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

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# FORM 10-Q

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**(Mark One)**

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

**For the quarterly period ended December 31, 2020**

**or**

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

**For the transition period from __________ to __________**

**Commission File Number: 001-36766**

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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 incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**188 Spear Street, Suite 1000**
**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 | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.001 per share | NEWR | New York Stock Exchange |

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

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

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

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

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

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

As of January 29, 2021, there were 63,066,141 shares of the registrant's common stock, par value $0.001 per share, outstanding.

**NEW RELIC, INC.**
**Form 10-Q Quarterly Report**

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

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the impact of natural disasters and actual or threatened public health emergencies, such as the COVID-19 pandemic;
- 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;
- our key operating metrics;
- use and limitations 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 remain on our platform and increase their spend with us;
- our product and pricing strategies and their anticipated impacts on our business and results of operations;
- our growth strategy, including increasing usage within our installed base, addition of new customers, penetration of international markets, and expansion of our platform and capabilities;
- 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 expand in our existing markets and into new markets, including international markets;
- the attraction and retention of key personnel;
- our ability to effectively manage our growth and future expenses;
- our ability to maintain, protect, and enhance our intellectual property rights;
- worldwide economic conditions and their impact on spending; and
- our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations.

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

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

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

## SELECTED RISKS AFFECTING OUR BUSINESS

Investing in our common stock involves a high degree of risk because we are subject to numerous risks and uncertainties that could negatively impact our business, financial condition and results of operations, as more fully described below. These risks and uncertainties include, but are not limited to, the following:

- We have limited experience with respect to determining the optimal prices and pricing strategies for our products.
- The ongoing global coronavirus (COVID-19) pandemic could harm our business and results of operations.
- We have a history of losses and our revenue growth rate could continue to decline over time, and as our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.
- 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.
- If we are not able to manage our growth and expansion, or if our business does not grow as we expect, our operating results may suffer.
- Our business depends on our customers remaining on our platform and increasing their spend with us.
- If we are not able to develop enhancements to our products, increase adoption and usage of our products, and introduce new products that achieve market acceptance, our business could 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.
- 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.
- 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 markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be harmed.
- Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business and operating results.
- Our ongoing and planned investments in data center hosting facilities and expenditures on cloud hosting providers are expensive and complex, may result in a negative impact on our cash flows, and may negatively impact our financial results.
- Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.
- Our reliance upon open source software could negatively affect our ability to sell our products and subject us to possible litigation.
- Changes in privacy and security laws, regulations, and standards may cause our business to suffer.
- We have incurred substantial indebtedness that may decrease our business flexibility, access to capital, and/or increase our borrowing costs.
- 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.
- We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate these controls.

**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

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

| | December 31, 2020 | March 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 211,145 | $ 292,523 |
| Short-term investments | 573,472 | 512,574 |
| Accounts receivable, net of allowances of $2,376 and $3,636, respectively | 143,775 | 147,361 |
| Prepaid expenses and other current assets | 16,236 | 15,979 |
| Deferred contract acquisition costs | 34,738 | 32,016 |
| Total current assets | 979,366 | 1,000,453 |
| Property and equipment, net | 93,011 | 100,294 |
| Restricted cash | 5,662 | 5,641 |
| Goodwill | 144,253 | 45,112 |
| Intangible assets, net | 14,662 | 13,691 |
| Deferred contract acquisition costs, non-current | 30,295 | 28,141 |
| Lease right-of-use assets | 59,475 | 57,777 |
| Other assets, non-current | 6,785 | 7,325 |
| Total assets | $ 1,333,509 | $ 1,258,434 |
| **Liabilities, redeemable non-controlling interest and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 22,034 | $ 12,565 |
| Accrued compensation and benefits | 39,416 | 29,054 |
| Other current liabilities | 15,838 | 13,120 |
| Deferred revenue | 301,750 | 313,161 |
| Lease liabilities | 5,600 | 8,682 |
| Total current liabilities | 384,638 | 376,582 |
| Convertible senior notes, net | 443,676 | 427,044 |
| Lease liabilities, non-current | 62,849 | 57,394 |
| Deferred revenue, non-current | 1,681 | 3,166 |
| Other liabilities, non-current | 8,092 | 1,940 |
| Total liabilities | 900,936 | 866,126 |
| Commitments and contingencies (Note 10) | | |
| Redeemable non-controlling interest | 610 | 1,669 |
| Stockholders' equity: | | |
| Common stock, $0.001 par value; 100,000 shares authorized at December 31, 2020 and March 31, 2020; 63,311 shares and 60,098 shares issued at December 31, 2020 and March 31, 2020; and 63,051 shares and 59,838 shares outstanding at December 31, 2020 and March 31, 2020 | 63 | 60 |
| Treasury stock - at cost (260 shares) | (263) | (263) |
| Additional paid-in capital | 956,670 | 780,479 |
| Accumulated other comprehensive income | 932 | 4,869 |
| Accumulated deficit | (525,439) | (394,506) |
| Total stockholders' equity | 431,963 | 390,639 |
| Total liabilities, redeemable non-controlling interest and stockholders' equity | $ 1,333,509 | $ 1,258,434 |

*See notes to condensed consolidated financial statements.*

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue | $ 166,340 | $ 153,028 | $ 494,979 | $ 439,853 |
| Cost of revenue | 45,968 | 26,402 | 124,439 | 75,164 |
| Gross profit | 120,372 | 126,626 | 370,540 | 364,689 |
| Operating expenses: | | | | |
| Research and development | 45,773 | 38,387 | 131,245 | 106,858 |
| Sales and marketing | 92,392 | 87,704 | 266,906 | 244,711 |
| General and administrative | 30,249 | 24,751 | 89,481 | 71,129 |
| Total operating expenses | 168,414 | 150,842 | 487,632 | 422,698 |
| Loss from operations | (48,042) | (24,216) | (117,092) | (58,009) |
| Other income (expense): | | | | |
| Interest income | 1,734 | 3,793 | 6,735 | 11,944 |
| Interest expense | (6,229) | (5,953) | (18,549) | (17,660) |
| Other income (expense), net | (811) | (465) | (1,810) | 2,828 |
| Loss before income taxes | (53,348) | (26,841) | (130,716) | (60,897) |
| Income tax provision | 564 | 894 | 1,276 | 1,518 |
| Net loss | $ (53,912) | $ (27,735) | $ (131,992) | $ (62,415) |
| Net loss attributable to redeemable non-controlling interest | 286 | 540 | 1,059 | 1,437 |
| Net loss attributable to New Relic | $ (53,626) | $ (27,195) | $ (130,933) | $ (60,978) |
| Net loss attributable to New Relic per share, basic and diluted | $ (0.88) | $ (0.46) | $ (2.16) | $ (1.05) |
| Weighted-average shares used to compute net loss per share, basic and diluted | 61,209 | 58,733 | 60,562 | 58,352 |

*See notes to condensed consolidated financial statements.*

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Net loss attributable to New Relic** | $ (53,626) | $ (27,195) | $ (130,933) | $ (60,978) |
| **Other comprehensive income (loss):** | | | | |
| Unrealized gain (loss) on available-for-sale securities, net of tax | (1,467) | (48) | (3,937) | 1,262 |
| **Comprehensive loss** | $ (55,093) | $ (27,243) | $ (134,870) | $ (59,716) |

*See notes to condensed consolidated financial statements.*

# NEW RELIC, INC.
## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
*(In thousands)*
*(Unaudited)*

| | Three Months Ended December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | Shares | Amount | | | |
| **Balance at beginning of period** | 61,227 | $ 61 | $857,011 | 260 | $(263) | $ 2,399 | $(471,813) | $ 387,395 |
| Issuance of common stock upon exercise of stock options | 45 | — | 982 | — | — | — | — | 982 |
| Issuance of common stock for vested restricted stock units | 418 | — | — | — | — | — | — | — |
| Issuance of common stock related to employee stock purchase plan | — | — | — | — | — | — | — | — |
| Issuance of common stock related to acquisition of business | 1,621 | 2 | 62,365 | — | — | — | — | 62,367 |
| Stock-based compensation expense | — | — | 36,312 | — | — | — | — | 36,312 |
| Other comprehensive loss, net | — | — | — | — | — | (1,467) | — | (1,467) |
| Net loss attributable to New Relic | — | — | — | — | — | — | (53,626) | (53,626) |
| **Balance at end of period** | 63,311 | $ 63 | $956,670 | 260 | $(263) | $ 932 | $(525,439) | $ 431,963 |

| | Three Months Ended December 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | Shares | Amount | | | |
| **Balance at beginning of period** | 59,036 | $ 59 | $708,761 | 260 | $(263) | $ 1,955 | $(339,352) | $ 371,160 |
| Issuance of common stock upon exercise of stock options | 146 | — | 3,719 | — | — | — | — | 3,719 |
| Issuance of common stock for vested restricted stock units | 218 | — | — | — | — | — | — | — |
| Issuance of common stock related to employee stock purchase plan | — | — | — | — | — | — | — | — |
| Issuance of common stock related to acquisition of business | — | — | — | — | — | — | — | — |
| Stock-based compensation expense | — | — | 25,883 | — | — | — | — | 25,883 |
| Other comprehensive loss, net | — | — | — | — | — | (48) | — | (48) |
| Net loss attributable to New Relic | — | — | — | — | — | — | (27,195) | (27,195) |
| **Balance at end of period** | 59,400 | $ 59 | $738,363 | 260 | $(263) | $ 1,907 | $(366,547) | $ 373,519 |

| | Nine Months Ended December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | Shares | Amount | | | |
| **Balance at beginning of period** | 60,098 | $ 60 | $780,479 | 260 | $(263) | $ 4,869 | $(394,506) | $ 390,639 |
| Issuance of common stock upon exercise of stock options | 332 | — | 3,632 | — | — | — | — | 3,632 |
| Issuance of common stock for vested restricted stock units | 1,123 | 1 | (1) | — | — | — | — | — |
| Issuance of common stock related to employee stock purchase plan | 137 | — | 6,494 | — | — | — | — | 6,494 |
| Issuance of common stock related to acquisition of business | 1,621 | 2 | 62,365 | — | — | — | — | 62,367 |
| Stock-based compensation expense | — | — | 103,701 | — | — | — | — | 103,701 |
| Other comprehensive income (loss), net | — | — | — | — | — | (3,937) | — | (3,937) |
| Net loss attributable to New Relic | — | — | — | — | — | — | (130,933) | (130,933) |
| **Balance at end of period** | 63,311 | $ 63 | $956,670 | 260 | $(263) | $ 932 | $(525,439) | $ 431,963 |

| | Nine Months Ended December 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | Shares | Amount | | | |
| **Balance at beginning of period** | 58,366 | $ 58 | $654,759 | 260 | $(263) | $ 645 | $(305,569) | $ 349,630 |
| Issuance of common stock upon exercise of stock options | 267 | — | 6,773 | — | — | — | — | 6,773 |
| Issuance of common stock for vested restricted stock units | 650 | 1 | (1) | — | — | — | — | — |
| Issuance of common stock related to employee stock purchase plan | 117 | — | 5,933 | — | — | — | — | 5,933 |
| Issuance of common stock related to acquisition of business | — | — | — | — | — | — | — | — |
| Stock-based compensation expense | — | — | 70,899 | — | — | — | — | 70,899 |
| Other comprehensive income (loss), net | — | — | — | — | — | 1,262 | — | 1,262 |
| Net loss attributable to New Relic | — | — | — | — | — | — | (60,978) | (60,978) |
| **Balance at end of period** | 59,400 | $ 59 | $738,363 | 260 | $(263) | $ 1,907 | $(366,547) | $ 373,519 |

*See notes to condensed consolidated financial statements.*

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

| | Nine Months Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Cash flows from operating activities:** | | |
| Net loss attributable to New Relic | $ (130,933) | $ (60,978) |
| Net loss attributable to redeemable non-controlling interest (Note 3) | $ (1,059) | $ (1,437) |
| Net loss: | $ (131,992) | $ (62,415) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 66,315 | 56,237 |
| Stock-based compensation expense | 103,044 | 70,496 |
| Amortization of debt discount and issuance costs | 16,632 | 15,718 |
| Gain on lease modification | — | (3,006) |
| Other | 1,812 | (2,919) |
| Changes in operating assets and liabilities, net of acquisition of business: | | |
| Accounts receivable, net | 3,586 | 10,015 |
| Prepaid expenses and other assets | (999) | (204) |
| Deferred contract acquisition costs | (33,093) | (25,786) |
| Lease right-of-use assets | (1,338) | 19,539 |
| Accounts payable | 10,015 | 4,257 |
| Accrued compensation and benefits and other liabilities | 18,141 | 1,136 |
| Lease liabilities | 2,158 | (16,812) |
| Deferred revenue | (12,896) | (34,590) |
| **Net cash provided by operating activities** | 41,385 | 31,666 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (15,799) | (49,705) |
| Cash paid for acquisition, net of cash acquired | (41,536) | (4,250) |
| Purchases of short-term investments | (293,844) | (337,070) |
| Proceeds from sale and maturity of short-term investments | 228,050 | 292,409 |
| Capitalized software development costs | (9,739) | (4,463) |
| **Net cash used in investing activities** | (132,868) | (103,079) |
| **Cash flows from financing activities:** | | |
| Investment from redeemable non-controlling interest | — | 978 |
| Proceeds from employee stock purchase plan | 6,494 | 5,933 |
| Proceeds from exercise of employee stock options | 3,632 | 5,977 |
| **Net cash provided by financing activities** | 10,126 | 12,888 |
| Net decrease in cash, cash equivalents and restricted cash | (81,357) | (58,525) |
| Cash, cash equivalents and restricted cash at beginning of period | 298,164 | 243,161 |
| Cash, cash equivalents and restricted cash at end of period | $ 216,807 | $ 184,636 |
| **Reconciliation of cash, cash equivalents and restricted cash to condensed consolidated balance sheets:** | | |
| Cash and cash equivalents | $ 211,145 | $ 178,997 |
| Restricted cash | 5,662 | 5,639 |
| Total cash, cash equivalents and restricted cash | $ 216,807 | $ 184,636 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest and income taxes | $ 3,772 | $ 3,868 |
| Noncash investing and financing activities: | | |
| Property and equipment purchased but not yet paid | $ 1,399 | $ 7,797 |
| Issuance of common stock for the acquisition of business | $ 62,365 | $ — |
| Acquisition holdback | $ — | $ 850 |

*See notes to condensed consolidated financial statements.*

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
*(Unaudited)*

### 1. Description of Business and Summary of Significant Accounting Policies

New Relic, Inc. (the "Company" or "New Relic") was incorporated in Delaware on February 20, 2008, when it converted from a Delaware limited liability company called New Relic Software, LLC, which was formed in Delaware in September 2007. The Company provides a strategic observability platform that enables users to collect, store and analyze vast quantities of telemetry data flowing from applications and infrastructure to monitor, troubleshoot, and optimize their software.

**Basis of Presentation** —These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the SEC on May 14, 2020 (the "Annual Report").

In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss, stockholders' equity and cash flows for the interim period, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending March 31, 2021. The condensed consolidated balance sheet as of March 31, 2020 included herein was derived from the audited financial statements as of that date.

**Use of Estimates**—The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Significant items subject to such estimates and assumptions include the fair value of share-based awards, fair value of purchased intangible assets and goodwill, fair value of debt and equity components related to the 0.5% convertible senior notes due 2023 (the "Notes"), useful lives of purchased intangible assets, unrecognized tax benefits, expected benefit period for deferred commissions, incremental borrowing rate used for operating lease liabilities, and the capitalization and estimated useful life of the Company's software development costs.

These estimates are based on information available as of the date of the consolidated financial statements; therefore, actual results could differ from management's estimates.

