UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2022

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 001-39502

Sumo Logic, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-2234444**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
305 Main Street	
Redwood City, California	**94063**
(Address of principal executive offices)	(Zip Code)

(650) 810-8700

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	SUMO	Nasdaq Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 28, 2022, the number of outstanding shares of the registrant's common stock was 120,012,539 shares of common stock.

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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,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “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 Form 10-Q include, but are not limited to, statements about our expectations regarding:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, operating expenses, including changes in sales and marketing, research and development, and general and administrative expenses, and key business metrics, and our ability to achieve and maintain future profitability;
- the macroeconomic environment, including inflation and rising interest rates, industry trends or trend analysis, and the war in Ukraine;
- the impact of the COVID-19 pandemic, including the emergence of new variants of the virus, and any associated economic downturn on our business and results of operations;
- our business model and our ability to effectively manage our growth and associated investments;
- our beliefs about and objectives for future operations;
- market acceptance of our platform;
- our ability to maintain and expand our customer base, including by attracting new customers;
- our ability to retain customers and expand their adoption of our platform, particularly our largest customers;
- the effects of increased competition in our markets and our ability to compete effectively;
- our ability to maintain the security and availability of our platform;
- our ability to develop new platform features and functionality, or enhancements to our existing platform features and functionality, and bring them to market in a timely manner;
- anticipated trends, growth rates, and challenges in our business and in the markets in which we operate;
- our relationships with third parties, including channel and technology partners;
- our ability to successfully expand in our existing markets and into new markets, including internationally;
- our ability to comply with laws and regulations that currently apply or become applicable to our business both in the United States and internationally, including with respect to privacy and data protection;
- our expectations regarding our ability to obtain, maintain, enforce, defend, and enhance our intellectual property rights;
- our ability to successfully defend litigation brought against us;
- the sufficiency of our cash and cash equivalents to meet our liquidity needs;
- our ability to attract and retain employees and key personnel; and
- future acquisitions or investments.

We caution you that the foregoing list may 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, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors, including those described in the section titled “Risk Factors” 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.

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

Risk Factors Summary

Our business is subject to significant risks and uncertainties that make an investment in us speculative and risky. Below we summarize what we believe are the principal risk factors but these risks are not the only ones we face, and you should carefully review and consider the full discussion of our risk factors in the section titled "Risk Factors," together with the other information in this Quarterly Report on Form 10-Q. If any of the following risks actually occurs (or if any of those listed elsewhere in this Quarterly Report on Form 10-Q occur), our business, reputation, financial condition, results of operations, revenue, and future prospects could be seriously harmed. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business.

- Our revenue growth rate and financial performance in recent periods may not be indicative of future performance;
- We have a history of net losses and we may not be able to achieve or maintain profitability in the future;
- We face intense competition and could face pricing pressure from, and lose market share to, our competitors, which would adversely affect our business, financial condition, and results of operations;
- The markets for our offerings are evolving, and our future success depends on the growth of these markets and our ability to adapt, keep pace, and respond effectively to evolving markets;
- We may fail to cost-effectively acquire new customers or obtain renewals, upgrades, or expansions from our existing customers, which would adversely affect our business, financial condition, and results of operations;
- Changes to our packaging and licensing models could adversely affect our ability to attract or retain customers;
- Our results of operations vary and are unpredictable from period to period, which could cause the market price of our common stock to decline;
- The global COVID-19 pandemic has harmed and could continue to harm our business and results of operations;
- Our sales cycle can be long and unpredictable, and our sales efforts require considerable time and expense;
- The loss of, or a significant reduction in use of our platform by, our largest customers would result in lower revenue and harm our results of operations;
- We depend on our sales force, and we may fail to attract, retain, motivate, or train our sales force, which could adversely affect our business, financial condition, and results of operations;
- We utilize free trials and other go-to-market strategies, and we may not be able to realize the benefits of these strategies;
- If our website fails to rank prominently in unpaid search results, traffic to our website could decline and our business, financial condition, and results of operations could be adversely affected;
- We may be unable to build and maintain successful relationships with our channel partners or such channel partners may fail to perform, which could adversely affect our business, financial condition, results of operations, and growth prospects;
- Our ability to increase sales depends, in part, on the quality of our customer support, and our failure to offer high quality support would harm our reputation and adversely affect our business and results of operations;
- Our international operations and continued international expansion subject us to additional costs and risks, which could adversely affect our business, financial condition, and results of operations;
- We may fail to effectively manage our growth, which would adversely affect our business, financial condition, and results of operations;
- We depend on our management team and other highly skilled personnel, and we may fail to attract, retain, motivate, or integrate highly skilled personnel, which could adversely affect our business, financial condition, and results of operations;
- We may be unable to make acquisitions and investments, successfully integrate acquired companies into our business, or our acquisitions and investments may not meet our expectations, any of which could adversely affect our business, financial condition, and results of operations;
- Our reputation and brand are important to our success, and we may not be able to maintain and enhance our reputation and brand, which would adversely affect our business, financial condition, and results of operations;
- We provide service level commitments under our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service, or face contract termination with refunds of prepaid amounts related to unused subscriptions, which could harm our business, financial condition, and results of operations;
- A portion of our revenue is generated by sales to government entities, which subject us to a number of challenges and risks;
- Our business could be adversely affected by economic downturns;
- Our business and results of operations are subject to the effects of a rising rate of inflation;
- Our business could be adversely affected by unexpected events such as pandemics, natural disasters, political crises, or social instability;
- We use certain third-party services to manage and operate our business, and any failure or interruption in the services provided by these third parties could adversely affect our business, financial condition, and results of operations;
- We believe our long-term value as a company will be greater if we focus on growth, which may negatively impact our results of operations in the near term;

