,328	51,328	50,224

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

	Three Months Ended							
	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016
	(in thousands)							
Cost of revenue	\$724	\$587	\$603	\$526	\$478	\$475	\$513	\$381
Research and development	3,076	2,959	3,305	2,836	2,522	2,390	2,522	2,541
Sales and marketing	4,811	3,933	3,875	4,306	3,392	3,479	3,409	2,762
General and administrative	2,209	2,454	2,439	1,955	1,835	1,774	1,819	1,654
Total stock-based compensation expense	\$10,820	\$9,933	\$10,222	\$9,623	\$8,227	\$8,118	\$8,263	\$7,338

(2) See notes 1 and 10 of the notes to our consolidated financial statements for a description of how we compute net loss per share, basic and diluted.

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	Three Months Ended							
	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016
	(as a percentage of revenue)							
Revenue	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of revenue (1)	17	17	19	19	19	19	19	20
Gross profit	83	83	81	81	81	81	81	80
Operating expenses:								
Research and development (1)	20	20	22	23	22	21	23	27
Sales and marketing (1)	56	56	61	62	62	64	64	66
General and administrative (1)	15	16	16	17	18	17	17	18
Total operating expenses	91	92	99	102	102	102	104	111
Operating loss	(8 )	(9 )	(18 )	(21 )	(21 )	(21 )	(23 )	(31 )
Other income (expense):								
Interest income	1	1	1	1	1	1	1	—
Interest expense	—	—	—	—	—	—	—	—
Other income (expense), net	—	—	—	—	—	—	—	—
Loss before income taxes	(7 )	(8 )	(17 )	(20 )	(20 )	(20 )	(22 )	(31 )
Income tax provision (benefit)	—	—	—	—	—	—	—	—
Net loss	(7 %)	(8 %)	(17 %)	(20 %)	(20 %)	(20 %)	(22 %)	(31 %)

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

	Three Months Ended							
	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016
	(as a percentage of revenue)							
Cost of revenue	1 %	1 %	1 %	1 %	1 %	1 %	1 %	1 %
Research and development	3	3	4	4	3	4	4	4
Sales and marketing	5	4	4	5	5	5	5	5
General and administrative	2	3	3	2	2	2	3	3
Total stock-based compensation expense	11 %	11 %	12 %	12 %	11 %	12 %	13 %	13 %

**Quarterly Revenue Trends**

Our quarterly revenue increased sequentially for each period presented, primarily due to sales of new subscriptions to our products and expanding use of our products by our existing customers. We cannot assure you that this pattern of sequential growth in revenue will continue. In future periods, as our rate of revenue growth declines, seasonality in our revenue may become more apparent.

**Quarterly Gross Margin Trends**

Our gross margin has remained relatively consistent over all periods presented, with the fluctuations primarily due to the timing and extent of our investments in our operations and global customer support personnel, and hosting-related costs.

**Quarterly Expense Trends**

Research and development, sales and marketing, and general and administrative expenses generally increased sequentially over the periods as we increased our headcount to support continued investment in our products, although were flat to modestly decreasing as a percent of revenue. The increase in personnel costs was primarily related to increases in headcount, along with higher stock-based compensation expense.



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## Non-GAAP Financial Measures

## Non-GAAP Income (Loss) From Operations

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

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

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

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

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

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

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

The following table presents our non-GAAP income (loss) from operations and reconciles our GAAP to non-GAAP income (loss) from operations (in thousands):

	Three Months		Year Ended March	
	Ended March 31,		31,	
	2018	2017	2018	2017
GAAP loss from operations	\$(7,532)	\$(15,066)	\$(46,808)	\$(61,343)
Plus: Stock-based compensation	10,820	8,227	40,598	31,946
Plus: Lawsuit litigation	—	—	—	48
Plus: Amortization of purchased intangibles	197	396	1,187	1,162
Plus: Amortization of stock-based compensation capitalized in software development costs	225	230	927	754



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Plus: Employer payroll tax on employee equity incentive plans	1,085	460	2,642	2,013
Non-GAAP income (loss) from operations	\$4,795	\$(5,753 )	\$(1,454 )	\$(25,420)

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Non-GAAP income (loss) from operations for the periods presented reflects the same trends discussed above in “Results of Operations.” Although overall expenses were higher than the same periods presented in the prior fiscal year, expenses as a percentage of revenue have decreased over time. As a result, we generated non-GAAP income from operations in the third and fourth quarters of fiscal 2018. Although we generated a non-GAAP loss from operations for the full year fiscal 2018, we anticipate we will continue to generate non-GAAP income from operations in future periods.