**COVID-19**—The worldwide spread of COVID-19 has resulted in a global slowdown of economic activity that is expected to continue and which is likely to decrease demand for a broad variety of goods and services, while also disrupting sales channels and marketing activities for an unknown period of time until the disease is contained. The Company's revenue and deferred revenue have been negatively impacted by the slowdown in activity associated with the COVID-19 pandemic for the fiscal year ending March 31, 2021, but at this point, the extent of the impact to the Company's financial condition or results of operations is uncertain, particularly as the COVID-19 pandemic continues to persist for an extended period of time, and as of the date of issuance of these financial statements, management is not aware of any specific event or circumstance that would require an update to estimates and judgments or revising the carrying value of its assets or liabilities. These estimates may change as new events occur and additional information is obtained, and will be recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to the financial statements.

**Concentration of Risk**—There was no customer that represented more than 10% of the Company's accounts receivable balance as of December 31, 2020 or March 31, 2020. There was no customer that individually exceeded 10% of the Company's revenue during the three or nine months ended December 31, 2020 or 2019.

**Revenue Recognition**—The Company generates revenue from subscription-based arrangements and usage-based arrangements that allow customers to access its products and/or platform. The Company determines revenue recognition through the following steps:

- identification of the contract, or contracts with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue, when, or as, the Company satisfies a performance obligation.

Revenue from subscription-based arrangements is recognized on a ratable basis over the contractual subscription period of the arrangement beginning when or as control of the promised goods or services is transferred to the customer.

Beginning in the second quarter of fiscal 2021, the Company started offering usage-based pricing to its customers. Customers have the option to be charged upon their incurred usage in arrears ("Pay as You Go"), or they may commit to a minimum spend over their contracted period ("Annual Pool of Funds"). Revenue related to Pay as You Go contracts are recognized based on the customers' actual usage. Revenue related to Annual Pool of Funds contracts are recognized on a ratable basis over the contract period including an estimate of the usage above the minimum commitment. The estimated usage-based revenues are constrained to the amount the Company expects to be entitled to receive in exchange for providing access to its platform.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In August 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. This ASU simplifies the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. This will result in more convertible debt instruments being accounted for as a single liability instrument and more convertible preferred stock being accounted for as a single equity instrument with no separate accounting for embedded conversion features. The ASU also simplifies the diluted earnings per share ("EPS") calculation in certain areas. This standard will be effective for the Company in the fiscal year beginning April 1, 2022; early adoption is permitted in the fiscal year beginning April 1, 2021. The Company has not yet adopted this new standard and is currently evaluating the effect the standard will have on its condensed consolidated financial statements.

**Recently Adopted Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The Company adopted this new standard on April 1, 2020. The adoption of this standard did not have a material impact on its condensed consolidated financial statements.

Under the new standard, the Company assesses credit losses on accounts receivable by taking into consideration past collection experience, credit quality of the customer, age of the receivable balance, current economic conditions, and forecasts that affect the collectability of the reported amount.

With respect to available-for-sale debt securities, the updated guidance requires that credit losses be presented as an allowance rather than as a write-down. Allowance for credit losses is recorded in other income (expense), net on the condensed consolidated statements of operations, limited by the amount that fair value is less than the amortized cost basis. Non-credit related impairment losses are reported as a separate component on the condensed consolidated statements of comprehensive loss.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the goodwill impairment test. The Company adopted this standard on April 1, 2020. The adoption of this standard did not have a material impact on its condensed consolidated financial statements or disclosures.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which amends ASC 820, Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company adopted this standard on April 1, 2020. The adoption of this standard did not have a material impact on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The Company adopted this standard on April 1, 2020. The adoption of this standard did not have a material impact on its condensed consolidated financial statements.

## 2. Business Combinations

*Pixie Labs Inc.*

On December 22, 2020, the Company acquired all of the equity interests in Pixie Labs Inc. ("Pixie Labs"), a company that provides a next-generation machine intelligence observability solution for developers using Kubernetes. The aggregate purchase price of $107.9 million consisted of approximately $45.6 million in cash (of which $15.0 million is being held in escrow for 12 months after the transaction closing date) and 884,269 shares of the Company's common stock with an aggregate fair value of approximately $62.4 million. The fair value of the consideration transferred was determined based on a $70.53 per share price of the Company's common stock.

The total purchase price was allocated to the developed technology acquired with an estimated useful life of three years, net assets assumed, and a deferred tax liability related to the developed technology. The excess purchase price was recorded as goodwill, as set forth below. Goodwill generated from the acquisition is attributable to expected synergies from future growth and is not deductible for tax purposes.

The following table presents the purchase price allocation related to the acquisition (in thousands):

| | | |
|---|---|---|
| Cash consideration paid | $ | 45,558 |
| Fair value of common shares | | 62,367 |
| Total purchase price | | 107,925 |
| Net assets assumed | | (4,099) |
| Deferred tax liabilities | | 115 |
| Developed technology acquired | | (4,800) |
| Goodwill | $ | 99,141 |

The acquisition has been accounted for as a business combination. The direct transaction costs of the acquisition have been accounted for separately from the business combination and expensed as incurred. Total direct transaction costs incurred by the Company were $0.9 million, which were included in general and administrative expenses in the Company's condensed consolidated statement of operations for the three and nine months ended December 31, 2020. The Company paid $0.6 million in acquisition-related expenses incurred by Pixie Labs related to Pixie Labs' advisors which were included as part of the purchase consideration. The business combination did not have a material impact on the condensed consolidated financial statements and therefore historical and proforma disclosures have not been presented.

The acquisition also included a holdback arrangement with certain employees of Pixie Labs, totaling approximately 736,469 shares of the Company's common stock, contingent upon their continued employment with the Company. The fair value of these awards, which are subject to the recipients' continued service, was $51.9 million and was excluded from the aggregate purchase price. These awards will be recognized as stock-based compensation expense over the remaining vesting period which ranges from 18 months to 37 months.

*IOpipe, Inc.*

On October 31, 2019, the Company acquired certain assets of IOpipe, Inc., a company that provides monitoring tools for serverless applications, for $5.1 million in cash. The Company held back approximately $0.9 million from the aggregate purchase price which has been accrued as a liability. Of the total purchase price, $1.5 million was allocated to acquired technology with an estimated useful life of three years with the excess $3.6 million of the purchase price over the fair value of the intangible assets acquired recorded as goodwill. The acquisition has been accounted for as a business combination under the acquisition method. Goodwill and other intangibles generated from the acquisition are attributable to expected synergies from future growth and potential future monetization opportunities, and are deductible for tax purposes. The business combination did not have a material impact on the condensed consolidated financial statements and therefore historical and proforma disclosures have not been presented.

## 3. Joint Venture

On July 13, 2018, the Company entered into an agreement with Japan Cloud Computing L.P. ("JCC") and M30 LLC (collectively, the Investors) to engage in the investment, organization, management and operation of New Relic K.K., a Japanese subsidiary of the Company that is focused on the sale of the Company's products and services in Japan. On August 21, 2018, the investors initially contributed approximately $3.6 million (396,000,000 Japanese Yen) in exchange for 40% of the outstanding common stock of New Relic K.K. On August 21, 2019, the Company and Investors additionally contributed approximately $1.5 million (156,000,000 Japanese Yen) and approximately $1.0 million (104,000,000 Japanese Yen), respectively, to subscribe to additional shares. As of December 31, 2020, the Company owned approximately 60% of the outstanding common stock in New Relic K.K.

All of the common stock held by the Investors may be callable by the Company or puttable by the Investors upon certain contingent events. Should the call or put option be exercised, the redemption value would be determined based on a prescribed formula derived from the discrete revenues of New Relic K.K. and the Company and may be settled, at the Company's discretion, with Company stock or cash. As a result of the put right available to the redeemable non-controlling interest holders in the future, the redeemable non-controlling interest in New Relic K.K. is classified outside of permanent equity in the Company's consolidated balance sheet as of December 31, 2020, and the balance is reported at the greater of the initial carrying amount adjusted for the redeemable non-controlling interest's share of earnings or losses, or its estimated redemption value. The resulting changes in the estimated redemption amount are recorded within retained earnings or, in the absence of retained earnings, additional paid-in-capital. The estimated redemption value of the call/put option embedded in the redeemable non-controlling interest was $0 at December 31, 2020.

The following table summarizes the activity in the redeemable non-controlling interest for the periods indicated below:

| | Nine Months Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| Balance, beginning of period | $ 1,669 | $ 2,733 |
| Investment by redeemable non-controlling interest | — | 978 |
| Net loss attributable to redeemable non-controlling interest | (1,059) | (1,437) |
| Balance, end of period | $ 610 | $ 2,274 |

## 4. Fair Value Measurements

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2020 and March 31, 2020 based on the three-tier fair value hierarchy (in thousands):

| | Fair Value Measurements as of December 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents: | | | | |
| Money market funds | $ 104,397 | $ — | $ — | $ 104,397 |
| Short-term investments: | | | | |
| Certificates of deposit | — | 33,109 | — | 33,109 |
| Commercial paper | — | 13,797 | — | 13,797 |
| Corporate notes and bonds | — | 51,585 | — | 51,585 |
| U.S. treasury securities | 474,981 | — | — | 474,981 |
| Restricted cash: | | | | |
| Money market funds | 5,662 | — | — | 5,662 |
| Total | $ 585,040 | $ 98,491 | $ — | $ 683,531 |
| Included in cash and cash equivalents | | | | $ 104,397 |
| Included in short-term investments | | | | $ 573,472 |
| Included in restricted cash | | | | $ 5,662 |

| | Fair Value Measurements as of March 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents: | | | | |
| Money market funds | $ 107,663 | $ — | $ — | $ 107,663 |
| U.S. treasury securities | 27,938 | — | — | 27,938 |
| U.S. government agencies | — | 24,999 | — | 24,999 |
| Short-term investments: | | | | |
| Certificates of deposit | — | 14,986 | — | 14,986 |
| Commercial paper | — | 13,334 | — | 13,334 |
| Corporate notes and bonds | — | 60,319 | — | 60,319 |
| U.S. treasury securities | 422,333 | — | — | 422,333 |
| U.S. government agencies | — | 1,602 | — | 1,602 |
| Restricted cash: | | | | |
| Money market funds | 5,641 | — | — | 5,641 |
| Total | $ 563,575 | $ 115,240 | $ — | $ 678,815 |
| Included in cash and cash equivalents | | | | $ 160,600 |
| Included in short-term investments | | | | $ 512,574 |
| Included in restricted cash | | | | $ 5,641 |

There were no transfers between fair value measurement levels during the nine months ended December 31, 2020 and 2019.

The Company invests in certificates of deposit, commercial paper, corporate debt securities, U.S. treasury securities, and U.S. agency securities, which are classified as available-for-sale securities. The following table presents the Company's available-for-sale securities as of December 31, 2020 (in thousands):

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Short-term investments: | | | | |
| Certificates of deposit | $ 33,100 | $ 9 | $ — | $ 33,109 |
| Commercial paper | 13,795 | 2 | — | 13,797 |
| Corporate notes and bonds | 51,147 | 438 | — | 51,585 |
| U.S. treasury securities | 472,792 | 2,226 | (37) | 474,981 |
| Total available-for-sale investments | $ 570,834 | $ 2,675 | $ (37) | $ 573,472 |

The following table presents the Company's available-for-sale securities as of March 31, 2020 (in thousands):

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Cash and cash equivalents: | | | | |
| U.S. treasury securities | $ 27,923 | $ 15 | $ — | $ 27,938 |
| U.S. government agencies | 24,995 | 4 | — | 24,999 |
| Short-term investments: | | | | |
| Certificates of deposit | 15,000 | 20 | (34) | 14,986 |
| Commercial paper | 13,318 | 16 | — | 13,334 |
| Corporate notes and bonds | 60,211 | 221 | (113) | 60,319 |
| U.S. treasury securities | 415,889 | 6,444 | — | 422,333 |
| U.S. government agencies | 1,600 | 2 | — | 1,602 |
| Total available-for-sale investments | $ 558,936 | $ 6,722 | $ (147) | $ 565,511 |

As of December 31, 2020 and March 31, 2020, securities that were in an unrealized loss position for more than 12 months were not significant. In addition, the Company did not consider any available-for-sale securities to be impaired as of December 31, 2020 and March 31, 2020.

The following table classifies the Company's available-for-sale short-term investments by contractual maturities as of December 31, 2020 and March 31, 2020 (in thousands):

| | December 31, 2020 | March 31, 2020 |
|---|---|---|
| Due within one year | $ 301,881 | $ 320,582 |
| Due after one year and within three years | 271,591 | 191,992 |
| Total | $ 573,472 | $ 512,574 |

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

**Convertible Senior Notes**

As of December 31, 2020, the fair value of the 0.50% convertible senior notes due 2023 (the "Notes") was $445.4 million. The fair value was determined based on the quoted price of the Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 in the fair value hierarchy.

**5. Contract Acquisition Costs**

The Company capitalizes certain contract acquisition costs primarily consisting of commissions. The balances of deferred costs to obtain customer contracts were $65.0 million and $60.2 million as of December 31, 2020 and March 31, 2020, respectively. In the three months ended December 31, 2020 and 2019, amortization from amounts capitalized was $9.7 million and $8.3 million, respectively. In the nine months ended December 31, 2020 and 2019, amortization from amounts capitalized was $28.2 million and $24.0 million, respectively. In the three months ended December 31, 2020 and 2019, amounts expensed as incurred were $4.4 million and $3.6 million, respectively. In the nine months ended December 31, 2020 and 2019, amounts expensed as incurred were $10.6 million and $8.2 million, respectively. The Company had no impairment loss in relation to costs capitalized.

## 6. Property and Equipment

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

| | December 31, 2020 | March 31, 2020 |
|---|---|---|
| Computers, software, and equipment | $ 14,528 | $ 13,249 |
| Site operation equipment | 101,693 | 102,316 |
| Furniture and fixtures | 5,385 | 4,802 |
| Leasehold improvements | 46,763 | 39,081 |
| Capitalized software development costs | 60,884 | 50,440 |
| Total property and equipment | 229,253 | 209,888 |
| Less: accumulated depreciation and amortization | (136,242) | (109,594) |
| Total property and equipment, net | $ 93,011 | $ 100,294 |

Depreciation and amortization expense related to property and equipment was $11.6 million and $10.2 million for the three months ended December 31, 2020 and 2019, respectively, and $33.4 million and $30.8 million for the nine months ended December 31, 2020 and 2019, respectively.

## 7. 0.5% Convertible Senior Notes and Capped Call

In May 2018, the Company issued $500.25 million in aggregate principal amount of Notes in a private offering, including an additional $65.25 million aggregate principal amount of such notes pursuant to the exercise in full of the initial purchasers' over-allotment option. The Notes are the Company's senior unsecured obligations and bear interest at a fixed rate of 0.5% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2018. The Notes will mature on May 1, 2023, unless earlier converted or repurchased. Each $1,000 principal amount of the Notes will initially be convertible into 9.02 shares of the Company's common stock (the "Conversion Option"), which is equivalent to an initial conversion price of approximately $110.81 per share. The Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding November 1, 2022, only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on September 30, 2018 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the Notes) per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the Notes on each such trading day; or (3) upon the occurrence of specified corporate events as set forth in the indenture governing the Notes. On or after November 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, in the manner and subject to the terms and conditions provided in the indenture governing the Notes. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the indenture governing the Notes. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate, in certain circumstances, for a holder who elects to convert its Notes in connection with such a corporate event. During the three and nine months ended December 31, 2020, the conditions allowing holders of the Notes to convert have not been met. The Notes were therefore not convertible during the three and nine months ended December 31, 2020 and were classified as long-term debt for such period.

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

In accounting for the debt issuance costs of $11.6 million related to the Notes, the Company allocated the total amount incurred to the liability and equity components using the same proportions as the proceeds of the Notes. Issuance costs attributable to the liability component were $9.2 million and will be amortized to interest expense using the effective interest method over the contractual term of the Notes. Issuance costs attributable to the equity component were $2.4 million and netted with the equity component in additional paid-in capital.