- Any actual or perceived security or privacy breach could interrupt our operations, harm our reputation and brand, result in financial exposure, and lead to loss of user confidence in us or decreased use of our platform, any of which could adversely affect our business, financial condition, and results of operations;
- Real or perceived defects, errors, or vulnerabilities in our platform could harm our reputation and adversely affect our business, financial condition, and results of operations;
- We rely on Amazon Web Services (“AWS”) to deliver our platform to our customers, and any disruption of, or interference with, our use of AWS could adversely affect our business, financial condition, and results of operations;
- Any failure to obtain, maintain, protect, or enforce our intellectual property and proprietary rights could harm our business, financial condition, and results of operations;
- Claims by others that we infringed their proprietary technology or other intellectual property rights would harm our business;
- Our platform contains third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to deliver our platform or subject us to litigation or other actions;
- We license certain editions of our offerings under an open source licensing model, which may limit our ability to monetize certain of our offerings and present other challenges;
- The rapidly evolving framework of privacy, data protection, data transfers, or other laws or regulations worldwide may limit the use and adoption of our services and adversely affect our business;
- We incorporate technology from third parties into our platform, and our inability to maintain rights to such technology would harm our business and results of operations;
- Our platform may not interoperate with our customers’ infrastructure or with third-party offerings, which would adversely affect our business and results of operations;
- We may be subject to claims that we have wrongfully hired an employee from a competitor, or that our employees, consultants, or independent contractors have wrongfully used or disclosed confidential information of third parties or that our employees have wrongfully used or disclosed alleged trade secrets of their former employers;
- Remaining performance obligations and calculated billings may not be accurate indicators of business activity within a period;
- We recognize substantially all of our revenue ratably over the term of the relevant subscription period, and as a result, downturns or upturns in sales may not be immediately reflected in our results of operations;
- Our metrics and estimates used to evaluate our performance are subject to inherent challenges in measurement, and real or perceived inaccuracies in those estimates may harm our reputation and negatively affect our business;
- Our loan and security agreement provides our lender with a first-priority lien against substantially all of our assets and contains restrictive covenants which could limit our operational flexibility and otherwise adversely affect our financial condition; and
- Our executive officers, directors, and holders of 5% or more of our common stock continue to have substantial control over us, which will limit your ability to influence the outcome of important transactions, including a change in control.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Sumo Logic, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	October 31, 2022	January 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 91,662	$ 79,986
Marketable securities, current	230,482	210,645
Accounts receivable, net	56,280	49,451
Prepaid expenses	9,791	9,792
Deferred sales commissions, current	18,790	17,110
Other current assets	2,526	2,865
Total current assets	409,531	369,849
Marketable securities, noncurrent	19,917	65,866
Property and equipment, net	4,848	4,960
Operating lease right-of-use assets	2,327	6,110
Goodwill	92,298	94,967
Acquired intangible assets, net	14,220	26,221
Deferred sales commissions, noncurrent	31,165	32,689
Other assets	1,773	1,469
Total assets	$ 576,079	$ 602,131
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 17,970	$ 7,755
Accrued expenses and other current liabilities	21,726	25,425
Operating lease liabilities, current	2,551	4,619
Deferred revenue, current	144,641	131,329
Total current liabilities	186,888	169,128
Operating lease liabilities, noncurrent	168	2,346
Deferred revenue, noncurrent	3,396	5,944
Other liabilities	5,654	5,744
Total liabilities	196,106	183,162
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock	12	11
Additional paid-in-capital	1,009,058	944,447
Accumulated other comprehensive loss	(11,022)	(4,333)
Accumulated deficit	(618,075)	(521,156)
Total stockholders' equity	379,973	418,969
Total liabilities and stockholders' equity	$ 576,079	$ 602,131

See Notes to Condensed Consolidated Financial Statements

Sumo Logic, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except for per share data)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Revenue	$ 78,952	$ 62,016	$ 220,915	$ 175,076
Cost of revenue	25,114	20,384	75,222	55,557
Gross profit	53,838	41,632	145,693	119,519
Operating expenses:				
Research and development	26,462	25,464	80,351	69,768
Sales and marketing	38,787	33,565	113,613	95,300
General and administrative	15,906	14,015	50,454	45,258
Total operating expenses	81,155	73,044	244,418	210,326
Loss from operations	(27,317)	(31,412)	(98,725)	(90,807)
Interest and other income (expense), net	1,635	(19)	3,415	34
Interest expense	(79)	(44)	(114)	(133)
Loss before provision for income taxes	(25,761)	(31,475)	(95,424)	(90,906)
Provision (benefit) for income taxes	528	(639)	1,495	(1,107)
Net loss	$ (26,289)	$ (30,836)	$ (96,919)	$ (89,799)
Net loss per share, basic and diluted	$ (0.22)	$ (0.28)	$ (0.83)	$ (0.84)
Weighted-average shares used to compute net loss per share, basic and diluted	119,124	110,409	116,712	107,479