## Liquidity and Capital Resources

	Year Ended March 31,		
	2018	2017	2016
	(in thousands)		
Cash provided by operating activities	\$35,650	\$18,928	\$4,006
Cash used in investing activities	(23,832 )	(18,520 )	(58,051 )
Cash provided by financing activities	32,356	21,983	14,702
Net increase (decrease) in cash and cash equivalents	\$44,174	\$22,391	\$(39,343)

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

Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support research and development efforts, the continued expansion of sales and marketing activities, the introduction of new and enhanced products, and the continued market acceptance of our products. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, technologies and intellectual property rights. We may need to raise additional funds from equity or debt securities in order to meet those capital requirements. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition would be adversely affected.

## Operating Activities

During the fiscal year ended March 31, 2018, cash provided by operating activities was \$35.7 million as a result of a net loss of \$45.3 million, adjusted by non-cash charges of \$65.4 million and a change of \$15.6 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of a \$63.9 million increase in deferred revenue as a result of increased sales of subscriptions and a \$2.1 million increase in accrued compensation and benefits and other liabilities due to increased headcount. This was partially offset by a \$38.3 million increase in accounts receivable due to increased sales of subscriptions, a \$9.8 million increase in prepaid expenses and other assets, a \$1.8 million decrease in accounts payable, and a \$0.5 million decrease in deferred rent. During the fiscal year ended March 31, 2017, cash provided by operating activities was \$18.9 million as a result of a net loss of \$61.1 million, adjusted by non-cash charges of \$51.9 million and a change of \$28.1 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of a \$51.7 million increase in deferred revenue as a result of increased sales of subscriptions, a \$5.6 million increase in accrued compensation and benefits and other liabilities due to increased headcount, a \$4.1 million increase in deferred rent due to new offices space, and a \$0.7 million increase in accounts payable. This was partially offset by a \$30.2 million increase in accounts receivable due to increased sales of subscriptions, a \$3.7 million increase in prepaid expenses and other assets.

During the fiscal year ended March 31, 2016, cash provided by operating activities was \$4.0 million as a result of a net loss of \$67.5 million, adjusted by non-cash charges of \$40.8 million and a change of \$30.7 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of a \$45.4 million increase in deferred revenue as a result of increased sales of subscriptions and a \$7.2 million increase in accrued compensation and benefits and other liabilities due to increased headcount. This was partially offset by a \$19.5 million increase in accounts receivable due to increased sales of subscriptions, a \$1.8 million increase in prepaid expenses and other assets, and a \$0.8 million decrease in accounts payable.



Table of Contents**Investing Activities**

Cash used in investing activities during the fiscal year ended March 31, 2018 was \$23.8 million, primarily as a result of purchases of short-term investments of \$128.7 million, purchases of property and equipment of \$21.4 million, and increases in capitalization of software development costs of \$4.8 million. These were offset by proceeds from the sale and maturity of short-term investments of \$131.1 million.

Cash used in investing activities during the fiscal year ended March 31, 2017 was \$18.5 million, primarily as a result of purchases of short-term investments of \$168.9 million, purchases of property and equipment of \$21.4 million, and increases in capitalization of software development costs of \$4.1 million. These were offset by proceeds from the maturity of short-term investments of \$175.9 million.