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

| | December 31, 2020 | March 31, 2020 |
|---|---|---|
| Principal | $ 500,250 | $ 500,250 |
| Unamortized debt discount | (51,607) | (66,894) |
| Unamortized issuance costs | (4,967) | (6,312) |
| Net carrying amount | $ 443,676 | $ 427,044 |

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Amortization of debt discount | $ 5,162 | $ 4,901 | $ 15,287 | $ 14,515 |
| Amortization of issuance costs | 460 | 413 | 1,345 | 1,203 |
| Contractual interest expense | 625 | 625 | 1,876 | 1,876 |
| Total interest expense | $ 6,247 | $ 5,939 | $ 18,508 | $ 17,594 |

In connection with the offering of the Notes, the Company entered into privately negotiated capped call transactions with certain counterparties (the “Capped Calls”). The Capped Calls each have an initial strike price of approximately $110.81 per share, subject to certain adjustments, which correspond to the initial conversion price of the Notes. The Capped Calls have initial cap prices of $173.82 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 4.5 million shares of our common stock. Conditions that cause adjustments to the initial strike price of the Capped Calls mirror conditions that result in corresponding adjustments for the Notes. The Capped Calls are generally intended to reduce potential dilution to holders of the Company’s common stock upon any conversion of the Notes and/or offset any cash payments New Relic is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders’ equity and are not accounted for as derivatives. The cost of $63.2 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital. The net impact related to stockholders’ equity has been included in additional paid-in capital and was a result of the issuance costs of $2.4 million and the purchase of capped calls noted above in the amount of $63.2 million.

## 8. Goodwill and Purchased Intangibles Assets

The changes in the carrying amount of goodwill for the nine months ended December 31, 2020 consisted of the following (in thousands):

| | |
|---|---|
| Goodwill as of March 31, 2020 | $ 45,112 |
| Goodwill acquired | 99,141 |
| Goodwill as of December 31, 2020 | $ 144,253 |

Purchased intangible assets subject to amortization as of December 31, 2020 consisted of the following (in thousands):

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Developed technology | $ 20,116 | $ (5,454) | $ 14,662 |

Purchased intangible assets subject to amortization as of March 31, 2020 consisted of the following (in thousands):

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Developed technology | $ 15,316 | $ (1,625) | $ 13,691 |

Amortization expense of purchased intangible assets was $1.2 million and $0.4 million for the three months ended December 31, 2020 and 2019, respectively, and $3.8 million and $1.3 million for the nine months ended December 31, 2020 and 2019.

Estimated future amortization expense as of December 31, 2020 was as follows (in thousands):

| Fiscal Years Ending March 31, | Estimated Future Amortization Expense |
|---|---|
| 2021 (remaining three months) | $ 1,676 |
| 2022 | 6,219 |
| 2023 | 5,567 |
| 2024 | 1,200 |
| | $ 14,662 |

**9. Leases**

The Company leases office space under non-cancelable operating leases, which expire from 2021 to 2031. All of its office leases are classified as operating leases with lease expense recognized on a straight-line basis over the lease term.

Lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As these leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company considers information including, but not limited to, the lease term, the Company's credit rating and interest rates of similar debt instruments with comparable credit ratings. The lease right-of-use assets are also increased by any lease prepayments made and reduced by any lease incentives such as tenant improvement allowances. Options to extend the lease term are included in the lease term when it is reasonably certain that the Company will exercise the extension option.

The Company’s operating leases typically include nonlease components such as common-area maintenance costs. The Company has elected to include nonlease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities, to the extent that they are fixed. Nonlease components that are not fixed are expensed as incurred as variable lease payments.

Leases with a term of one year or less are not recognized on the Company’s condensed consolidated balance sheet.

The following table presents information about leases on the condensed consolidated balance sheet (in thousands):

| | December 31, 2020 | March 31, 2020 |
|---|---|---|
| **Assets** | | |
| Lease right-of-use-assets | $ 59,475 | $ 57,777 |
| **Liabilities** | | |
| Lease liabilities | $ 5,600 | $ 8,682 |
| Lease liabilities, non-current | 62,849 | 57,394 |
| Total operating lease liabilities | $ 68,449 | $ 66,076 |

As of December 31, 2020, the weighted average remaining lease term was 6.3 years and the weighted average discount rate was 6.8%.

The following table presents information about leases on its condensed consolidated statement of operations (in thousands):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Operating lease expense | $ 3,467 | $ 3,270 | $ 10,382 | $ 10,940 |
| Short-term lease expense | 230 | 272 | 654 | 804 |
| Variable lease expense | 607 | 614 | 1,931 | 2,004 |

The following table presents supplemental cash flow information about the Company's leases (in thousands):

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Cash paid for amounts included in the measurement of lease liabilities | $ 11,632 | $ 8,277 |
| Operating lease assets obtained in exchange for new lease liabilities (1) | 8,536 | 1,586 |

(1) Includes the impact of new leases as well as remeasurements and modifications to existing leases.

As of December 31, 2020, remaining maturities of lease liabilities were as follows (in thousands):

| Fiscal Years Ending March 31, | Operating Leases |
|---|---|
| 2021 (remaining three months) | $ (277) |
| 2022 | 13,810 |
| 2023 | 14,361 |
| 2024 | 13,451 |
| 2025 | 11,792 |
| 2026 | 11,986 |
| Thereafter | 21,067 |
| Total operating lease payments | $ 86,190 |
| Less imputed interest | (17,741) |
| Total operating lease liabilities | $ 68,449 |

## 10. Commitments and Contingencies

**Purchase Commitments**—As of December 31, 2020 and March 31, 2020, the Company had purchase commitments of $515.7 million and $64.7 million, respectively, primarily related to data center, cloud and hosting services.

In September 2020, the Company entered into an agreement with a public cloud hosting provider, under which it now has a total five-year minimum commitment of $500.0 million.

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

## 11. Common Stock and Stockholders' Equity

**Employee Stock Purchase Plan**—The Company's board of directors adopted, and the Company's stockholders approved, the Company's 2014 Employee Stock Purchase Plan (the "ESPP"), which became effective in December 2014. The ESPP initially reserved and authorized the issuance of up to 1,000,000 shares of common stock. The ESPP provides that the number of shares reserved and available for issuance under the ESPP automatically increases each April, beginning on April 1, 2015, by the lesser of 500,000 shares, 1% of the number of the Company's common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company's board of directors. For the nine months ended December 31, 2020, 136,978 shares of common stock were purchased under the ESPP. For the nine months ended December 31, 2019, 117,115 shares of common stock were purchased under the ESPP. Stock-based compensation expense recognized related to the ESPP was $1.7 million and $1.4 million for the three months ended December 31, 2020 and 2019, respectively, and $4.1 million and $4.1 million for the nine months ended December 31, 2020 and 2019, respectively. As of December 31, 2020, 2,866,596 shares of common stock were available for issuance under the ESPP.

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

**2014 Equity Incentive Plan**—The Company's board of directors adopted, and the Company's stockholders approved, the Company's 2014 Equity Incentive Plan (the "2014 Plan"), which became effective in December 2014. The 2014 Plan serves as the successor to the Company's 2008 Plan. The 2014 Plan initially reserved and authorized the issuance of 5,000,000 shares of the Company's common stock. Additionally, shares not issued or subject to outstanding grants under the 2008 Plan upon its termination became available under the 2014 Plan, resulting in a total of 5,184,878 available shares under the 2014 Plan as of the effective date of the 2014 Plan. Pursuant to the terms of the 2014 Plan, any shares subject to outstanding stock options or other stock awards under the 2008 Plan that (i) expire or terminate for any reason prior to exercise or settlement, (ii) are forfeited because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company or (iii) are reacquired, withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award will become available for issuance pursuant to awards granted under the 2014 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan automatically increases each April 1, beginning on April 1, 2015, by 5% of the outstanding number of shares of the Company's common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company's board of directors. As of December 31, 2020, there were 11,831,900 shares available for issuance under the 2014 Plan.

The following table summarizes the Company's stock option, restricted stock unit ("RSU"), and performance unit ("PSU") award activities for the nine months ended December 31, 2020 (in thousands, except exercise price, contractual term and fair value information):

| | Options Outstanding | | | | RSUs and PSUs Outstanding | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value | Number of Shares | Weighted-Average Grant Date Fair Value | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
| Outstanding - April 1, 2020 | 2,850 | $ 44.52 | 6.4 | $ 43,576 | 3,100 | $ 74.20 | 2.7 | $ 143,346 |
| Stock options granted | 702 | 62.33 | | | | | | |
| RSUs and PSUs granted (1) | | | | | 2,862 | 64.18 | | |
| Stock options exercised | (332) | 10.94 | | 15,467 | | | | |
| RSUs and PSUs vested | | | | | (1,123) | 70.89 | | |
| Stock options canceled/forfeited | (209) | 75.08 | | | | | | |
| RSUs and PSUs canceled/forfeited | | | | | (735) | 72.21 | | |
| Outstanding - December 31, 2020 | 3,011 | $ 50.25 | 6.4 | $ 60,548 | 4,104 | $ 68.48 | 2.8 | $ 268,332 |

(1) The above table includes 111,965 performance unit awards.

In May 2020, the Company began issuing PSUs to certain executives. PSUs granted under the 2014 Plan are contingent upon the achievement of pre-determined market and service conditions. The number of shares of common stock to be issued at vesting will range from 0% to 200% of the target number based on the Company's total shareholder return ("TSR") relative to the performance of peer companies for each measurement period, over a one-year, two-year cumulative, and three-year cumulative period. If these market conditions are not met but service conditions are met, the PSUs will not vest; however, any stock-based compensation expense recognized to date will not be reversed. The Company uses a Monte Carlo simulation model to determine the fair value of its PSUs and recognizes expense using the accelerated attribution method over the requisite service period.

**Stock-Based Compensation Expense**—Stock-based compensation expense for employees and nonemployees was $36.5 million and $26.0 million for the three months ended December 31, 2020 and 2019, respectively, and $103.0 million and $70.5 million for the nine months ended December 31, 2020 and 2019, respectively. Cost of revenue, research and development, sales and marketing, and general and administrative expenses were as follows (in thousands):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cost of revenue | $ 1,472 | $ 1,315 | $ 4,596 | $ 3,837 |
| Research and development | 10,960 | 8,611 | 30,214 | 23,073 |
| Sales and marketing | 15,115 | 11,090 | 42,960 | 30,682 |
| General and administrative | 8,922 | 4,934 | 25,274 | 12,904 |
| Total stock-based compensation expense | $ 36,469 | $ 25,950 | $ 103,044 | $ 70,496 |

As of December 31, 2020, unrecognized stock-based compensation cost related to outstanding unvested stock options was $30.9 million, which is expected to be recognized over a weighted-average period of approximately 2.8 years. As of December 31, 2020, unrecognized stock-based compensation cost related to outstanding unvested stock units was $293.2 million, which is expected to be recognized over a weighted-average period of approximately 2.8 years. As of December 31, 2020, unrecognized stock-based compensation cost related to PSUs was $6.7 million, which is expected to be recognized over a weighted-average period of approximately 2.2 years.

## 12. Accounts Receivable, Deferred Revenue and Performance Obligations

In a response to the COVID-19 pandemic, the Company performed additional procedures to evaluate the creditworthiness of its customers and assess collectability of accounts. Using a current expected credit loss model, the Company determined that, while there may be a delay in collections due to the downturn in economic activity, there has not been a material impact to the risk of credit loss on accounts receivables as of December 31, 2020.

The following table presents the changes to the Company's deferred revenue (in thousands):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Deferred revenue, beginning of period | $ 275,598 | $ 233,215 | $ 316,327 | $ 271,597 |
| Billings | 194,173 | 156,820 | 482,083 | 405,263 |
| Revenue recognized | (166,340) | (153,028) | (494,979) | (439,853) |
| Deferred revenue, end of period | $ 303,431 | $ 237,007 | $ 303,431 | $ 237,007 |

For the three and nine months ended December 31, 2020 and 2019, the majority of revenue recognized was from the deferred revenue balances at the beginning of each period.

The aggregate unrecognized transaction price of remaining performance obligations as of December 31, 2020 was $648.3 million. The Company expects to recognize more than 91% of the balance as revenue in the 24 months following December 31, 2020 and the remainder thereafter. The aggregate balance of remaining performance obligations represents contracted revenue that has not yet been recognized and does not include contract amounts which are cancellable by the customer and amounts associated with optional renewal periods.

## 13. Income Taxes

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

The Company recorded an income tax provision of $0.6 million and $0.9 million for the three months ended December 31, 2020 and 2019, respectively, and an income tax provision of $1.3 million and $1.5 million for the nine months ended December 31, 2020 and 2019, respectively, related to foreign income taxes, research tax credits, and the tax benefit from the acquisition of Pixie Labs related to the partial release of valuation allowance. Based on the available objective evidence during the three and nine months ended December 31, 2020, the Company believes it is more likely than not that the tax benefits of U.S. and Japan losses incurred during the three and nine months ended December 31, 2020 may not be realized. Accordingly, the Company did not record the tax benefits of U.S. and Japan losses incurred during the three and nine months ended December 31, 2020. The primary difference between the effective tax rate and the statutory tax rate relates to the valuation allowance on the U.S. and Japan losses, foreign tax rate differences, generation of research tax credits, and the tax benefit from the acquisition of Pixie Labs.

## 14. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee share-based awards and warrants. Diluted net loss per share is computed giving effect to all potential dilutive common shares, including common stock issuable upon exercise of stock options and unvested restricted common stock. As the Company had net losses for each of the three and nine months ended December 31, 2020 and 2019, all potential common shares were determined to be anti-dilutive, resulting in basic and diluted net loss per share being equal. Additionally, the 4.5 million shares underlying the conversion option in the Notes were not considered in the calculation of diluted net loss per share as the effect would be anti-dilutive. The Notes were not convertible as of December 31, 2020. The Company expects to settle the principal amount of the Notes in cash and therefore will use the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable.

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator: | | | | |
| Net loss attributable to New Relic | $ (53,626) | $ (27,195) | $ (130,933) | $ (60,978) |
| Denominator: | | | | |
| Weighted average shares used to compute net loss per share, basic and diluted | 61,209 | 58,733 | 60,562 | 58,352 |
| Net loss attributable to New Relic per share—basic and diluted | $ (0.88) | $ (0.46) | $ (2.16) | $ (1.05) |

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

| | As of December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Options to purchase common stock | 3,011 | 3,043 |
| RSUs and PSUs | 4,104 | 3,250 |
| ESPP shares | 144 | 132 |
| | 7,259 | 6,425 |

## 15. Revenue by Geographic Location

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| United States | $ 114,102 | $ 103,673 | $ 341,458 | $ 299,544 |
| EMEA | 26,459 | 27,121 | 77,903 | 78,024 |
| APAC | 16,013 | 14,033 | 46,276 | 39,181 |
| Other | 9,766 | 8,201 | 29,342 | 23,104 |
| Total revenue | $ 166,340 | $ 153,028 | $ 494,979 | $ 439,853 |

Substantially all of the Company's long-lived assets were attributable to operations in the United States as of December 31, 2020 and March 31, 2020.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that could impact our business. In particular, we encourage you to review the risks and uncertainties described in Part II, Item 1A "Risk Factors" included elsewhere in this report. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Forward-looking statements are statements that attempt to forecast or anticipate future developments in our business, financial condition or results of operations. See the section titled "Special Note Regarding Forward-Looking Statements" in this report. These statements, like all statements in this report, speak only as of their date (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments, except as required by law.*

### Overview

New Relic provides a strategic observability platform that companies use to build, develop, and operate their digital businesses. Our mission is to instrument, measure, and improve the Internet to help our customers create more perfect software, experiences, and businesses. Our observability platform enables users to collect, store, and analyze vast quantities of telemetry data from applications and infrastructure to monitor, troubleshoot, and optimize their software.

We offer our customers a fully integrated SaaS-based solution that provides visibility into every layer of the modern software stack, from application performance to infrastructure health to the end-user experience. Our cloud-based observability platform is open and connected, with out-of-the-box curated experiences for our customers, enabling them to scale to meet the ever-changing needs of their businesses. In addition, our platform is programmable, which allows users to go beyond our curated experiences to build dashboards, visualizations and applications unique to their data and business workflows.