See Notes to Condensed Consolidated Financial Statements

Sumo Logic, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	**2021**	**2022**	**2021**
Net loss	$ (26,289)	$ (30,836)	$ (96,919)	$ (89,799)
Other comprehensive loss:				
Foreign currency translation adjustments	(1,353)	(2,077)	(4,964)	(2,154)
Unrealized loss on available-for-sale marketable securities	(488)	(218)	(1,725)	(207)
Total comprehensive loss	$ (28,130)	$ (33,131)	$ (103,608)	$ (92,160)

See Notes to Condensed Consolidated Financial Statements

Sumo Logic, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at July 31, 2022	118,333	$ 12	$ 989,459	$ (9,181)	$ (591,786)	$ 388,504
Issuance of common stock upon exercise of stock options	655	—	1,732			1,732
Vesting of restricted stock units	884	—	—	—	—	—
Cancellation of common stock held	(28)	—	—	—	—	—
Stock-based compensation	—	—	17,867	—	—	17,867
Other comprehensive loss	—	—	—	(1,841)	—	(1,841)
Net loss	—	—	—	—	(26,289)	(26,289)
Balance at October 31, 2022	119,844	$ 12	$ 1,009,058	$ (11,022)	$ (618,075)	$ 379,973
Balance at July 31, 2021	110,133	$ 11	$ 904,076	$ (111)	$ (456,754)	$ 447,222
Issuance of common stock upon exercise of stock options	1,344	—	4,648	—	—	4,648
Vesting of restricted stock units	370	—	—	—	—	—
Vesting of early exercised stock options	—	—	49	—	—	49
Stock-based compensation	—	—	12,937	—	—	12,937
Other comprehensive loss	—	—	—	(2,295)	—	(2,295)
Net loss	—	—	—	—	(30,836)	(30,836)
Balance at October 31, 2021	111,847	$ 11	$ 921,710	$ (2,406)	$ (487,590)	$ 431,725

See Notes to Condensed Consolidated Financial Statements

Sumo Logic, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2022	113,813	$ 11	$ 944,447	$ (4,333)	$ (521,156)	$ 418,969
Issuance of common stock upon exercise of stock options	3,236	1	11,478	—	—	11,479
Vesting of restricted stock units	2,369	—	—	—	—	—
Vesting of early exercised stock options	—	—	33	—	—	33
Issuance of common stock in connection with employee stock purchase plan	454	—	2,831	—	—	2,831
Cancellation of common stock held	(28)	—	—	—	—	—
Stock-based compensation	—	—	50,269	—	—	50,269
Other comprehensive loss	—	—	—	(6,689)	—	(6,689)
Net loss	—	—	—	—	(96,919)	(96,919)
Balance at October 31, 2022	119,844	$ 12	$ 1,009,058	$ (11,022)	$ (618,075)	$ 379,973
Balance at January 31, 2021	102,484	$ 10	$ 829,238	$ (45)	$ (397,791)	$ 431,412
Issuance of common stock upon exercise of stock options	5,824	1	17,974	—	—	17,975
Exercise of common stock warrants	18	—	—	—	—	—
Vesting of restricted stock units	1,567	—	—	—	—	—
Vesting of early exercised stock options	—	—	147	—	—	147
Issuance of common stock in connection with employee stock purchase plan	280	—	4,725	—	—	4,725
Common stock issued in connection with acquisitions	1,674	—	30,499	—	—	30,499
Stock-based compensation	—	—	39,127	—	—	39,127
Other comprehensive loss	—	—	—	(2,361)	—	(2,361)
Net loss	—	—	—	—	(89,799)	(89,799)
Balance at October 31, 2021	111,847	$ 11	$ 921,710	$ (2,406)	$ (487,590)	$ 431,725