Cash used in investing activities during the fiscal year ended March 31, 2016 was \$58.1 million, primarily as a result of purchases of short-term investments of \$111.0 million, purchases of property and equipment of \$11.7 million, increases in capitalization of software development costs of \$6.7 million, payments of \$5.5 million for the acquisition of Opsmatic, Inc., net of cash acquired, and an increase in restricted cash of \$3.5 million. These were offset by proceeds from the maturity of short-term investments of \$80.4 million.

**Financing Activities**

Cash provided by financing activities during the fiscal year ended March 31, 2018 was \$32.4 million, which was the result of proceeds from the exercise of stock options and proceeds from our employee stock purchase plan.

Cash provided by financing activities during the fiscal year ended March 31, 2017 was \$22.0 million, which was the result of proceeds from the exercise of stock options and proceeds from our employee stock purchase plan.

Cash provided by financing activities during the fiscal year ended March 31, 2016 was \$14.7 million, which was the result of proceeds from the exercise of stock options and proceeds from our employee stock purchase plan.

**Contractual Obligations**

As of March 31, 2018, our future non-cancelable contractual obligations were as follows:

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
	(in thousands)				
Operating lease obligations (1)	\$ 116,651	\$ 13,114	\$ 29,040	\$ 29,981	\$ 44,516
Purchase obligations (2)	26,468	16,478	9,990	—	—
Total	\$ 143,119	\$ 29,592	\$ 39,030	\$ 29,981	\$ 44,516

(1) Consists of future minimum lease payments under non-cancelable operating leases for office space.

(2) Consists of future minimum payments under non-cancelable purchase commitments primarily related to hosting services and software subscriptions.

**Off-Balance Sheet Arrangements**

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

**Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, or GAAP. In the preparation of these consolidated financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the consolidated financial statements; therefore, actual results could differ from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates.



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The critical accounting policies requiring estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

We generate revenue from subscription-based arrangements that allow our customers to access our products. Our sales agreements have contract terms typically for one year.

We recognize revenue when the following criteria are met: (i) there is persuasive evidence of an arrangement; (ii) subscriptions have been or are being provided to the customer; (iii) the amount of fees to be paid by the customer is fixed and determinable; and (iv) collection is reasonably assured.

We recognize subscription revenue on a straight-line basis over the contractual period. Amounts that have been invoiced and that are due are recorded in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Stock-Based Compensation Expense

We measure and recognize compensation expense related to stock-based transactions, including employee and non-employee director stock options, restricted stock units, or RSUs, restricted stock awards, or RSAs, and the employee stock purchase plan, or ESPP, in our financial statements based on the fair value of the awards granted. We estimate the fair value of each option award on the grant date using the Black-Scholes option-pricing model and a single option award approach. The fair value of RSUs and RSAs is based on the closing price of our common stock as reported on the New York Stock Exchange. We recognize stock-based compensation expense, net of forfeitures, over the requisite service periods of the awards, which is generally four years.

Our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions we use in our option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

These assumptions and estimates are as follows:

**Fair Value of Common Stock.** Since our IPO, we have used the market closing price of our common stock as reported on the New York Stock Exchange.

**Risk-Free Interest Rate.** We base the risk-free interest rate used in the Black-Scholes option-pricing model on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term equivalent to that of the options for each option group.

**Expected Term.** We determine the expected term based on the average period the stock options are expected to remain outstanding generally calculated as the midpoint of the stock options vesting term and contractual expiration period, as we do not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

**Expected Volatility.** We determine the price volatility factor based on the historical volatilities of our publicly traded peer group as we do not have significant trading history for our common stock. Industry peers consist of several public companies in the technology industry that are similar to us in size, stage of life cycle, and financial leverage. We used the same set of peer group companies in all the relevant valuation estimates. We did not rely on implied volatilities of traded options in our industry peers' common stock because the volume of activity was relatively low. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

**Dividend Yield.** The expected dividend assumption is based on our current expectations about our anticipated dividend policy. Consequently, we used an expected dividend yield of zero.