We employ a land, expand, and standardize go-to-market strategy, which combines grassroots user adoption with both customized low-touch and high-touch sales approaches. We often land in new accounts to support grassroots projects, and because our products are easy to get started with, users and teams often grow our footprint within their companies, as they increase the number of applications monitored and expand their use of our products. This allows customers to develop into accounts with hundreds of users across multiple roles, each accessing terabytes of operational data through the New Relic One Platform to deliver real-time visibility into the operations of their digital business.

Our revenue for the three months ended December 31, 2020 and 2019 was $166.3 million and $153.0 million, respectively, representing year-over-year growth of 9%. For the nine months ended December 31, 2020 and 2019, our revenue was $495.0 million and $439.9 million, respectively, representing year-over-year growth of 13%. Although we have experienced substantial revenue growth in historical periods, we have had difficulty maintaining our historical growth rates as our business has scaled, even in the periods where our revenue grew in absolute terms. Meanwhile, 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 attributable to New Relic of $53.6 million and $27.2 million for the three months ended December 31, 2020 and 2019, respectively, and $130.9 million and $61.0 million for the nine months ended December 31, 2020 and 2019, respectively. Our accumulated deficit as of December 31, 2020 was $525.4 million.

Internationally, we currently offer our products in Europe, the 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 16%, 9%, and 6%, respectively, of our revenue for the three months ended December 31, 2020, and 18%, 9%, and 5%, respectively, of our revenue for the three months ended December 31, 2019. Our revenue from those regions constituted 16%, 9% and 6%, respectively, of our revenue for the nine months ended December 31, 2020, and 18%, 9%, and 5%, respectively, of our revenue for the nine months ended December 31, 2019. We believe there is an 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 2,217 employees as of December 31, 2020 from 2,043 as of December 31, 2019, 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. In addition, we plan to continue to invest in research and development to enhance and further develop our products and platform capabilities.

The COVID-19 pandemic continues to affect the U.S. and the world and has resulted in authorities implementing numerous measures to contain the virus. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will continue to depend on certain developments, including the duration of the pandemic; impact on our customers and our sales cycles; impact on our customer, employee, and industry events; impact on our employee recruitment and attrition; and effect on our vendors, all of which remain uncertain and cannot be predicted at this time.

More generally, the COVID-19 pandemic is still adversely affecting economies and financial markets globally, and has led to an economic downturn and increased market volatility, with an uncertain effect upon technology spending and demand for our offerings, which may harm our business and results of operations. For example, for the nine months ended December 31, 2020, the COVID-19 pandemic has negatively impacted expected spending from new and existing customers and has resulted in a portion of our paid customers choosing to renew with a smaller commitment than previous contracts. We will continue to actively monitor the situation and have taken and may take further actions that alter our business operations as may be required or recommended by federal, state, or local authorities, or that we determine are in the best interests of our employees, customers, partners, suppliers, and stockholders. We have seen and currently expect our revenue and deferred revenue to be negatively impacted by the slowdown in activity associated with the COVID-19 pandemic for the fiscal year ending March 31, 2021, but at this point, the extent of any continuing impact to our financial condition or results of operations, including cash flows, is uncertain, particularly as the COVID-19 pandemic continues to persist for an extended period of time. Furthermore, due to our historical reliance upon a subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. Other factors affecting our performance are discussed below, although we caution you that the COVID-19 pandemic may also further impact these factors.

In addition, on July 30, 2020, we announced an updated pricing strategy that prices customer spend based upon their consumption; customers may be charged upon their usage in arrears, which we refer to as “Pay as You Go,” or they may commit to a minimum spend over their contracted period in exchange for a discount on their usage pricing, which we refer to as “Annual Pool of Funds.” Consumption under this model is measured by the number of users and data ingested into our system, thereby collapsing what had previously been a number of different products priced in individualized ways into a simplified strategy that is intended to drive consumption across our platform. Although we expect, in the near term, that this transition will have a negative impact on our results of operations and our key operating metrics for the reasons described below, we believe that this pricing model transition will increase customer adoption and allow us to better retain and expand within our paid business accounts over the long term, and thereby have a positive impact on sales and marketing productivity. However, due to our historical reliance upon a subscription-based business model, improvement in the market adoption of our products due to this pricing model transition would not be fully reflected in our results of operations until future periods.

## Factors Affecting Our Performance

*Market Adoption of Our Platform*. Our success, including our rate of customer expansions and renewals, is dependent on the market adoption of our platform. With the introduction of new technologies, the evolution of our platform and new market entrants, competition has intensified and we expect competition to intensify in the future. We employ a land, expand, and standardize business model centered around offering a platform that is open, connected and programmable. We believe that we have built a highly differentiated platform and we intend to continue to invest in building additional offerings, features and functionality that expand our capabilities and facilitate the extension of our platform to new use cases. We also intend to continue to evaluate strategic acquisitions and investments in businesses and technologies to drive product and market expansion. Our ability to improve market adoption of our platform will also depend on a number of other factors, including the competitiveness and pricing of our products, offerings of our competitors, success of international expansion, and effectiveness of our sales and marketing efforts. With the shift in our pricing strategy, which will now rely primarily upon a per-user license fee and payment based on the quantity of data ingested, we will be more closely tying our revenue to the usage of our platform. Together with our new pricing strategy, we also launched a new, robust free tier and improved self-service capabilities, which we expect to result in a material increase to our marketing opportunities in converting free users into new paying customers.

*Retention of and Expansion within Paid Business Accounts.* A key factor in our success is the retention and expansion of our platform usage with our existing customers. In order for us to continue to grow our business, it is important to generate additional revenue from our existing customers, and we intend to do this in several ways. As we improve our existing products and platform capabilities and introduce new products, we believe that the demand for our products will generally grow. We also believe that there is a significant opportunity for us to increase our revenue from sales to our current customers as they become more familiar with our products and adopt our products to address additional business use cases. In addition, we believe the shift in our pricing strategy will allow sales resources to focus energy on helping customers increase their data ingestion and the number of users and use cases.

## Key Operating Metrics

The pricing changes announced in the second quarter of fiscal 2021 shifted our business model away from a reliance upon subscription-based revenue to a reliance upon consumption-based revenue.

A key financial indicator when employing a subscription-based model is annual recurring revenue, or ARR, which is the revenue that we would expect to receive from our customers over the following 12-month period without any increase or reduction in any of the customer's contractual commitments. In a consumption model, customers can pay as they use the product, without any up-front commitment. Therefore, ARR, which is based on commitments, does not capture actual usage, also known as consumption. We expect a meaningful amount of revenue will be recognized from customers under our Annual Pool of Funds consumption model, where consumption in excess of the committed contractual amount will result in additional revenue. Meanwhile, the Pay as You Go component of the consumption model does not have an up-front commitment at all. In either of these consumption-based engagements, the revenue committed at the outset of a contractual engagement is not necessarily determinative of the revenue the company will ultimately receive from the customer. Therefore, as the overall portion of revenue derived from subscription model contracts decreases, the associated subscription-based metrics that rely upon ARR become less relevant as a measure of the performance of the business.

As we conclude fiscal 2021, our focus will have shifted away from legacy subscription model contracts to new consumption model contracts. As such, with the completion of fiscal 2021, we will retire ARR and all of our traditional subscription-based key operating metrics that rely upon ARR. In place of ARR and ARR derived metrics, we will provide metrics that we believe provide better insight into our business now that we are entering into contracts that rely primarily upon consumption-based revenue instead.

In the meantime, however, a significant portion of our overall revenue continues to be derived from our subscription-based contracts that remain in our install base. Therefore, with these caveats, 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:

*Annual Recurring Revenue.* Our ARR as of December 31, 2020 was $668.7 million, which was a 10% increase compared to $607.9 million as of December 31, 2019.

As noted above, we only recognize as ARR the committed contractual amount for customers under the Annual Pool of Funds model; therefore, ARR does not include contracts under the Pay as You Go model. We expect our pricing transition to result in significant downward pressure on ARR through the remainder of our fiscal year as customers take advantage of our new pricing model, which may result in the choice of smaller up-front commitments in favor of spending on actual consumption in excess of committed amounts. We believe these pricing model changes, which rely upon a consumption model, will result in higher revenue as market adoption of our platform and new pricing model grows over time.

ARR should be viewed independently of historical revenue as the operating metric is not intended to be a replacement for revenue forecasts.

*Number of Paid Business Accounts with ARR over $100,000*. We believe that the acquisition of larger accounts within our overall customer base, as well as expansion within our existing paid business accounts, are important indicators of our overall business. We have in part measured our performance in these areas with reference to our number of paid business accounts with ARR over $100,000. We define the number of paid business accounts at the end of any particular period as the number of accounts, 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 had 1,051 paid business accounts with ARR over $100,000 as of December 31, 2020, which was a 13% increase compared to 927 as of December 31, 2019.

*Percentage of ARR from Paid Business Accounts with ARR over $100,000*. Historically, paid business accounts with ARR over $100,000 have generally had a materially higher rate of renewal than paid business accounts with ARR less than $100,000. We therefore believe that the percentage of our total ARR that comes from paid business accounts with ARR over $100,000 is a key indicator, as our ability to increase and retain paid business accounts in this category of spend will have a significant impact on our overall financial performance and key operating metrics.

Our percentage of ARR from paid business accounts with ARR over $100,000 was 79% as of December 31, 2020, compared to 72% as of December 31, 2019.

*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 have tracked our performance in this area for our subscription-based revenue by measuring our dollar-based net expansion rate. Our dollar-based net expansion rate increases when customers increase their contractual spend amounts. Our dollar-based net expansion rate is reduced when customers decrease or terminate their contractual spend amounts.

Our dollar-based net expansion rate compares the commitments we have secured for recurring revenue from customers from one period to the next, and therefore does not include any reference or adjustments for consumption. We measure our dollar-based net expansion rate on a monthly basis because many of our customers have changed their commitment 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 commitments. For contracts entered into under our new pricing model announced on July 30, 2020, we calculate each customer's monthly recurring revenue as their ARR divided by twelve. 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.

Our annualized dollar-based net expansion rate decreased to 107.6% for the three-month period ended December 31, 2020 from 109.1% for the three-month period ended December 31, 2019. As a metric that is derived from ARR, we expect our pricing transition to result in significant downward pressure on our annualized dollar-based net expansion rate through the remainder of our fiscal year as customers take advantage of our new pricing model, which may result in the choice of smaller up-front commitments in favor of spending on actual consumption in excess of committed amounts.

## Key Components of Results of Operations

***Revenue***

For the period presented, we offer access to our products and/or platform under subscription and usage-based 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. Our plans typically have terms of one year, although some of our customers commit for shorter or longer periods.

Most of our revenue comes from contracts that are non-cancellable over the contract term. We had remaining performance obligations, or backlog, in the amount of $648.3 million and $635.2 million as of December 31, 2020 and March 31, 2020, respectively, consisting of both billed and unbilled consideration.

Deferred revenue consists of billings or payments received in advance of revenue being recognized, and can fluctuate with changes in billing frequency and other factors. As a result of 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 in that period.

The first two quarters of each fiscal year usually have lower or potentially negative sequential backlog and 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 have seen 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, as a significant portion of our overall revenue continues to be derived from our subscription-based contracts that remain in our install base, which can make it difficult to achieve sequential growth in certain financial metrics or could result in sequential declines on a quarterly basis.

With our shift in pricing strategy, we may experience additional variation from the seasonality trends we have seen in the past for revenue, backlog, and deferred revenue. Our shift to a consumption model will allow our customers to choose lower up-front commitments and to instead pay for their consumption in excess of their commitments. Should this occur as we expect, it may exhibit downward pressure on our backlog and deferred revenue. Meanwhile, in the event our customers' consumption usage exceeds their up-front commitments in a meaningful amount, we would expect to see a step up in revenue growth.

In addition, our revenue and deferred revenue in fiscal 2021 have been negatively impacted by the slowdown in activity associated with the COVID-19 pandemic as well as by our change in pricing strategy announced on July 30, 2020. Due to our historical reliance upon a subscription-based business model, the effects of the COVID-19 pandemic to date were not fully reflected in our results of operations until later periods. Meanwhile, although we have seen indications of improved market acceptance of our platform and new pricing strategy, due to our historical reliance upon a subscription-based business model, improvement in the market adoption of our products due to this pricing model transition would also not be fully reflected in our results of operations until future periods.

Further, in the past, we have experienced end-of-quarter concentration of our transactions and variations in the number and size of transactions that close in a particular quarter. Our transactions vary by quarter, and within each quarter, a significant portion of our transactions typically close in the last two weeks of that quarter. If we are unable to close one or more large individual transactions in a particular period, or if an expected transaction is delayed until a subsequent period, we expect that our results of operations for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be harmed.

***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. Additionally, we are continuing to build out services and functionality in the public cloud with a view to migrating our entire platform over time from third-party data center hosting facilities to public cloud hosting providers. This public cloud migration has resulted and will continue to result in increased costs in the short term as we maintain our data center operations.

***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. Although we expect our gross margin to fluctuate from period to period as a result of these factors, our recent public cloud migration and, to a lesser extent, our pricing transition, have contributed to lower gross margins and we expect to continue to experience additional downward pressure on margins in the short-term.

***Operating Expenses***

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

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

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

*Sales and Marketing.* Sales and marketing expenses consist of personnel costs for our sales, marketing, and business development employees and executives. Commissions are considered incremental and recoverable costs of acquiring customer contracts. These costs are capitalized and amortized on a straight-line basis over the anticipated period of benefit. Sales and marketing expenses also include the costs of our marketing and brand awareness programs, including our free tier offering.

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. As a result, we expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our general and administrative expenses to decrease modestly as a percentage of our revenue over the long term, although our general and administrative expense may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our general and administrative expenses, such as litigation costs.

***Other Income (Expense)***

Other income (expense) consists primarily of interest income, interest expense, and foreign exchange gains and losses and gains on lease modifications.