See Notes to Condensed Consolidated Financial Statements

Sumo Logic, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended October 31,	
	2022	2021
Cash flows from operating activities		
Net loss	$ (96,919)	$ (89,799)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,567	9,889
Amortization of deferred sales commissions	14,819	11,353
Amortization (accretion) of marketable securities purchased at a premium (discount)	1,415	2,156
Stock-based compensation, net of amounts capitalized	49,933	39,127
Non-cash operating lease cost	2,998	3,132
Other	(217)	(1,852)
Changes in operating assets and liabilities		
Accounts receivable	(6,922)	1,910
Prepaid expenses	(18)	(133)
Other assets	(538)	1,104
Deferred sales commissions	(14,975)	(16,252)
Accounts payable	10,256	4,283
Accrued expenses and other current liabilities	(2,594)	1,806
Deferred revenue	10,764	16,436
Operating lease liabilities	(3,328)	(3,371)
Other liabilities	594	265
Net cash used in operating activities	(22,165)	(19,946)
Cash flows from investing activities		
Purchases of marketable securities	(184,996)	(359,587)
Maturities of marketable securities	182,563	57,958
Sales of marketable securities	25,102	15,480
Purchases of property and equipment	(386)	(1,799)
Capitalized internal-use software costs	(986)	—
Cash paid for acquisitions, net of cash and restricted cash acquired	—	(40,340)
Net cash provided by (used in) investing activities	21,297	(328,288)
Cash flows from financing activities		
Payments of deferred offering costs	—	(93)
Proceeds from employee stock purchase plan	2,831	4,725
Proceeds from exercise of common stock options	11,479	17,974
Cash paid for holdback consideration in connection with acquisitions	(456)	—
Net cash provided by financing activities	13,854	22,606
Effect of exchange rate changes on cash and cash equivalents	(1,310)	(174)
Change in cash and cash equivalents and restricted cash	11,676	(325,802)
Cash and cash equivalents and restricted cash:		
Beginning of period	80,286	404,440
End of period	$ 91,962	$ 78,638
Supplemental disclosures of cash flow information		
Cash paid for income taxes	$ 1,804	$ 831
Cash paid for interest	68	63
Supplemental non-cash investing and financing information		
Vesting of early exercised options	33	148
Common stock and assumed awards issued as consideration for acquisitions	—	30,499
Unpaid cash consideration for acquisitions	—	456
Stock-based compensation capitalized as internal-use software costs	336	—
Property and equipment accrued but not yet paid	—	40
Reconciliation of cash, cash equivalents, and restricted cash to consolidated balance sheets		
Cash and cash equivalents	$ 91,662	$ 78,288
Restricted cash included in other current assets	300	350
Total cash, cash equivalents, and restricted cash	$ 91,962	$ 78,638

See Notes to Condensed Consolidated Financial Statements

Sumo Logic, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Description of Business and Basis of Presentation

Organization and Nature of Operations

Sumo Logic, Inc. (the "Company") was incorporated in Delaware in March 2010. The Company provides, on a cloud-native software-as-a-service ("SaaS") delivery model, a software analytics platform for reliable and secure cloud-native applications to address the challenges and opportunities presented by digital transformation, modern applications, and cloud computing. The platform helps customers ensure application reliability, secure and protect against modern security threats, and gain insights into their cloud infrastructure.

Basis of Presentation and Principles of Consolidation

The Company's condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission, ("SEC"), regarding interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP have been condensed or omitted, and accordingly the balance sheet as of January 31, 2022, and related disclosures, have been derived from the audited consolidated financial statements at that date but do not include all of the information required by GAAP for complete consolidated financial statements.

The accompanying interim unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes contained in the Company's Annual Report on Form 10-K for the year ended January 31, 2022, as filed with the SEC on March 14, 2022.

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

These unaudited condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in the opinion of management, reflect all normal recurring adjustments that are necessary for the fair statement of the Company's condensed consolidated financial information. The results of operations for the three and nine months ended October 31, 2022 are not necessarily indicative of the results to be expected for the year ending January 31, 2023 or for any other interim period or for any other future year.

Fiscal Year

The Company's fiscal year ends on January 31. Unless otherwise stated, references to year in these condensed consolidated financial statements relate to the above described fiscal year rather than calendar year.

2. Summary of Significant Accounting Policies

Use of Estimates and Judgments

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the 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 financial statements and may involve subjective or significant judgment by the Company; therefore, actual results could differ from the Company's estimates. The Company's accounting policies that involve judgment include revenue recognition, period of benefit for deferred sales commissions, useful lives of acquired intangible assets and property and equipment, stock-based compensation expense including the assumptions used for estimating the fair value of common stock (prior to the closing of the Company's initial public offering ("IPO")), capitalization of internal-use software costs, fair value of assets acquired and liabilities assumed from business combinations, incremental borrowing rate for operating leases, estimate of credit losses for accounts receivable and marketable securities, and valuation allowances associated with income taxes.

COVID-19

While the duration and extent of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the duration and spread of the outbreak, the emergence of variants of the virus, the extent and effectiveness of containment actions, and the effectiveness of vaccination efforts, it has already had an adverse effect on the global economy and the ultimate societal and economic impact of the COVID-19 pandemic remains unknown. The Company may experience customer losses, including due to bankruptcy or customers ceasing operations, which may result in delays in collections or an inability to collect accounts receivable from these customers. The extent to which the COVID-19 pandemic, including the emergence of variants of the virus, may continue to impact the Company's financial condition, results of operations, or liquidity continues to remain uncertain, and as of the date of issuance of these financial statements, the Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or an adjustment to the carrying value of the Company's assets or liabilities. These estimates may change, as new events occur and additional information is obtained, which 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 Company's financial statements.

Significant Accounting Policies

There have been no changes to the Company's significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended January 31, 2022, that have had a material impact on its condensed consolidated financial statements and related notes.