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In addition to the assumptions used in the Black-Scholes option-pricing model, we must also estimate a forfeiture rate to calculate the stock-based compensation expense for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures. We will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover, and other factors. Quarterly changes in the estimated forfeiture rate can have a significant impact on our stock-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

We estimate the fair value of the rights to acquire stock under our ESPP using the Black-Scholes option-pricing formula. Our ESPP typically provides for consecutive six-month offering periods. Prior to February 2017, we used our peer group volatility data in the valuation of ESPP shares. Beginning in February 2017, we started to use our own historical volatility data. We recognize such compensation expense on a straight-line basis over the requisite service period.

We will continue to use judgment in evaluating the assumptions related to our stock-based compensation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to our estimates, which could materially impact our future stock-based compensation expense.

### Business Combination

We recognize identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that we identify adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

### Goodwill and Other Intangible Assets

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

Intangible assets consist of identifiable intangible assets, primarily developed technology, resulting from our acquisitions. Acquired intangible assets are recorded at cost, net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives. Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

### Software Development Costs

We capitalize certain development costs incurred in connection with our internal use software and website. These capitalized costs are primarily related to our software tools that are hosted by us and accessed by our customers on a subscription basis. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional features and functionality. Maintenance costs are expensed as incurred. Internal use software is amortized on a straight-line basis over its estimated useful life, generally three years.

### Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of assets and liabilities, and are measured using the tax rates that will be in effect when the differences are expected to reverse. Future tax benefits are recognized to the extent that realization of such benefits is considered to be



more likely than not. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. We have considered our future anticipated market growth, historical and forecasted earnings, future

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taxable income and the mix of earnings in the jurisdictions in which we operate along with prudent, feasible and permissible tax planning strategies in determining the extent to which our deferred tax assets may be realizable. Projections inherently include a level of uncertainty that could result in lower or higher than expected future taxable income. When we determine that the deferred tax assets for which there is currently a valuation allowance would be realized in the future, the related valuation allowance will be reduced and a benefit to operations will be recorded. Conversely, if we were to make a determination that we will not be able to realize a portion of our net deferred tax assets in the future (using the “more likely than not” criteria), we would record an adjustment to our valuation allowance and a charge to operations in the period in which such determination is made.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. If interest and penalties related to unrecognized tax benefits were incurred, such amounts would be included in our provision for income taxes.

**Recent Accounting Pronouncements**

See Note 1, Description of Business and Summary of Significant Accounting Policies, of our accompanying Notes to Consolidated Financial Statements included in Part II, Item 8 for recent accounting pronouncements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk****Foreign Currency Exchange Risk**

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

**Interest Rate Risk**

We had cash and cash equivalents of \$132.5 million as of March 31, 2018, consisting of bank deposits, money market funds, commercial paper, U.S. treasury securities, and U.S. agency securities. These interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in our interest income have not been significant. We also had no outstanding debt for any of the periods presented. We have an agreement to maintain cash balances at a financial institution of no less than \$8.0 million as collateral for three letters of credit in favor of our landlords. The letters of credit carry a fixed interest rate of 1%.

We had short-term investments of \$115.4 million as of March 31, 2018, consisting of certificates of deposit, commercial paper, corporate notes and bonds, U.S. treasury securities, and U.S. agency securities. Our investments in marketable securities are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of these investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates.

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

**Inflation Risk**

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

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Item 8. Financial Statements and Supplementary Data

NEW RELIC, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of New Relic, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of New Relic, Inc. and subsidiaries (the "Company") as of March 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2018, and the related notes collectively referred to as the "financial statements". In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 11, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP  
San Francisco, California  
May 11, 2018

We have served as the Company's auditor since 2011.