**Results of Operations**

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (in thousands, except per share amounts) | | | |
| Revenue | $ 166,340 | $ 153,028 | $ 494,979 | $ 439,853 |
| Cost of revenue (1) | 45,968 | 26,402 | 124,439 | 75,164 |
| Gross profit | 120,372 | 126,626 | 370,540 | 364,689 |
| Operating expenses: | | | | |
| Research and development (1) | 45,773 | 38,387 | 131,245 | 106,858 |
| Sales and marketing (1) | 92,392 | 87,704 | 266,906 | 244,711 |
| General and administrative (1) | 30,249 | 24,751 | 89,481 | 71,129 |
| Total operating expenses | 168,414 | 150,842 | 487,632 | 422,698 |
| Loss from operations | (48,042) | (24,216) | (117,092) | (58,009) |
| Other income (expense): | | | | |
| Interest income | 1,734 | 3,793 | 6,735 | 11,944 |
| Interest expense | (6,229) | (5,953) | (18,549) | (17,660) |
| Other income (expense), net | (811) | (465) | (1,810) | 2,828 |
| Loss before income taxes | (53,348) | (26,841) | (130,716) | (60,897) |
| Income tax provision | 564 | 894 | 1,276 | 1,518 |
| Net loss | $ (53,912) | $ (27,735) | $ (131,992) | $ (62,415) |
| Net loss attributable to redeemable non-controlling interest | 286 | 540 | 1,059 | 1,437 |
| Net loss attributable to New Relic | $ (53,626) | $ (27,195) | $ (130,933) | $ (60,978) |
| Net loss attributable to New Relic per share, basic and diluted | $ (0.88) | $ (0.46) | $ (2.16) | $ (1.05) |
| Weighted-average shares used to compute net loss per share, basic and diluted | 61,209 | 58,733 | 60,562 | 58,352 |

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (in thousands) | | | |
| Cost of revenue | $ 1,472 | $ 1,315 | $ 4,596 | $ 3,837 |
| Research and development | 10,960 | 8,611 | 30,214 | 23,073 |
| Sales and marketing | 15,115 | 11,090 | 42,960 | 30,682 |
| General and administrative | 8,922 | 4,934 | 25,274 | 12,904 |
| Total stock-based compensation expense | $ 36,469 | $ 25,950 | $ 103,044 | $ 70,496 |

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (as a percentage of revenue) | | | |
| Revenue | 100 % | 100 % | 100 % | 100 % |
| Cost of revenue (1) | 28 | 17 | 25 | 17 |
| Gross profit | 72 | 83 | 75 | 83 |
| Operating expenses: | | | | |
| Research and development (1) | 27 | 25 | 26 | 24 |
| Sales and marketing (1) | 56 | 57 | 54 | 56 |
| General and administrative (1) | 18 | 16 | 18 | 16 |
| Total operating expenses | 101 | 98 | 98 | 96 |
| Loss from operations | (29) | (15) | (23) | (13) |
| Other income (expense): | | | | |
| Interest income | 1 | 2 | 1 | 2 |
| Interest expense | (4) | (4) | (4) | (4) |
| Other income (expense), net | — | — | — | 1 |
| Loss before income taxes | (32) | (17) | (26) | (14) |
| Income tax provision | — | 1 % | — % | — % |
| Net loss | (32)% | (18)% | (26)% | (14)% |
| Net loss attributable to redeemable non-controlling interest | — | — | — | — |
| Net loss attributable to New Relic | (32)% | (18)% | (26)% | (14)% |

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (as a percentage of revenue) | | | |
| Cost of revenue | 1 % | 1 % | 1 % | 1 % |
| Research and development | 7 | 6 | 6 | 5 |
| Sales and marketing | 9 | 7 | 9 | 7 |
| General and administrative | 5 | 3 | 5 | 3 |
| Total stock-based compensation expense | 22 % | 17 % | 21 % | 16 % |

***Revenue***

| | Three Months Ended December 31, | | Change | | Nine Months Ended December 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | Amount | % | 2020 | 2019 | Amount | % |
| | (dollars in thousands) | | | | | | | |
| United States | $ 114,102 | $ 103,673 | $ 10,429 | 10 % | $ 341,458 | $ 299,544 | $ 41,914 | 14 % |
| EMEA | 26,459 | 27,121 | (662) | (2) | 77,903 | 78,024 | (121) | — |
| APAC | 16,013 | 14,033 | 1,980 | 14 | 46,276 | 39,181 | 7,095 | 18 |
| Other | 9,766 | 8,201 | 1,565 | 19 | 29,342 | 23,104 | 6,238 | 27 |
| Total revenue | $ 166,340 | $ 153,028 | $ 13,312 | 9 % | $ 494,979 | $ 439,853 | $ 55,126 | 13 % |

Total revenue increased $13.3 million, or 9%, in the three months ended December 31, 2020 compared to the same period of 2019. Our revenue from the United States increased $10.4 million, or 10%, and our revenue from APAC increased $2.0 million, or 14%, in the three months ended December 31, 2020 compared to the same period of 2019, primarily as a result of an increase in product adoption from both new paid business accounts and existing paid business accounts. Our revenue from EMEA remained relatively flat in the three months ended December 31, 2020 compared to the same period of 2019.

Total revenue increased $55.1 million, or 13%, in the nine months ended December 31, 2020 compared to the same period of 2019. Our revenue from the United States increased $41.9 million, or 14%, and our revenue from APAC increased $7.1 million, or 18%, in the nine months ended December 31, 2020 compared to the same period of 2019, primarily as a result of an increase in product adoption from both new paid business accounts and existing paid business accounts. Our revenue from EMEA remained relatively flat in the nine months ended December 31, 2020 compared to the same period of 2019.

***Cost of Revenue***

| | Three Months Ended December 31, | | Change | | Nine Months Ended December 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | Amount | % | 2020 | 2019 | Amount | % |
| | | | | (dollars in thousands) | | | | |
| Cost of revenue | $ 45,968 | $ 26,402 | $ 19,566 | 74 % | $ 124,439 | $ 75,164 | $ 49,275 | 66 % |

Cost of revenue increased $19.6 million, or 74%, in the three months ended December 31, 2020 compared to the same period of 2019. The increase was primarily a result of an increase in hosting-related costs of $17.8 million as a result of the additional expenses incurred in connection with our public cloud migration. The remaining increase was due to an increase in depreciation expense and amortization expense of $2.0 million primarily as a result of site equipment at our third-party data centers. This was partially offset by a decrease in payment processing fees of $0.1 million and a decrease in other miscellaneous expenses of $0.1 million.

Cost of revenue increased $49.3 million, or 66%, in the nine months ended December 31, 2020 compared to the same period of 2019. The increase was primarily a result of an increase in hosting-related costs of $41.3 million as a result of the additional expenses incurred in connection with our public cloud migration. The remaining increase was due to an increase in depreciation expense and amortization expense of $7.9 million primarily as a result of site equipment at our third-party data centers and an increase in personnel-related costs of $0.9 million. This was partially offset by a decrease in payment processing fees of $0.3 million and a decrease in other miscellaneous expenses of $0.5 million.

***Research and Development***

| | Three Months Ended December 31, | | Change | | Nine Months Ended December 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | Amount | % | 2020 | 2019 | Amount | % |
| | | | | (dollars in thousands) | | | | |
| Research and development | $ 45,773 | $ 38,387 | $ 7,386 | 19 % | $ 131,245 | $ 106,858 | $ 24,387 | 23 % |

Research and development expenses increased $7.4 million, or 19%, in the three months ended December 31, 2020 compared to the same period of 2019. The increase was primarily a result of an increase in personnel-related costs of $5.0 million driven by an increase in headcount. The remaining increase was due to a $3.1 million increase in software subscription and consulting expenses. This was partially offset by a decrease in travel expenses of $0.8 million due to global travel restrictions and stay-at-home or similar orders in effect as a result of the COVID-19 pandemic.

Research and development expenses increased $24.4 million, or 23%, in the nine months ended December 31, 2020 compared to the same period of 2019. The increase was primarily the result of an increase in personnel-related costs of $19.6 million, driven by an increase in headcount. The remaining increase was due to a $8.0 million increase in software subscription and consulting expenses. This was partially offset by a decrease in travel expenses of $3.3 million due to global travel restrictions and stay-at-home or similar orders in effect as a result of the COVID-19 pandemic.

***Sales and Marketing***

| | Three Months Ended December 31, | | Change | | Nine Months Ended December 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | Amount | % | 2020 | 2019 | Amount | % |
| | | | | (dollars in thousands) | | | | |
| Sales and marketing | $ 92,392 | $ 87,704 | $ 4,688 | 5 % | $ 266,906 | $ 244,711 | $ 22,195 | 9 % |

Sales and marketing expenses increased $4.7 million, or 5%, in the three months ended December 31, 2020 compared to the same period of 2019. The increase was primarily a result of an increase in personnel-related costs of $9.1 million, driven by higher headcount and an increase in sales commissions due to revenue growth. The remaining increase was due to a $1.9 million increase in allocated costs, including facilities, depreciation and costs associated with our free tier offering, and a $0.3 million increase in software subscription and consulting expenses. This was partially offset by a decrease in travel expenses of $5.1 million due to global travel restrictions and stay-at-home or similar orders in effect as a result of the COVID-19 pandemic and a $1.7 million decrease in marketing programs.

Sales and marketing expenses increased $22.2 million, or 9%, in the nine months ended December 31, 2020 compared to the same period of 2019. The increase was primarily a result of an increase in personnel-related costs of $35.3 million, driven by higher headcount and an increase in sales commissions due to revenue growth. The remaining increase was due to a $1.0 million increase in allocated costs, including facilities, depreciation and costs associated with our free tier offering, and a $0.6 million increase in software subscription and consulting expenses. This was partially offset by a decrease in travel expenses of $14.4 million due to global travel restrictions and stay-at-home or similar orders in effect as a result of the COVID-19 pandemic and a $0.5 million decrease in marketing programs.

***General and Administrative***

| | Three Months Ended December 31, | | Change | | Nine Months Ended December 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | Amount | % | 2020 | 2019 | Amount | % |
| | (dollars in thousands) | | | | | | | |
| General and administrative | $ 30,249 | $ 24,751 | $ 5,498 | 22 % | $ 89,481 | $ 71,129 | $ 18,352 | 26 % |

General and administrative expenses increased $5.5 million, or 22%, in the three months ended December 31, 2020 compared to the same period of 2019. The increase was primarily a result of an increase in personnel-related costs of $5.5 million, driven by an increase in headcount. The remaining increase was due to a $1.0 million increase in legal and accounting expenses and a $0.3 million increase in software subscription and consulting expenses. This was partially offset by a decrease in travel expenses of $1.2 million due to global travel restrictions and stay-at-home or similar orders in effect as a result of the COVID-19 pandemic and a $0.3 million decrease in allocated costs, including facilities and depreciation.

General and administrative expenses increased $18.4 million, or 26%, in the nine months ended December 31, 2020 compared to the same period of 2019. The increase was primarily a result of an increase in personnel-related costs of $22.1 million, driven by an increase in headcount. The remaining increase was due to a $0.6 million increase in software subscription and consulting expenses and a $0.3 million increase in legal and accounting expenses. This was partially offset by a $2.1 million decrease in allocated costs, including facilities and depreciation, and a decrease in travel expenses of $2.8 million due to global travel restrictions and stay-at-home or similar orders in effect as a result of the COVID-19 pandemic.

***Other Income (Expense)***

| | Three Months Ended December 31, | | Change | | Nine Months Ended December 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | Amount | % | 2020 | 2019 | Amount | % |
| | (dollars in thousands) | | | | | | | |
| Other income (expense) | $ (5,306) | $ (2,625) | $ (2,681) | 102 % | $ (13,624) | $ (2,888) | $ (10,736) | 372 % |

Other income (expense) decreased by $2.7 million in the three months ended December 31, 2020 compared to the same period of 2019. The decrease was primarily due to a decrease in interest income.

Other income (expense) decreased by $10.7 million in the nine months ended December 31, 2020 compared to the same period of 2019, primarily due to a $3.0 million lease modification gain recognized in the prior period and a decrease in interest income.

## Non-GAAP Financial Measures

### *Non-GAAP (Loss) Income From Operations*

To supplement our consolidated financial statements presented in accordance with GAAP, we provide investors with certain non-GAAP financial measures, including non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic. We define non-GAAP income (loss) from operations and non-GAAP net income attributable to New Relic as the respective GAAP balance, adjusted for, as applicable: (1) stock-based compensation expense, (2) lease exit costs and accelerated depreciation, (3) amortization of stock-based compensation capitalized in software development costs, (4) the amortization of purchased intangibles, (5) employer payroll tax expense on equity incentive plans and (6) amortization of debt discount and issuance costs, and in certain periods, (7) the transaction costs related to acquisitions (8) lawsuit litigation cost and other expense, and (9) gain or loss from lease modification. We use non-GAAP financial measures, including non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic, internally to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate our financial performance. In addition, our bonus opportunity for eligible employees and executives is based in part on non-GAAP income (loss) from operations.

We believe these measures are useful to investors, as a supplement to GAAP measures, in evaluating our operational performance. We have provided below a reconciliation of GAAP loss from operations to non-GAAP income (loss) from operations and a reconciliation of GAAP net loss attributable to New Relic to non-GAAP net income (loss) attributable to New Relic. We believe non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic are useful to investors and others in assessing our operating performance due to the following factors:

*Stock-based compensation expense and amortization of stock-based compensation capitalized in software development costs*. We utilize share-based compensation to attract and retain employees. It is principally aimed at aligning their interests with those of our 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.

*Lease exit costs and accelerated depreciation.* In fiscal 2020, we entered into an agreement to exit the lease of our 123 Mission premises in San Francisco, California. In connection with this agreement and subsequent relocation, we accelerated depreciation and other expenses associated with the remaining lease term. We believe it is useful to exclude this depreciation and these other expenses because we do not consider such amounts to be part of the ongoing operation of our business.

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

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

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

*Gain or loss from lease modification*. We may incur a gain or loss from modification related to lease agreements. 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 benefit or charge from such events.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP and may 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 tables present our non-GAAP income (loss) from operations and our non-GAAP net income (loss) attributable to New Relic and reconcile our GAAP loss from operations to non-GAAP income (loss) from operations and our GAAP net loss attributable to New Relic to our non-GAAP net income (loss) attributable to New Relic for the three and nine months ended December 31, 2020 and 2019 (in thousands):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **GAAP loss from operations** | $ (48,042) | $ (24,216) | $ (117,092) | $ (58,009) |
| Plus: Stock-based compensation expense | 36,469 | 25,950 | 103,044 | 70,496 |
| Plus: Lease exit costs and accelerated depreciation | — | — | — | 3,641 |
| Plus: Amortization of purchased intangibles | 1,277 | 415 | 3,829 | 1,295 |
| Plus: Transaction costs related to acquisitions | 885 | 251 | 885 | 251 |
| Plus: Amortization of stock-based compensation capitalized in software development costs | 339 | 219 | 843 | 653 |
| Plus: Lawsuit litigation cost and other expense | 217 | — | 254 | 1,521 |
| Plus: Employer payroll tax on employee equity incentive plans | 461 | 382 | 2,120 | 1,686 |
| **Non-GAAP income (loss) from operations** | $ (8,394) | $ 3,001 | $ (6,117) | $ 21,534 |

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **GAAP net loss attributable to New Relic** | $ (53,626) | $ (27,195) | $ (130,933) | $ (60,978) |
| Plus: Stock-based compensation expense | 36,469 | 25,950 | 103,044 | 70,496 |
| Plus: Lease exit costs and accelerated depreciation | — | — | — | 3,641 |
| Plus: Amortization of purchased intangibles | 1,277 | 415 | 3,829 | 1,295 |
| Plus: Transaction costs related to acquisitions | 885 | 251 | 885 | 251 |
| Plus: Amortization of stock-based compensation capitalized in software development costs | 339 | 219 | 843 | 653 |
| Plus: Lawsuit litigation cost and other expense | 217 | — | 254 | 1,521 |
| Plus: Employer payroll tax on employee equity incentive plans | 461 | 382 | 2,120 | 1,686 |
| Plus: Amortization of debt discount and issuance costs | 5,622 | 5,314 | 16,632 | 15,718 |
| Less: Gain on lease modification | — | — | — | (3,006) |
| **Non-GAAP net income (loss) attributable to New Relic** | $ (8,356) | $ 5,336 | $ (3,326) | $ 31,277 |

Non-GAAP income (loss) from operations and non-GAAP net income (loss) attributable to New Relic for the periods presented reflects the same trends discussed above in “Results of Operations.” Although we have generated non-GAAP income from operations and non-GAAP net income attributable to New Relic in past quarters, we expect to remain in a loss position in the near future as we continue to incur additional expenses during our public cloud migration.

## Liquidity and Capital Resources

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (in thousands) | |
| Cash provided by operating activities | $ 41,385 | $ 31,666 |
| Cash used in investing activities | (132,868) | (103,079) |
| Cash provided by financing activities | 10,126 | 12,888 |
| Net decrease in cash, cash equivalents and restricted cash | $ (81,357) | $ (58,525) |

To date, we have financed our operations primarily through the issuance of the Notes, private and public equity financings and customer payments. 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 timing of our public cloud migration and the related decreased spending on capital expenditures, the continued expansion of sales and marketing activities, the introduction of new and enhanced products, seasonality of our billing activities, the timing and extent of spending to support our growth strategy, the continued market acceptance of our products, and competitive pressures. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, technologies and intellectual property rights. We may need to raise additional funds from equity or debt securities in order to meet those capital requirements. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition would be adversely affected.

### *Operating Activities*

During the nine months ended December 31, 2020, cash provided by operating activities was $41.4 million as a result of a net loss of $132.0 million, adjusted by non-cash charges of $187.9 million and a change of $14.4 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of a $33.1 million increase in deferred contract acquisition costs, a $12.9 million decrease in deferred revenue, a $1.3 million increase in lease right-of-use assets, and a $1.0 million increase in prepaid expenses and other assets. This was partially offset by a $18.1 million increase in accrued compensation and benefits and other liabilities, a $10.0 million increase in accounts payable, a $3.6 million decrease in accounts receivable, and a $2.2 million increase in lease liabilities.