Related Party Transactions

Certain members of the Company's board of directors serve as directors of, or are executive officers of, and in some cases are investors in, companies that are customers or vendors of the Company. Related party transactions were not material as of October 31, 2022 or January 31, 2022, or for the nine months ended October 31, 2022 or 2021.

Recently Adopted Accounting Pronouncements

The Company assesses the adoption impacts of recently issued accounting pronouncements by the Financial Accounting Standards Board ("FASB") on its condensed consolidated financial statements. The section below describes the impact from newly adopted pronouncements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires that an entity recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 as if it had originated the contracts. The adoption of the standard will impact future business combinations. The Company has elected to early adopt this guidance as of February 1, 2022. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements for the nine months ended October 31, 2022 as no business combination activities occurred during this period.

3. Fair Value Measurements

The Company measures its financial assets and liabilities at fair value each reporting period using a fair value hierarchy that prioritizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value, as follows:

Level 1 Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company uses the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The carrying amounts of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of those instruments.

The following tables present the fair value of the Company's financial assets measured at fair value on a recurring basis, based on the three-tier fair value hierarchy (in thousands):

	As of October 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 77,275	$ —	$ —	$ 77,275
Corporate debt securities	—	1,405	—	1,405
Marketable securities:				
U.S. Treasury securities	—	51,780	—	51,780
Corporate debt securities	—	148,508	—	148,508
Commercial paper	—	36,856	—	36,856
Foreign government obligations	—	4,736	—	4,736
Certificates of deposit	—	8,519	—	8,519
Total financial assets	$ 77,275	$ 251,804	$ —	$ 329,079

	As of January 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 70,742	$ —	$ —	$ 70,742
Marketable securities:				
U.S. Treasury securities	—	67,476	—	67,476
Corporate debt securities	—	167,160	—	167,160
Commercial paper	—	19,033	—	19,033
Foreign government obligations	—	7,607	—	7,607
Supranational securities	—	12,922	—	12,922
Certificates of deposit	—	2,313	—	2,313
Total financial assets	$ 70,742	$ 276,511	$ —	$ 347,253

The Company had $0.3 million of restricted cash invested in money market funds that is not included in the tables above as of October 31, 2022 and January 31, 2022, respectively.

In connection with the Loan and Security agreement, discussed in Note 6, the Company issued 32,276 warrants to purchase shares of the Company's redeemable convertible preferred stock. The Company used a Black-Scholes option valuation model to value its redeemable convertible preferred stock warrant liability at inception and on subsequent valuation dates. Changes in the fair values of the redeemable convertible preferred stock warrant liability were recorded as interest and other income (expense), net in the Company's condensed consolidated statements of operations. All 32,276 warrants to purchase shares of redeemable convertible preferred stock converted into warrants to purchase common stock upon the closing of the Company's IPO and the related liability was reclassified to additional paid-in capital in the Company's condensed consolidated balance sheet. During the nine months ended October 31, 2022, no warrants were exercised. During the nine months ended October 31, 2021, 21,746 warrants were exercised. There were no transfers between levels of the fair value hierarchy during the nine months ended October 31, 2022 and 2021, respectively.

The following is a summary of available-for sale marketable securities, excluding those securities classified within cash and cash equivalents on the condensed consolidated balance sheet as of October 31, 2022 and January 31, 2022, respectively (in thousands):

	As of October 31, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Treasury securities	$ 52,424	$ —	$ (644)	$ 51,780
Corporate debt securities	150,200	4	(1,696)	148,508
Commercial paper	36,977	—	(121)	36,856
Foreign government obligations	4,790	—	(54)	4,736
Certificates of deposit	8,617	—	(98)	8,519
Total marketable securities	$ 253,008	$ 4	$ (2,613)	$ 250,399

	As of January 31, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Treasury securities	$ 67,770	$ —	$ (294)	$ 67,476
Corporate debt securities	167,693	3	(536)	167,160
Commercial paper	19,052	—	(19)	19,033
Foreign government obligations	7,640	—	(33)	7,607
Supranational securities	12,923	—	(1)	12,922
Certificates of deposit	2,319	—	(6)	2,313
Total marketable securities	$ 277,397	$ 3	$ (889)	$ 276,511

The Company does not believe that any unrealized losses are attributable to credit-related factors based on its evaluation of available evidence. To determine whether a decline in value is related to credit loss, the Company evaluates, among other factors: the extent to which the fair value is less than the amortized cost basis, changes to the rating of the security by a rating agency, and any adverse conditions specifically related to an issuer of a security or its industry. No impairment loss has been recorded on the securities included in the table above, as the Company believes that the decrease in fair value of these securities is temporary.

The following table presents the contractual maturities of the Company's marketable securities (in thousands):

	October 31, 2022
Due in one year or less	$ 230,482
Due after one year and within five years	19,917
Total marketable securities	$ 250,399

4. Acquisitions, Intangible Assets, and Goodwill

Sensu, Inc.

On June 10, 2021, the Company completed the acquisition of Sensu, Inc. ("Sensu") a privately-held software company that is a leader in open source monitoring. The addition of Sensu is expected to accelerate the Company's observability strategy by providing customers with an affordable and scalable end-to-end solution for infrastructure and application monitoring.