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NEW RELIC, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except par value)

	March 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$132,479	\$88,305
Short-term investments	115,441	118,101
Accounts receivable, net of allowance for doubtful accounts of \$1,728 and \$1,117, respectively	99,488	62,032
Prepaid expenses and other current assets	15,591	8,169
Total current assets	362,999	276,607
Property and equipment, net	53,899	50,728
Restricted cash	8,202	8,115
Goodwill	11,828	11,828
Intangible assets, net	1,312	2,499
Other assets, non-current	5,086	2,492
Total assets	\$443,326	\$352,269
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$2,985	\$6,522
Accrued compensation and benefits	17,414	15,935
Other current liabilities	8,619	7,607
Deferred revenue	189,633	125,269
Total current liabilities	218,651	155,333
Deferred rent, non-current	8,147	8,272
Deferred revenue, non-current	649	1,135
Other liabilities, non-current	775	685
Total liabilities	228,222	165,425
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000 shares authorized at March 31, 2018 and March 31, 2017; 56,213 shares and 53,539 shares issued at March 31, 2018 and March 31, 2017; and shares 55,953 and 53,279 shares outstanding at March 31, 2018 and March 31, 2017	56	53
Treasury stock—at cost (260 shares)	(263 )	(263 )
Additional paid-in capital	521,119	447,314
Accumulated other comprehensive loss	(324 )	(96 )
Accumulated deficit	(305,484 )	(260,164 )
Total stockholders' equity	215,104	186,844
Total liabilities and stockholders' equity	\$443,326	\$352,269
See notes to consolidated financial statements.		

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

	Year Ended March 31,		
	2018	2017	2016
Revenue	\$355,058	\$263,479	\$181,309
Cost of revenue	62,725	49,990	37,183
Gross profit	292,333	213,489	144,126
Operating expenses:			
Research and development	74,332	61,054	46,394
Sales and marketing	207,021	168,163	129,677
General and administrative	57,788	45,615	35,693
Total operating expenses	339,141	274,832	211,764
Loss from operations	(46,808 )	(61,343 )	(67,638 )
Other income (expense):			
Interest income	2,190	1,189	647
Interest expense	(86 )	(87 )	(68 )
Other income (expense), net	343	(572 )	(126 )
Loss before income taxes	(44,361 )	(60,813 )	(67,185 )
Income tax provision	959	264	302
Net loss	\$(45,320 )	\$(61,077 )	\$(67,487 )
Net loss per share, basic and diluted	\$(0.83 )	\$(1.18 )	\$(1.39 )
Weighted-average shares used to compute net loss per share, basic and diluted	54,814	51,715	48,410
See notes to consolidated financial statements.			

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

	Year Ended March 31,		
	2018	2017	2016
Net loss	\$(45,320)	\$(61,077)	\$(67,487)
Other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities, net of tax	(228 )	(118 )	7
Comprehensive loss	\$(45,548)	\$(61,195)	\$(67,480)

See notes to consolidated financial statements.

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NEW RELIC, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance at March 31, 2015	47,377	\$ 47	\$346,671	260	\$ (263 )	\$ 15	\$ (131,600 )	\$ 214,870
Issuance of common stock upon exercise of stock options	2,324	3	12,518	—	—	—	—	12,521
Issuance of common stock for vested restricted stock units	166	—	—	—	—	—	—	—
Issuance of common stock related to employee stock purchase plan	111	—	2,243	—	—	—	—	2,243
Issuance of common stock related to acquisition of business	263	—	6,777	—	—	—	—	6,777
Stock-based compensation expense	—	—	24,302	—	—	—	—	24,302
Other comprehensive income, net	—	—	—	—	—	7	—	7
Net loss	—	—	—	—	—	—	(67,487 )	(67,487 )
Balance at March 31, 2016	50,241	\$ 50	\$392,511	260	\$ (263 )	\$ 22	\$ (199,087 )	\$ 193,233
Issuance of common stock upon exercise of stock options	2,474	2	16,665	—	—	—	—	16,667
Issuance of common stock for vested restricted stock units	582	1	(1 )	—	—	—	—	—
Issuance of common stock related to employee stock purchase plan	195	—	5,283	—	—	—	—	5,283
Issuance of common stock related to acquisition of business	47	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	32,856	—	—	—	—	32,856
Other comprehensive loss, net	—	—	—	—	—	(118 )	—	(118 )
Net loss	—	—	—	—	—	—	—	—