During the nine months ended December 31, 2019, cash provided by operating activities was $31.7 million as a result of a net loss of $62.4 million, adjusted by non-cash charges of $136.5 million and a change of $42.4 million in our operating assets and liabilities. The change in our operating assets and liabilities was primarily the result of a $34.6 million decrease in deferred revenue, a $25.8 million increase in deferred contract acquisition costs, a $16.8 million decrease in lease liabilities, and a $0.2 million increase in prepaid expenses and other assets. This was partially offset by a $10.0 million decrease in accounts receivable, a $19.5 million decrease in lease right-of-use assets, a $4.3 million increase in accounts payable, and a $1.1 million increase in accrued compensation and benefits and other liabilities.

### *Investing Activities*

Cash used in investing activities during the nine months ended December 31, 2020 was $132.9 million, primarily as a result of purchases of short-term investments of $293.8 million, cash paid for acquisition, net of cash acquired, of $41.5 million, purchases of property and equipment of $15.8 million, and increases in capitalization of software development costs of $9.7 million. This was partially offset by proceeds from the maturity and sale of short-term investments of $228.1 million.

Cash used in investing activities during the nine months ended December 31, 2019 was $103.1 million, primarily as a result of purchases of short-term investments of $337.1 million, purchases of property and equipment of $49.7 million, increases in capitalization of software development costs of $4.5 million, and cash paid for acquisition of $4.3 million. This was partially offset by proceeds from the maturity and sale of short-term investments of $292.4 million.

***Financing Activities***

Cash provided by financing activities during the nine months ended December 31, 2020 was $10.1 million, which was the result of proceeds from the exercise of stock options of $3.6 million and proceeds from the purchase of shares of common stock pursuant to our employee stock purchase plan of $6.5 million.

Cash provided by financing activities during the nine months ended December 31, 2019 was $12.9 million, which was the result of proceeds from the exercise of stock options of $6.0 million, proceeds from the purchase of shares of common stock pursuant to our employee stock purchase plan of $5.9 million, and proceeds from the investment from our redeemable non-controlling interest of $1.0 million.

### Contractual Obligations and Commitments

Our principal contractual commitments primarily consist of obligations under leases for office space and purchase commitments. Except as set forth in Note 9 — Leases and Note 10 — Commitments and Contingencies contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q, there were no material changes in our commitments under contractual obligations, as disclosed in our audited consolidated financial statements for the fiscal year ended March 31, 2020 in our Annual Report.

### Off-Balance Sheet Arrangements

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

### Critical Accounting Policies

We prepare our 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.

There have been no significant changes in our critical accounting policies and estimates during the nine months ended December 31, 2020 as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, or our Annual Report, as filed with the Securities and Exchange Commission, or SEC, on May 14, 2020.

***Recent Accounting Pronouncements***

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

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

***Foreign Currency Exchange Risk***

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

### *Interest Rate Risk*

We had cash and cash equivalents of $211.1 million as of December 31, 2020, consisting of bank deposits and money market funds. These interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in our interest income have not been significant. We have an agreement to maintain cash balances at a financial institution of no less than $5.7 million as collateral for several letters of credit in favor of our landlords. The letters of credit carry a fixed interest rate of 1%.

We had short-term investments of $573.5 million as of December 31, 2020, consisting of certificates of deposit, commercial paper, corporate notes and bonds, and U.S. treasury securities. Our investments in marketable securities are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of these investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates.

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

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

## Item 4. Controls and Procedures

### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### *Limitations on the Effectiveness of Controls*

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

### *Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition or cash flows. We have received, and may in the future continue to receive, claims from third parties asserting, among other things, infringement of their intellectual property rights. Future litigation may be necessary to defend ourselves, our partners and our customers by determining the scope, enforceability and validity of third-party proprietary rights, or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

### Item 1A. Risk Factors

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

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

**Risks Related to Our Business and Our Industry**

***We have limited experience with respect to determining the optimal prices and pricing structures for our products and have employed evolving pricing models, which subject us to challenges that could make it difficult for us to derive value from our customers and may adversely affect our operating results. ****

We have evolved our pricing models over time and we expect that they will continue to evolve. For example, we have offered 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; and we offer access to our products under subscription plans that include service and support for one or more of our products. However, on July 30, 2020, we announced an updated pricing strategy that prices customer spend based upon their consumption; customers may be charged upon their usage in arrears, which we refer to as “Pay as You Go,” or they may commit to a minimum spend over their contracted period in exchange for a discount on their usage pricing, which we refer to as “Annual Pool of Funds.” Consumption under this model is measured by number of users and data ingested into our system, thereby collapsing what had previously been a number of different products priced in individualized ways into a simplified strategy that is intended to drive consumption across our platform.

This updated pricing strategy may ultimately result in a higher total cost to our customers generally as data volumes increase over time, or may cause our customers to limit or decrease usage in order to stay within budgeted amounts or lower their costs, making it more difficult for us to compete in our markets or negatively impacting our financial results. We expect this pricing transition may result in a one-time negative impact to annual recurring revenue, or ARR, in certain customer segments and negatively impact our revenue and deferred revenue for each customer at the time of their renewal. For example, customers may decide to take advantage of our new pricing model and choose smaller upfront commitments in favor of spending on actual consumption in excess of committed amounts. Whether our pricing model transition will prove successful is subject to numerous uncertainties, including but not limited to: customer demand, renewal and expansion rates, our ability to further develop and scale infrastructure, the ability of our sales force to successfully execute new sales strategies, tax and accounting implications, pricing, and our costs. In addition, we expect the metrics we use to gauge the status and success of our pricing model transition may continue to evolve over the course of the transition as significant trends emerge. In particular, as we conclude fiscal 2021, a significant portion of our installed base will have shifted from our legacy subscription contracts to new consumption model contracts. As the overall portion of revenue derived from our subscription model contracts decreases, subscription-based metrics that rely upon ARR become less relevant as a measure of the performance of our business. With the completion of fiscal 2021, we will retire our traditional subscription-based key operating metrics that rely upon ARR and provide metrics that we believe give better insight into our business that relies primarily upon consumption-based revenue instead.

We do not know whether our current or potential customers or the market in general will accept our pricing model going forward and, if it fails to gain acceptance, our business and results of operations could be harmed. In addition, our evolving pricing models may allow competitors with different pricing models to attract customers unfamiliar or uncomfortable with our pricing models, which would cause us to lose business or modify our pricing models, both of which could adversely affect our revenues and operating margins.

We expect that we will continue to evolve our pricing model, including as a result of global economic conditions; reductions in our customers' spending levels generally; the introduction of new products and services; the evolution of existing products and services; or changes in how computing infrastructure is broadly consumed. We have introduced and expect to continue to introduce variations to our pricing models and other pricing programs that provide broader usage and cost predictability for our customers. Although we may believe that these pricing changes will drive net new customers, increase customer adoption, and support our transition to a new model, it is possible that they will not and may potentially cause confusion with our customers, which could negatively impact our business, revenue, and other financial results. If we have difficulty determining the appropriate price structure for our products, we may be required from time to time to further revise our pricing structure or reduce our prices, which could adversely affect our business.

***The ongoing global coronavirus (COVID-19) pandemic could harm our business and results of operations. ****

In March 2020, the World Health Organization, or WHO, declared COVID-19 a pandemic. This contagious disease outbreak continues to impact worldwide economic activity and financial markets and has resulted in authorities implementing numerous measures to contain the virus. In light of the ongoing uncertainty relating to the COVID-19 pandemic and in compliance with shelter-in-place orders and other government executive orders directing that all non-essential businesses close their physical operations, we have taken precautionary measures intended to minimize the risk of the virus to our employees, our customers, and the communities in which we operate, which could negatively impact our business. These measures include temporarily requiring employees to work remotely, suspending all non-essential travel worldwide for our employees, canceling, postponing or holding virtually sponsored events and discouraging employee attendance at industry events and in-person work-related meetings. While we have a distributed workforce and our employees are accustomed to working remotely, our workforce is not normally fully remote and our employees travel frequently to establish and maintain relationships with one another and with our customers, partners and investors. In addition, our management team has, and will likely continue, to spend significant time, attention and resources monitoring the COVID-19 pandemic and seeking to minimize the risk of the virus and manage its effects on our business and workforce.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on certain developments, including the duration of the pandemic; impact on our customers and our sales cycles; impact on our customer, employee, and industry events; and effect on our vendors, all of which are uncertain and cannot be predicted at this time. In addition, COVID-19 may disrupt the operations of our customers and partners for an indefinite period of time, including as a result of travel restrictions and/or business shutdowns, all of which could negatively impact our business and results of operations, including cash flows.

More generally, the COVID-19 pandemic is adversely affecting economies and financial markets globally, and has led to an economic downturn and increased market volatility, with an uncertain effect on technology spending and demand for our offerings, which may harm our business and results of operations. For example, for the nine months ended September 30, 2020, COVID-19 has negatively impacted expected spending from new and existing customers and has resulted in a portion of our paid customers choosing to renew with a smaller commitment than previous contracts. We have seen and currently expect our revenue and deferred revenue to be negatively impacted by the slowdown in activity associated with the COVID-19 pandemic for the fiscal year ending March 31, 2021, but at this point, the extent of the impact to our financial condition or results of operations, including cash flows, is uncertain, particularly as the COVID-19 pandemic continues to persist for an extended period of time. Furthermore, due to our historical reliance on a subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. Meanwhile, our shift to consumption-based pricing contracts, where the revenue we receive is tied to our customers' actual usage of our products, may further exacerbate the uncertainty with respect to the revenue we receive from our customers. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this ''Risk Factors'' section.

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

We have incurred net losses in each fiscal period since our inception, including net loss attributable to New Relic of $130.9 million and $61.0 million in the nine months ended December 31, 2020 and 2019, respectively. At December 31, 2020, we had an accumulated deficit of $525.4 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;
- investments in our research and development team, and the development of new platform offerings, 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. Our revenue growth rate has declined in recent periods and could 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, launched our first commercial product in 2008, launched our New Relic One platform in 2019, and introduced our updated pricing strategy in July 2020. 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 prior periods and our historical growth rates may not be indicative of our future growth. If we are not able to manage our 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 and we may not be able to sustain revenue growth consistent with prior periods, or at all.

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

- effectively attracting, training, integrating, and retaining a large number of new employees, particularly members of our sales and marketing teams and employees and consultants in jurisdictions outside of the United States;
- further improving our key business systems, processes, and information technology infrastructure, including our and third-party hosted data centers and cloud services, 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 remaining on our platform and increasing their spend with us. Any decline in our customer expansions and renewals would harm our future operating results. ****

Our future success depends in part on our ability to retain and expand our platform usage with our current customers. If our customers do not remain on our platform or increase their spend with 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 renew their commitments or remain on our platform and increase their spend when the contract term expires. Many of our customers may start their accounts on a free tier and have no obligation to enter into a paid commitment or incur spend above the free tier. Our customers that enter into paid commitments have no obligation to renew after the expiration of the contractual term nor an obligation to remain on our platform and incur additional usage fees. Commitments are most often one year in length, and, our customers may renew for lower commitment amounts or instead use our Pay as You Go model, under which they are billed in arrears for their usage. 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 entered into prior to our pricing announcement on July 30, 2020 have the right to cancel their agreements prior to the termination of the subscription term. Additionally, customers may decide to remain within the limitations of our new free-tier or lower-priced offerings. Customers also have canceled or reduced, and may continue to cancel or reduce, their commitments as a result of the impact of the COVID-19 pandemic on their businesses.

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, including as a result of changes to our pricing strategy, 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, including as a result of the COVID-19 pandemic, or reductions in our customers' spending levels generally.

***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, competitive pricing, adequate quality testing, introduction, integration with existing technologies and our platform, 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 across our entire platform. 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 limit or decrease usage in order to stay within budgeted amounts or lower their cost. 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.

***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. We plan to continue expanding our sales force, both domestically and internationally. We also dedicate significant resources to sales and marketing programs, including online advertising and field marketing programs. For example, during the nine months ended December 31, 2020, sales and marketing expenses represented 54% of our revenue. The effectiveness of our marketing programs has varied over time and may vary in the future due to competition. All of these efforts have required and will continue to require us to invest significant financial and other resources. If we are unable to hire, develop, and retain talented sales personnel, if our sales personnel are unable to achieve desired productivity levels in a reasonable period of time or unable to successfully execute sales strategies in connection with our pricing model changes, 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.

In particular, we may in the future need to adjust our go-to-market cost structure and target metrics, particularly as they relate to how we structure, effect, and compensate our sales teams to become more efficient and effective at selling under the consumption-based business model. Any adjustments in compensation structure could negatively affect the productivity of our sales teams, and there is no assurance that we will be able to successfully implement the adjustments in a timely or cost-effective manner, or that we will be able to realize all or any of the expected benefits from such adjustments.

***If we are unable to develop and grow a broad base of high-spend customers, many of which we expect to be large enterprise customers, while mitigating the risks associated with serving such customers, our business, financial position, and results of operations may suffer. ****

Our growth strategy is dependent, in large part, upon developing and growing a broad base of high-spend customers, many of which we expect to be large enterprise customers. 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, if we are unable to close one or more large individual transactions in a particular period, or if an expected transaction is delayed until a subsequent period, our results of operations for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be harmed.

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.

***Our quarterly results may fluctuate, especially as we are transitioning our pricing model, and our recent operating results may not be a good indication of our future performance. 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, such as the COVID-19 pandemic, are outside of our control. In addition, given our increasing reliance on consumption to drive revenue, our pricing model transition may give rise to a number of risks reflected in risk factor titled "*We have limited experience with respect to determining the optimal prices and pricing structures for our products and have employed evolving pricing models, which subject us to challenges that could make it difficult for us to derive value from our customers and may adversely affect our operating results*." 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.

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

Our operations involve protection of our intellectual property, along with the storage and transmission and processing of our customers' proprietary data, which customers might choose to have include some personally identifiable information. While we have developed systems and processes to protect the integrity, confidentiality and security of our customers' data, our security measures or those of our third-party service providers could fail and result in unauthorized access to or disclosure, modification, misuse, loss or destruction of such data. Any security breaches, computer malware, computer hacking, cyber-attacks, ransomware, phishing attacks and other social engineering schemes, denial or degradation of service attacks, unauthorized access or use, device theft, and other types of security incidents experienced by us or our third-party services providers, could expose us to a risk of loss of confidential, personal or proprietary information, loss of business, severe reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, demands, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for investigation, 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, intrusions and other malicious Internet-based activity including by computer hackers, foreign governments and cyber terrorists, continue to increase generally as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. The costs to us to investigate and mitigate network security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and while we have implemented security measures to protect our data security and information technology systems, our efforts to address these problems may not be successful, and these problems could result in unexpected interruptions, delays, cessation of service, negative publicity and other harm to our business and our competitive position. 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. Additionally, with so many of our employees now working remotely due to the COVID-19 pandemic, we may face an increased risk of attempted security breaches and incidents, such as the recently reported cybersecurity attack on SolarWinds and a large number of its customers. Moreover, if a high-profile security breach occurs with respect to another cloud platform provider, our customers and potential customers may lose trust in the security of cloud platforms generally, which could adversely impact our ability to retain existing customers or attract new ones.

If we are not able to detect and indicate activity on our platform that might be nefarious in nature or design processes or systems to reduce the impact of similar activity at a third-party service provider, our customers could suffer harm. In such cases, we could face exposure to legal claims, particularly if the customer suffered actual harm. We cannot assure you that any limitations of liability provisions in our contracts for a security lapse or breach would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim. We also cannot be sure that our existing insurance coverage will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims related to a security breach, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our expansion rates, financial condition, operating results, and reputation.