The aggregate amount recorded as purchase consideration was $32.7 million, of which $8.6 million was paid or to be paid in cash, and $24.1 million was comprised of 1,123,697 shares of the Company's common stock. The value of consideration assigned to such shares of common stock was based on the closing price of the Company's common stock on the date of acquisition, or $21.49 per share.

Additionally, 71,644 shares of common stock were issued with a fair value of $21.49 per share at the time of grant and will be recorded as stock-based compensation expense. These shares are subject to risk of forfeiture which lapse in full 1.5 years after the acquisition date. The Company recorded stock-based compensation expense related to the vesting of the restricted common stock of

$0.2 million during the nine months ended October 31, 2022, and $0.3 million and $0.4 million during the three and nine months ended October 31, 2021, respectively. The Company recorded a credit to stock-based compensation expense for the three months ended October 31, 2022 of $0.3 million primarily due to the reversal of unvested restricted common stock recognized in prior periods. As of October 31, 2022, the remaining unrecognized stock-based compensation expense was $0.1 million and will be recognized over the remaining vesting period.

A portion of the consideration otherwise payable was held back by the Company as partial security for certain indemnification obligations to be released 12 months after the acquisition date, subject to reduction for any indemnification claims. The $0.5 million of consideration held back was released during the second quarter of fiscal 2023.

Certain stock options held by Sensu employees were assumed by the Company with a total fair value of $0.6 million and will be recognized as stock-based compensation expense over the remaining service period. See Note 9 for more details on the Sensu options assumed.

The acquisition was accounted for as a business combination and the total purchase consideration was allocated to the net tangible and intangible assets and liabilities based on their fair values on the acquisition date and the excess was recorded as goodwill.

The following table presents the purchase consideration allocation recorded in the Company's condensed consolidated balance sheet as of the acquisition date (in thousands):

	Amount
Cash and cash equivalents	$ 2,270
Accounts receivable	409
Other current assets	50
Acquired intangible assets	11,800
Goodwill	19,889
Accounts payable	(49)
Deferred revenue, current	(658)
Accrued expenses and other current liabilities	(143)
Deferred revenue, noncurrent	(99)
Other liabilities	(747)
Total acquisition consideration	$ 32,722

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	Total	Useful Life (in years)
Developed technology	$ 8,800	3
Customer relationships	3,000	5
Intangible assets	$ 11,800	

Goodwill represents the future economic benefits arising from other assets that could not be individually identified and separately recognized, such as the acquired assembled workforce and synergies expected to be achieved from the integration of Sensu. In addition, goodwill represents the future benefits as a result of the acquisition that management expects to enhance the Company's product available to both new and existing customers and increase the Company's market position. Goodwill is not deductible for tax purposes.

The results of operations of Sensu from the date of acquisition have been included in the Company's condensed consolidated financial statements. Pro forma revenue and results of operations have not been presented because the historical results of Sensu are not material to the Company's condensed consolidated financial statements in any period presented.

DF Labs S.p.A.

On May 24, 2021, the Company completed the acquisition of DF Labs S.p.A. (“DFLabs”), a privately-held Italian corporation and a leader in security orchestration, automation and response (“SOAR”) technology. The combination of the Company’s Cloud SIEM and DFLabs' solution will provide customers with comprehensive cloud-native security intelligence solutions.

The aggregate amount recorded as purchase consideration was $41.7 million, of which $35.3 million was paid in cash, and $6.4 million was comprised of 334,815 shares of the Company’s common stock. The value of consideration assigned to such shares of common stock was based on the closing price of the Company’s common stock on the date of acquisition, or $18.97 per share.

Additionally, 143,492 shares of common stock were issued with a fair value of $18.97 per share at the time of grant and will be recorded as stock-based compensation. These shares are subject to risk of forfeiture, which lapse in full 2.0 years after the acquisition date. The Company recorded stock-based compensation expense related to the vesting of the restricted common stock of $0.3 million and $1.0 million during the three and nine months ended October 31, 2022, respectively, and $0.3 million and $0.6 million during the three and nine months ended October 31, 2021, respectively. As of October 31, 2022, the remaining unrecognized stock-based compensation expense was $0.8 million and will be recognized over the remaining vesting period.

A portion of the consideration otherwise payable was placed into escrow as partial security for certain indemnification obligations to be released 12 months after the acquisition date, subject to reduction for any indemnification claims. The Company released the consideration placed in escrow during the third quarter of fiscal 2023.

The acquisition was accounted for as a business combination and the total purchase consideration was allocated to the net tangible and intangible assets and liabilities based on their fair values on the acquisition date and the excess was recorded as goodwill.

The following table presents the purchase consideration allocation recorded in the Company’s condensed consolidated balance sheet as of the acquisition date (in thousands):

	Amount
Cash and cash equivalents	$ 782
Accounts receivable	430
Other current assets	111
Property and equipment	435
Acquired intangible assets	17,200
Goodwill	26,623
Other assets	178
Accounts payable	(262)
Deferred revenue, current	(340)
Accrued expenses and other current liabilities	(788)
Deferred revenue, noncurrent	(38)
Other liabilities	(2,654)
Total acquisition consideration	$ 41,677

Acquired intangible assets consist of developed technology with an estimated useful life of 3 years.