***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. Further, the value of our platform to customers increases to the extent they are able to use it for all of their telemetry data. We need to continue to invest in technologies, services, and partnerships that increase the ease with which customers can ingest data into our platform. If new technologies emerge that are able to deliver competitive products and applications at lower prices, more efficiently, more conveniently, or more securely, such technologies could adversely impact our ability to compete.

Our platform must also integrate with a variety of network, hardware, mobile, and software platforms and technologies, and we need to continuously modify and enhance our products and platform capabilities to adapt to changes and innovation in these technologies. If developers widely adopt new software platforms, we would have to develop new versions of our products and platform capabilities to work with those new platforms. This development effort may require significant engineering, marketing, and sales resources, all of which would affect our business and operating results. Any failure of our products and platform capabilities to operate effectively with future infrastructure platforms and technologies could reduce the demand for our products. If we are unable to respond to these changes in a cost-effective manner, our products may become less marketable and less competitive or obsolete, and our operating results may be negatively affected. Similarly, application stores such as those operated by Apple and Google, may change their technical requirements or policies in a manner that adversely impacts the way in which we or our partners or customers collect, use, and share data from users. If the use of our products does not comply with these requirements, customers may not be able to use our products for their intended purposes and our business could be harmed.

***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. For example, in connection with our pricing changes announced July 30, 2020, we introduced an expanded free tier offering of our product. 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 markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be harmed. ****

The markets in which we compete are rapidly evolving, significantly fragmented, and highly competitive. Our observability platform combines functionality from numerous traditional product categories, and hence we compete in each of these categories with home-grown and open-source technologies, as well as a number of different vendors.

With respect to application performance monitoring, we compete with providers such as AppDynamics, Inc. (an operating division of Cisco Systems, Inc.) and Dynatrace, Inc. With respect to log management, we compete with Elastic NV and Splunk Inc. With respect to infrastructure monitoring, we compete with diversified technology vendors such as International Business Machines Corporation, BMC Software, Inc. and CA, Inc. (a subsidiary of Broadcom, Inc.); with native solutions from cloud providers such as Amazon Web Services, Inc., Microsoft Corporation, and Google LLC; and with independent vendors such as Datadog, 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 organizations, 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., in November 2018, Broadcom Inc. completed its acquisition of CA, Inc., and, in October 2019, Splunk Inc. completed its acquisition of SignalFX, Inc. If we are unable to maintain our current pricing or fail to gain market acceptance of our updated pricing strategy 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.

***Due to our previous subscription-based pricing model and our recent transition to a consumption-based pricing model, we may not have visibility into our financial position and results of operations. ****

We have historically employed a subscription-based model and for contracts entered into prior to our new pricing model announcement on July 30, 2020, we recognize revenue from customers ratably over the terms of their subscriptions. A portion of the revenue we report in each quarter is derived from the recognition of revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter may have a small impact on our revenue for that quarter. However, such a decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our solutions, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods. As a result, due to this historical reliance on a subscription-based business model, the effects of the COVID-19 pandemic to date were not fully reflected in our results of operations until later periods.

Further, on July 30, 2020, we announced a new pricing model that prices customer spend based upon their consumption. Because our customers now have flexibility in the timing of their consumption, we do not have the same visibility into the timing of revenue recognition as we would under a subscription-based model. There is a risk that customers will consume our platform at a different pace than we expect, and our actual results may differ from our forecasts. Meanwhile, although we have seen indications of improved market acceptance of our platform and new pricing strategy, due to our historical reliance upon a subscription-based business model, improvement in the market adoption of our products due to this pricing model transition would also not be fully reflected in our results of operations until future periods.

***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 continue to experience seasonality in the future. The first two quarters of each fiscal year usually have lower or potentially negative backlog and 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, 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, as a significant portion of our overall revenue continues to be derived from our subscription-based contracts that remain in our install base, which can make it difficult to achieve sequential growth in certain financial metrics or could result in sequential declines on a quarterly basis. However, with our shift in pricing strategy, we may experience additional variation from the seasonality trends we have seen in the past for revenue, backlog, and deferred revenue. 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 or degradation of service attacks, computer viruses, natural disasters, terrorism, war, telecommunications and electrical failures, cyberattacks 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. As we expand our business, our customers increasingly rely on our customer support personnel to realize the full benefits that our platform provides, and if we do not help our customers quickly resolve issues and provide effective ongoing support, our ability to maintain and expand our platform usage to existing and new customers could suffer, and our reputation with existing or potential customers could suffer. In addition, 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 and a combination of cloud hosting providers. The continuous availability of our products and platform capabilities depends on the operations of our data center facilities, on our cloud hosting providers, on a variety of network service providers, on third-party vendors, and on our own site operations staff. We depend on our third-party providers' abilities to protect our data center facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts, and similar events. If there are any lapses of service, damage to the facilities, or prolonged cloud hosting provider service disruptions or downtime affecting our platform, we could experience lengthy interruptions in our products and platform capabilities as well as delays and additional expenses in arranging new facilities and services. In addition, we are in the process of migrating our entire platform over time from third-party data center hosting facilities to public cloud hosting providers. After we complete this migration, we will rely extensively on these public cloud providers to provide our clients and their users with fast and reliable access to our products. 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 commitments or increase their spend with us, any of which could harm our business.

***We depend and rely on SaaS technologies and related services from third parties in order to operate critical functions of our business and interruptions or performance problems with these technologies or services may adversely affect our business and operating results.***

We depend and rely on software-as-a-service, or SaaS, technologies and related services from third parties in order to operate critical functions of our business, including billing and order management, financial accounting services, and customer relationship management services. If these services become unavailable due to extended outages or interruptions, security vulnerabilities, or cyber-attacks, because they are no longer available on commercially reasonable terms or prices, or due to other unforeseen circumstances, our expenses could increase, our ability to manage these critical functions could be interrupted, and our processes for and ability to manage sales of our products, recognize revenue, and support our customers could be impaired, all of which could adversely affect our business and operating results.

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

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

***Our ongoing and planned investments in data center hosting facilities and expenditures on cloud hosting providers 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, until our migration to public cloud hosting providers is complete, we will continue to make substantial investments in our data center hosting facilities to support our growth and provide enhanced levels of products and platform capabilities to our customers. We recently decreased the amount of capital expenditures on hosting equipment for use in our data center hosting facilities as we transition to greater dependence on cloud hosting providers but expect to continue to incur significant expense to operate and maintain our data centers. If we are required to make larger investments in our data center hosting facilities than we anticipated or if costs associated with cloud hosting services utilized to support our growth continue to be greater than originally expected, the negative impact on our operating results would likely exceed our expectations. Furthermore, if we determine to no longer utilize our data centers and related property, and equipment sooner than planned, we may be forced to accelerate expense recognition as a result of the shorter estimated life of such assets. In addition, 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 our sales in a financially sustainable manner, we may need to further customize our offering and modify our go-to-market strategy to reduce our operating and customer acquisition costs. If we fail to implement these changes on a timely basis or are unable to implement them effectively, our business may suffer.

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

During the nine months ended December 31, 2020, we derived approximately 31% of our total revenue from customers outside the United States. A component of our growth strategy involves the further expansion of our operations and customer adoption internationally. Operating in international markets requires significant resources and management attention and subjects us to regulatory, economic, and political risks that are different from those in the United States. We have limited operating experience in international markets, and we cannot assure you that our expansion efforts into international markets will be successful. Our international expansion efforts may not be successful in creating further demand for our products outside of the United States or in effectively selling our products in the international markets we enter. Our current international operations and future initiatives involve a variety of risks, including:

- changes in a specific country's or region's political or economic conditions;
- unexpected changes in regulatory requirements, taxes, or trade laws;
- economic and political uncertainty around the world, including uncertainty regarding U.S foreign and domestic policies;
- 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;
- the impact of public health epidemics on our employees, partners and customers, such as the coronavirus epidemic, currently impacting various regions throughout the world;
- laws and business practices favoring local competitors, or general preferences for local vendors;
- limited or insufficient intellectual property protection;
- exposure to liabilities under anti-corruption, export controls and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act, and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash or create other collection difficulties.

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

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

Our success and future growth depend largely upon the continued services of our executive officers and other key employees in the areas of research and development, marketing, sales, services, and general administrative functions. From time to time, there may be changes in our executive management team or other key employees resulting from the hiring or departure of these personnel. Our executive officers and other key employees are employed on an at-will basis, which means that these personnel could terminate their employment with us at any time. Any changes in our senior management team in particular, even in the ordinary course of business, may be disruptive to our business. While we seek to manage these transitions carefully, including by establishing strong processes and procedures and succession planning, such changes may result in a loss of institutional knowledge and cause disruptions to our business. If our senior management team fails to work together effectively or execute our plans and strategies on a timely basis as a result of management turnover or otherwise, our business could be harmed.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel 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 continue to maintain and develop 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, and as we continue to expand internationally, we may find it difficult to continue to maintain and develop our corporate culture. We recently hired and promoted new members to our senior management team, and we may also recruit and hire other senior executives in the future. Such management changes subject us to a number of risks, such as risks pertaining to the creation of new management systems and processes and differences in management style, any of which could adversely impact our corporate culture. In addition, we may need to adapt our corporate culture and work environments to changing circumstances, such as during times of a natural disaster or pandemic (including the ongoing COVID-19 pandemic). Any failure to preserve our culture could negatively affect our future success, including our ability to recruit and retain personnel and effectively focus on and pursue our corporate objectives.

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

We have in the past and may in the future seek to acquire or invest in businesses, joint ventures, products and platform capabilities, or technologies that we believe could complement or expand our products and platform capabilities, enhance our technical capabilities, or otherwise offer growth opportunities. For example, in the third quarter of fiscal 2021, we acquired Pixie Labs Inc., a company that provides a next generation machine intelligence observability solution for developers using Kubernetes. Any 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 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 portion of our contractual commitments 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 portion of our contractual commitments, 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 third parties, such as customers, partners and third-party software developers fail to maintain interoperability, availability, or privacy compliance controls in the integrations and applications that they provide, our services that rely upon such integrations may have less value to customers, become less marketable, or less competitive, and our brand and financial performance could be harmed.***

We provide software that enables customers, partners and third-party software developers to build integrations and applications with our products and extend the functionality of our platform capabilities. This presents certain risks to our business, including:

- customers, partners and third-party developers may not continue developing or supporting the integrations and applications that they provide or they may favor a competitor’s or their own competitive offerings over ours;
- we cannot provide any assurance that these integrations and applications 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 or warranties related to the functionality, security, and integrity of the data transmission or processing for integrations and applications developed by customers, partners and third-party software developers, and users may seek warranties or be left without support and potentially cease using our products if the developers do not provide warranties or support for their integrations and applications; and
- these customers, partners and third-party software developers may not possess the appropriate intellectual property rights to develop and share their integrations and applications or the legal basis and privacy and security compliance measures to process or control personal data that flows through our systems.

While many of these risks are not within our control to prevent, our brand and financial performance could be harmed if these integrations and applications do not perform to our customers’ satisfaction and if that dissatisfaction is attributed to us.

***Sales to government entities and highly regulated organizations are subject to a number of challenges and risks.***

We may sell to U.S. federal, state, and local, as well as foreign, governmental agency customers, as well as to customers in highly regulated industries such as financial services, telecommunications and healthcare. Sales to such entities are subject to a number of challenges and risks. Selling to such entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government contracting requirements may change and in doing so restrict our ability to sell into the government sector until we have attained the revised certification. Government demand and payment for our products are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products.

Further, governmental and highly regulated entities may demand contract terms that differ from our standard arrangements and are less favorable than terms agreed with private sector customers. Such entities may have statutory, contractual, or other legal rights to terminate contracts with us or our partners for convenience or for other reasons. Any such termination may adversely affect our ability to contract with other government customers as well as our reputation, business, financial condition and results of operations.

***We have incurred substantial indebtedness that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur substantially more debt, which may adversely affect our operations and financial results. ****

As of December 31, 2020, we had $500.25 million (undiscounted) principal amount of indebtedness under our 0.50% convertible senior notes due 2023, or the Notes. Our indebtedness may:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The conversion of some or all of the Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares of our common stock upon conversion of any of the Notes and the potential dilution is not reduced or offset by the capped call transactions we entered into. The Notes may become in the future convertible at the option of their holders prior to their scheduled terms under certain circumstances. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the price of our common stock.

***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, 2020, we had U.S. federal and state net operating losses of approximately $560.8 million and $302.6 million, respectively. Other than federal net operating losses arising in tax years beginning after December 31, 2017, the federal and state net operating loss carryforwards will begin to expire, if not utilized, beginning in 2028 and 2022, respectively. These net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities. Under the 2017 federal income tax law, as modified by the federal tax law changes enacted in March 2020, federal net operating losses incurred in tax years beginning after December 31, 2017 may be carried forward indefinitely, but, for taxable years beginning after December 31, 2020, the deductibility of such federal net operating losses is limited. 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. In addition, for state income tax purposes, there may be periods during which the use of net operating losses is suspended or otherwise limited, including a recent California franchise tax law change limiting the usability of California state net operating losses to offset California taxable income in taxable years beginning on or after January 1, 2020 and before January 1, 2023, which could accelerate or permanently increase state taxes owed.

***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.

**Risks Related to Laws and Regulations**

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

We are subject to federal, state, local, and foreign laws, regulations, directives, and standards relating to the collection, use, retention, disclosure, security, transfer, and other processing 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, or allegations of failure, by us, our suppliers, or other parties with whom we do business to comply with this documentation or with other federal, state, local or foreign laws, regulations, directives, and standards could result in investigations and/or proceedings against us by governmental entities, regulatory authorities 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 within which we operate has established its own data security and privacy legal frameworks with which we, and/or our customers must comply. This includes the European Union's Regulation 2016/679, the General Data Protection Regulation, or GDPR, which went into effect in May 2018 and was designed to update existing privacy laws to better reflect the digital economy and to unify data protection within the European Union, or the EU, under a single law. The GDPR also authorizes each EU member stat to promulgate its own domestic data protection law which may contain derogations, or exemptions from the GDPR and which are otherwise intended to supplement the GDPR and any other legislation that replaces or converts into domestic law the GDPR or any other law relating to data protection, privacy and the processing of personal data as a consequence of the United Kingdom, or UK, leaving the EU (European Data Protection Laws). European Data Protection Laws present significantly greater risks, compliance burdens and costs for companies with users and operations in the European Union. Under the GDPR, fines of up to the greater of 20 million euros or up to 4% of the annual global turnover of the infringing entity, and restrictions or prohibitions on data processing can be imposed for significant non-compliance. European Data Protection Laws are broad in their application and apply when we do business with EU- and UK-based customers and when our U.S.-based customers collect and use personal data that originates from individual residents in the EU and UK. They also apply to transfers of personal data between us and our EU- and UK-based subsidiaries, including employee information. Further, many U.S. federal and state and other foreign government bodies and agencies have introduced, and are currently considering, additional laws and regulations. Non-compliance with these laws could result in penalties or significant legal liability. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition.

Further, the UK's decision to leave the EU, often referred to as Brexit, has created uncertainty in data protection issues involving the UK. For example, pursuant to a post-Brexit trade deal between the UK and the EU, transfers of personal information from the European Economic Area (EEA) to the UK are not considered restricted transfers under the GDPR for a period of up to six months from January 1, 2021. However, unless the EU Commission makes an adequacy finding with respect to the UK before the end of that period, the UK will be considered a "third country" under the GDPR and transfers of European personal information to the UK will require an adequacy mechanism or an additional safeguard as stipulated by Article 45 of the GDPR to render such transfers lawful under the GDPR. Additionally, although the UK has adopted its own version of the GDPR, or UK GDPR, to sit alongside the UK Data Protection Act 2018, uncertainty remains regarding how data transfers to and from the UK will be regulated notwithstanding Brexit. The effects of Brexit have been and are expected to continue to be far-reaching. Brexit and the perceptions as to its impact may adversely affect business activity and economic conditions globally, and could continue to contribute to instability in global financial markets. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the UK and the EU. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. The full effects of Brexit are uncertain and will remain so until the UK and EU reach a definitive resolution with regards to outstanding trade and legal matters. Given these possibilities and others we may not anticipate, as well as the lack of comparable precedent, the full extent to which our business, results of operations, and financial condition could be adversely affected by Brexit is uncertain.

European Data Protection Laws generally prohibit the transfer of personal data from the EEA and the UK, to the United States and most other countries unless the parties to the transfer have implemented specific safeguards to protect the transferred personal data. One of the primary safeguards used for transfers of personal data from the EU to the United States was the Privacy Shield framework which is administered by the U.S. Department of Commerce. To facilitate the transfer of our customer personal data from the EU to the United States, we self-certified under the EU-US Privacy Shield framework. However, this framework was recently invalidated by a decision of the Court of Justice of the European Union. The same decision also cast doubt on the ability to use one of the primary alternatives to the Privacy Shield, namely, the European Commission's Standard Contractual Clauses (SCCs), to lawfully transfer personal data from the EU to the United States and most other countries. Similarly, on September 8, 2020, the Swiss Federal Data Protection and Information Commissioner announced that the Swiss-U.S. Privacy Shield Framework is inadequate for personal information transfers from Switzerland to the United States, and also raised questions about the viability of the SCCs. At present, there are few if any viable alternatives to the Privacy Shield and the SCCs. Authorities in the United Kingdom may similarly invalidate use of the Privacy Shield as a vehicle for lawful data transfers to the United States. Further, in November 2020, EU regulators proposed a new set of SCCs, which would impose additional obligations and requirements with respect to the transfer of EU personal data to other jurisdictions. The new SCCs may increase the legal risks and liabilities under the European Data Protection Laws, and result in material increased compliance and operational costs. Our processing of personal data from the European Union may not comply with European Data Protection Laws. This may increase our exposure to the GDPR's heightened sanctions for violations of its cross-border data transfer restrictions, including injunctions against transferring personal data subject to the GDPR. This may also reduce demand for our services from companies subject to European Data Protection Laws. Loss of our ability to import personal data from the EU or other countries may also require us to increase our data processing capabilities in the EU and other countries at significant expense. Additionally, other countries outside of the EU have enacted or are considering enacting similar cross-border data transfer restrictions and laws requiring local data residency, which could increase the cost and complexity of delivering our services and operating our business. For example, Brazil recently enacted the General Data Protection Law (Lei Geral de Proteção de Dados Pessoais or LGPD) (Law No. 13,709/2018), which broadly regulates the processing of personal information and imposes compliance obligations and penalties comparable to those of the GDPR.

In addition to the GDPR, the European Commission also has another draft regulation in the approval process that focuses on a person's right to conducting a private life (in contrast to GDPR, which focuses on protection of personal data). The proposed legislation, known as the Regulation on Privacy and Electronic Communications, or ePrivacy Regulation, would replace the current ePrivacy Directive. However, the timeline for adoption and implementation remains unclear. The ePrivacy Regulation is expected to provide protections for those using communications services (for example, protections against online tracking technologies), impose enhanced consent requirements, and contain other requirements and obligations which may increase our compliance burden and negatively impact our product offerings and our relationships with our customers.

Complying with foreign data protection laws like 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 compliance efforts, we may not be successful in achieving compliance either due to internal or external factors such as resource allocation limitations or a lack of vendor cooperation. Any actual or perceived non-compliance could result in proceedings against us by governmental entities, regulatory authorities, 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 European Data Protection Laws.

Domestic laws in this area are also complex and developing rapidly. In recent years, there have been a number of well-publicized data breaches involving the improper dissemination of personal information of individuals. The Federal Trade Commission, or FTC, has prosecuted certain data breach cases as unfair and deceptive acts or practices under the Federal Trade Commission Act. In addition, many state legislatures have adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches. Laws in all 50 states, the District of Columbia, Guam, Puerto Rico and the Virgin Islands require businesses to provide appropriate notices to customers, individuals, credit reporting agencies and/or governmental entities such as the state's Attorney General's office following certain types of security breaches affecting personally identifiable information. The laws are not consistent, and compliance in the event of a widespread data breach is both complex and costly. States are also constantly amending existing laws, requiring attention to frequently changing regulatory requirements. For example, California recently enacted the California Consumer Privacy Act, or CCPA, which took effect on January 1, 2020. The CCPA gives California residents expanded rights to access and require deletion of their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA also requires covered businesses to provide detailed privacy notices to California residents and respond to requests from California residents to exercise their rights under the CCPA without discrimination. The CCPA provides for civil penalties for violations, as well as a private right of action for consumers for data breaches which is expected to increase data breach litigation. The CCPA will be expanded substantially on January 1, 2023 when the California Privacy Rights Act of 2020 (CPRA), which was approved by California voters in November 2020, becomes fully operative. The CPRA will, among other things, give consumers the ability to limit use of information deemed to be sensitive, increase the maximum penalties for violations concerning consumers under age 16, and establish the California Privacy Protection Agency to implement and enforce the new law and impose administrative fines. Aspects of the CCPA and CPRA and their interpretation and enforcement remain uncertain. The potential effects of the CCPA and CPRA are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. The CCPA, CPRA, and associated regulations may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. The CCPA has prompted a number of proposals for new federal and state privacy legislation that, if passed, could increase our potential liability, increase our compliance costs and adversely affect our business. In addition to government activity, privacy advocacy groups and industry groups have adopted and are considering the adoption of various self-regulatory standards and codes of conduct that, if applied to our or our customers' businesses, may place additional burdens on us and our customers, which may further reduce demand for our platform and harm our business.

Because the interpretation and application of many privacy and data protection laws along with contractually imposed industry standards are uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our products and platform capabilities. If so, in addition to the possibility of fines, lawsuits, and other claims and penalties, we could be required to fundamentally change our business activities and practices or modify our products and platform capabilities, which could have an adverse effect on our business. Any inability by us to adequately address privacy and security concerns, even if unfounded, or comply with applicable privacy and data security laws, regulations, and policies or our contracts governing our processing of personal information, 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 or to our marketing and promotion of our products to interested individuals 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.

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

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

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

We are subject to income taxes in the United States and foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, the valuation of deferred tax assets and liabilities, and changes in federal, state, or international tax laws and accounting principles.

For example, 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. That 2017 tax legislation was modified in various respects by additional tax legislation enacted in March 2020. However, the 2017 tax legislation also included a number of provisions, including, but not limited to, the limitation or elimination of various deductions or credits (including for interest expense and for performance-based compensation under Section 162(m)), the imposition of taxes on certain cross-border payments or transfers, the changing of the timing of the recognition of certain income and deductions or their character, and the limitation of recovery of asset basis under certain circumstances, that could significantly and adversely affect our U.S. federal income tax liability in the event we become profitable in the future. The legislation also made significant changes to the tax rules applicable to insurance companies and other entities with which we do business.

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

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

## Risks Related to Our Intellectual Property

***We may incur significant costs due to claims for alleged infringement of 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. We may receive claims that our products, platform capabilities, and underlying technology infringe or violate the claimant's intellectual property rights. In addition, agreements with customers and other third parties may include indemnification provisions under which we agree to indemnify them in the event of claims of infringement of certain proprietary rights. Any claims or litigation, regardless of merit, could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our products and platform capabilities, or require that we comply with other unfavorable terms.

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

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

Our success depends to a significant degree on our ability to protect our proprietary technology and our brand. We rely on a combination of trademarks, trade secret laws, patent, copyrights, service marks, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology and our business may be harmed. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks, or other intellectual property rights that we obtain may be challenged by others or invalidated through administrative process or litigation. As of December 31, 2020, we had 25 issued patents in the United States and abroad and 38 patent applications pending in the United States and abroad. Despite our issued patents and pending patent applications, we may be unable to maintain or obtain patent protection for our technology. In addition, our existing patents and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our products and platform capabilities and use information that we regard as proprietary to create products and services that compete with ours. Effective patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our products are 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 reliance upon open source software could negatively affect our ability to sell our products and subject us to possible litigation. ****

We rely heavily upon open source software for the operation of our products and platform capabilities and expect to continue to do so in the future. In July 2020, we strengthened this commitment when we announced that we are making our agents, integrations, and SDKs available under an open source license, and that we are standardizing our future observability offerings in OpenTelemetry, a Cloud Native Computing Foundation project that is an emerging standard for software instrumentation. As a result of our use of open source software in our offerings, as well as our contributions of code to open source software projects, we may face claims from others claiming ownership of, or seeking to enforce the terms of, incompatible or conflicting licenses or other rights. This may include a demand to release 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 software we utilize change, additional licenses from third parties may be required or we may be forced to reengineer or discontinue our products and platform capabilities or incur additional costs. In addition, open source licensors generally do not provide warranties, support, indemnity, or assurance of title or controls on origin of the software which may lead to greater risks. Likewise, some open source projects have known security and other vulnerabilities and architectural instabilities and are provided on an "as-is" basis which, if not properly addressed, could negatively affect the performance of our product. While we have established processes to help alleviate these risks, we cannot assure that these measures will reduce or completely shield us from these risks. Moreover, we cannot be certain that we have not incorporated software in our products and platform capabilities in a manner that is inconsistent with the terms of the applicable proprietary rights that may govern their use, or our own policies and procedures.

Our continued shift to increase reliance upon open source software will also present increased risk from the standpoint of competition. Because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely. Anyone may obtain access to the source code for our open source features and then redistribute it (either in a modified or unmodified form), and we may be unable to prevent our competitors or others from using such software source code for competitive purposes, or for commercial or other purposes beyond what we intended. For instance, our recent conversion of the license terms for our agents, integrations and SDKs from our historical proprietary licenses to open source licenses may allow the use of our previous proprietary code with competitor's platforms. Additionally, we make the source code of our proprietary features publicly available, which may enable others to compete more effectively. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies, due to the permissions allowed under open source licensing. It is possible for competitors to develop their own software, including software based on our products, potentially reducing the demand for our services.

## Risks Related to Ownership of Our Common Stock

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

The market price of our common stock is subject to wide fluctuations in response to various factors, some of which are beyond our control. Since shares of our common stock were sold in our initial public offering in December 2014 at a price of $23.00 per share, the reported high and low sales prices of our common stock have ranged from $114.78 to $20.39 through December 31, 2020. 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;
- seasonal and end-of-quarter concentration of our transactions and variations in the number and size of transactions that close in a particular quarter;
- 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;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- changes in our pricing models and practices or those of our competitors;
- developments or disputes concerning our intellectual property or our products and platform capabilities, or third-party proprietary rights;
- cybersecurity attacks or incidents;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws, or regulations applicable to our business;
- changes in our board of directors or management;
- announced or completed equity or debt transactions involving our securities;
- sales of shares of our common stock by us, our officers, directors, or other stockholders;
- lawsuits filed or threatened against us; and
- other events or factors, including those resulting from war, incidents of terrorism, public health epidemics, 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. Moreover, fluctuations in our quarterly operating results and the price of our common stock may be particularly pronounced in the current economic environment due to the uncertainty caused by and the unprecedented nature of the COVID-19 pandemic. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business, results of operations, financial condition, and cash flows. A decline in the value of our common stock, including as a result of one or more factors set forth above, may result in substantial losses for our stockholders.

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

The market price of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers, and significant stockholders, a large number of shares of our common stock becoming available for sale, or the perception in the market that holders of a large number of shares intend to sell their shares. Further, the Notes may become in the future convertible at the option of their holders prior to their scheduled terms under certain circumstances. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. Additionally, the shares of common stock subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans, as well as shares issuable upon vesting of restricted stock awards, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. 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.

***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 Chair of our board of directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- provide that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of at least seventy-five percent (75%) of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

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

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

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

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

This exclusive-forum provision would not apply to suits brought to enforce a duty or liability created by the Securities Act of 1933, as amended, the Exchange Act or any claim for which the U.S. federal courts have exclusive jurisdiction. 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. While the Delaware courts have determined that such choice of forum provision is facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than that designated in the exclusive forum provision. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provision of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions. If a court were to find this exclusive-forum provision to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of 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.

***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. Further, with the pricing changes we announced in the second quarter of fiscal 2021, we are transitioning to a consumption-based business model and will be retiring our traditional subscription-based key operating metrics, including ARR, as we conclude fiscal 2021. To the extent that industry analysts continue to emphasize or place value on subscription-based metrics or inaccurately reflect our key performance indicators in future analyst research and reports, our stock price and trading volume would decline. 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.

## General Risk Factors

***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, especially in a volatile economic environment. 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.

***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, including the ongoing COVID-19 pandemic, 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.

***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.

Furthermore, 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 commitments or amount of their spend, or affect renewal rates, all of which could harm our operating results.

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

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

We may in the future require additional capital to operate our business and respond to business opportunities that may arise, including the need to develop new products and platform capabilities or enhance our existing products and platform capabilities, enhance our operating infrastructure, protect our intellectual property, pursue possible acquisitions of complementary businesses and technologies, respond to a decline in the level of adoption or usage of our platform, 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.

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

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.

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 or as market practices develop. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

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.

From time to time, public companies are subject to campaigns by investors seeking to increase short-term stockholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases, management changes or sales of assets or the entire company. If stockholders attempt to effect such changes or acquire control over us, responding to such actions would be costly, time-consuming and disruptive, which could adversely affect our results of operations, financial results and the value of our common stock. These factors could also make it more difficult for us to attract and retain qualified employees, executive officers and members of our board of directors.

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

None.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

**Item 6. Exhibits**

| Exhibit No. | Description of Exhibit | Incorporated by Reference | | | | Filed Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | File Date | |
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant. | 10-K | 001-36766 | 3.1 | May 28, 2015 | |
| 3.2 | Amended and Restated Bylaws of the Registrant. | S-1 | 333-200078 | 3.4 | November 10, 2014 | |
| 10.1 | Form of Extension to Change in Control and Severance Agreement. | | | | | X |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.1(1) | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the In-line XBRL document. | | | | | |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | | | | | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | | | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | | | X |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | | | | | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | | | X |
| 104 | Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | | | |

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

## SIGNATURES

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

**NEW RELIC, INC.**

Date: February 4, 2021

By: /s/ Mark Sachleben

**Mark Sachleben**
**Chief Financial Officer**
**(Principal Financial and Accounting Officer and Duly Authorized Signatory)**

Extension of term for that certain Change in Control and Severance Agreement effective as of [Date][, as amended by the extension dated [Date]]([together,] the “Agreement”)

Dear [Name],

New Relic, Inc. desires to amend the terms of the above-referenced Agreement, which sets forth certain protections you have in the event of your termination of employment with us, in order to extend the effectiveness of the Agreement.

Accordingly, effective as of the date of the last signature hereto, and pursuant to the terms set forth in Section 1 of the Agreement, the Agreement will remain in effect until December 31, 2023.

Please note that, except as set forth above with respect to the effectiveness of the Agreement, this letter does not modify the Agreement you have entered into with us in any way, including that your employment relationship with us is and shall remain at-will.

The validity, interpretation, construction and performance of this letter agreement shall be governed by the internal substantive laws, but not the conflicts of law rules, of the State of California. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

**NEW RELIC, INC.**

By: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

**Acknowledged and Agreed:**

______________________________

[Full Name]

Date: ______________________________

**Exhibit 31.1**

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lewis Cirne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of New Relic, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: February 4, 2021

By: /s/ Lewis Cirne

**Lewis Cirne**
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Sachleben, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of New Relic, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: February 4, 2021

By: /s/ Mark Sachleben

**Mark Sachleben**
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lewis Cirne, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of New Relic, Inc. for the fiscal quarter ended December 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of New Relic, Inc.

Date: February 4, 2021

By: /s/ Lewis Cirne
**Lewis Cirne**
Chief Executive Officer

I, Mark Sachleben, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of New Relic, Inc. for the fiscal quarter ended December 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of New Relic, Inc.

Date: February 4, 2021

By: /s/ Mark Sachleben
**Mark Sachleben**
Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of New Relic, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.