Goodwill represents the future economic benefits arising from other assets that could not be individually identified and separately recognized, such as the acquired assembled workforce of DFLabs and synergies expected to be achieved from the integration of DFLabs. In addition, goodwill represents the future benefits as a result of the acquisition that management expects to enhance the Company’s product available to both new and existing customers and increase the Company’s market position. Goodwill is not deductible for tax purposes.

The results of operations of DFLabs from the date of acquisition have been included in the Company’s condensed consolidated financial statements. Pro forma revenue and results of operations have not been presented because the historical results of DFLabs are not material to the Company’s condensed consolidated financial statements in any period presented.

Acquisition-Related Expenses

The Company incurred acquisition-related expenses primarily for professional services of $3.8 million during the year ended January 31, 2022, which were recorded as general and administrative expenses in the consolidated statement of operations.

Acquired Intangible Assets

Acquired intangible assets, net consisted of the following (in thousands):

	October 31, 2022			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (in years)
Developed technology	$ 41,926	$ (29,872)	$ 12,054	1.6
Customer relationships	3,000	(834)	2,166	3.7
Total	$ 44,926	$ (30,706)	$ 14,220	

	January 31, 2022			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (in years)
Developed technology	$ 43,650	$ (20,046)	$ 23,604	2.1
Customer relationships	3,000	(383)	2,617	4.4
Total	$ 46,650	$ (20,429)	$ 26,221	

The Company recorded amortization expense of $3.5 million and $3.8 million during the three months ended October 31, 2022 and 2021, respectively, and $10.8 million and $8.4 million during the nine months ended October 31, 2022 and 2021, respectively. There was no impairment of intangible assets recorded for the nine months ended October 31, 2022 or 2021. There was no fully amortized intangible assets written off during the nine months ended October 31, 2022. Fully amortized intangible assets were written off in the amount of $1.0 million during the year ended January 31, 2022.

As of October 31, 2022, future amortization expense related to acquired intangible assets was as follows (in thousands):

	Amortization Expense
Remainder of fiscal 2023	$ 2,054
2024	8,214
2025	3,136
2026	600
2027	216
Total amortization expense	$ 14,220

As of January 31, 2022, future amortization expense related to acquired intangible assets was as follows (in thousands):

	Amortization Expense
2023	$ 13,298
2024	8,789
2025	3,317
2026	600
2027	217
Total amortization expense	$ 26,221

Goodwill

Changes in the carrying amount of goodwill for the nine months ended October 31, 2022 was as follows (in thousands):

		Amounts
Balance as of January 31, 2022	$	94,967
Foreign currency translation		(2,669)
Balance as of October 31, 2022	$	92,298

There was no impairment of goodwill recorded for the nine months ended October 31, 2022 or 2021.

5. Leases

The Company leases office space globally under non-cancelable operating lease agreements that expire at various dates through fiscal 2025. The leases require monthly lease payments that may be subject to annual increases throughout the lease term. Certain of these leases include (i) renewal options at the election of the Company to renew or extend the lease for an additional 5 years, and/or (ii) options to terminate the lease early, subject to certain termination penalties and fees. These optional renewal and terminations periods have not been considered in the determination of the right-of-use assets (“RoU”) and lease liabilities associated with these leases, as the Company did not consider it reasonably certain it would exercise the options. During the second quarter of fiscal 2023, the Company exercised the option to early terminate one of its office leases, resulting in the related right-of-use asset balance being written off with no corresponding lease liability remaining on the Company’s balance sheet. This action resulted in a $0.1 million gain recognized in interest and other income (expense), net in the Company’s condensed consolidated statements of operations during the nine months ended October 31, 2022.

The Company evaluated its contracts and determined each of its identified leases are classified as operating leases. The Company has no lease agreements that are classified as finance leases as of October 31, 2022.

The following table presents the components of operating lease expense (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Operating lease expense	$ 975	$ 1,109	$ 3,115	$ 3,367
Variable lease expense	114	115	364	381
Short-term lease expense	118	20	277	39
Sublease income	67	65	197	151

As of October 31, 2022, the weighted average remaining lease term was 0.7 years and the weighted average discount rate used to determine the net present value of the lease liability was 3.0%.

Supplemental cash flow information and non-cash activity related to the Company’s operating leases were as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cash paid for amounts included in the measurement of lease liabilities	$ 1,081	$ 1,190	$ 3,433	$ 3,580

As of October 31, 2022, remaining maturities of lease liabilities are as follows (in thousands):

	Amount
Remainder of fiscal 2023	$ 1,096
2024	1,638
2025	19
Total lease payments	$ 2,753
Less: imputed interest	(34)
Present value of lease liabilities	$ 2,719

6. Debt

In February 2021, the Company entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank ("SVB Agreement") which provides for a revolving line of credit facility. The SVB Agreement amends and restates the Loan and Security Agreement dated January 31, 2016. Under the SVB Agreement, the Company can borrow up to $50 million. Interest on any drawdown accrues at the prime rate minus a spread rate ranging from 0.25% to 0.75%, as determined by the Company's adjusted quick ratio, subject to either a 3.00% or 2.50% floor depending on the adjusted quick ratio. The SVB Agreement is secured by substantially all of the Company's assets and includes restrictive covenants, in each case subject to certain exceptions, that limit the Company's ability to, among other things: incur debt, grant liens, make acquisitions, undergo a change in control, make investments, make certain dividends or distributions, repurchase or redeem stock, dispose of or transfer assets, and enter into transactions with affiliates. Pursuant to the SVB Agreement, the Company is required to maintain a minimum adjusted quick ratio of 1.25 to 1.00. The SVB Agreement also contains customary events of default, upon which Silicon Valley Bank may declare all or a portion of the Company's outstanding obligations payable to be immediately due and payable. As of October 31, 2022 and January 31, 2022, the Company did not have any debt balance outstanding. The Company was in compliance with the financial covenants associated with the amended Agreement as of October 31, 2022.

7. Commitments and Contingencies

Non-Cancellable Purchase Commitments

During the nine months ended October 31, 2022, there were no material changes, outside the ordinary course of business, to the Company's contractual obligations and commitments reported in the Company's Annual Report on Form 10-K for the year ended January 31, 2022.

Other Obligations

Litigation and Other Matters

From time to time, the Company may be a party to various legal matters, threatened claims, or proceedings in the normal course of business. Legal fees and other costs associated with such actions are expensed as incurred. The Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation and contingencies. Legal accruals are recorded when and if it is determined that a loss related to a certain matter is both probable and reasonably estimable.

Attorneys representing a purported class of current and former employees in various sales roles alleged potential claims of employee misclassification and related federal and state law claims, which the Company disputed. In response, the Company mediated the dispute, and in August 2020, the Company entered into a settlement agreement with the purported class counsel to resolve the dispute, which was handled in arbitration and resulted in the Company paying $4.5 million to resolve the class-wide claims during the first quarter of fiscal year 2022.

The Company is not always able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued. In management's opinion, resolution of all current matters, including employment matters, is not expected to have a material adverse impact on the Company's business, financial position, results of operations, or cash flows as of October 31, 2022 or January 31, 2022.

8. Revenue

Disaggregation of Revenue

The following table presents the Company's revenue by geographic region, based on the billing address of the customer, for the periods indicated (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
United States	$ 60,437	$ 49,742	$ 172,280	$ 143,966
International	18,515	12,274	48,635	31,110
Total revenue	$ 78,952	$ 62,016	$ 220,915	$ 175,076

No individual foreign country contributed 10% or more of revenue for the three and nine months ended October 31, 2022 and 2021.

No customer individually accounted for 10% or more of the Company's revenue for the three and nine months ended October 31, 2022 or 2021.

Deferred Revenue and Remaining Performance Obligations

The Company recognized revenue of $68.2 million and $48.8 million during the three months ended October 31, 2022 and 2021, respectively, and $125.0 million and $97.2 million during the nine months ended October 31, 2022 and 2021, respectively, that was included in the deferred revenue balance at the beginning of the respective periods.

As of October 31, 2022, future estimated revenue related to performance obligations from non-cancelable contracts that were unsatisfied or partially unsatisfied was $354.9 million and the Company expects to recognize approximately 95% as revenue for these remaining performance obligations over the next twenty-four months, with the remaining balance recognized thereafter.

Accounts Receivable, Net and Contract Assets

Accounts receivable are recorded at the invoiced amount, net of allowance for credit losses. The allowance is based upon historical loss patterns, the age of each past due invoice, and expectations of forward-looking loss estimates to determine whether the allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for credit losses when identified. The Company performs ongoing credit evaluations of its customers. The allowance for credit losses was $0.4 million and $0.3 million as of October 31, 2022 and January 31, 2022, respectively.

As of October 31, 2022, one customer accounted for 18% of total accounts receivable. As of January 31, 2022, no customer accounted for 10% or more of total accounts receivable.

Unbilled receivables are recorded when revenue recognized on a contract exceeds the billings to date for that contract and the right to consideration is unconditional when only passage of time is required before payment of that consideration is due. Unbilled receivables totaled $3.9 million and $1.9 million as of October 31, 2022 and January 31, 2022, respectively, and were recorded within accounts receivable, net on the condensed consolidated balance sheets.

Contract assets are recorded when revenue recognized on a contract exceeds the billings to date for that contract and the right to consideration is conditional. There are no contract assets on the condensed consolidated balance sheet as of October 31, 2022 and January 31, 2022, respectively.

Deferred Sales Commissions

The Company capitalized sales commission of $5.6 million and $6.8 million during the three months ended October 31, 2022 and 2021, respectively, and $15.0 million and $16.3 million during the nine months ended October 31, 2022 and 2021, respectively. Amortized costs were $5.1 million and $4.2 million for the three months ended October 31, 2022 and 2021, respectively, and $14.8 million and $11.4 million during the nine months ended October 31, 2022 and 2021, respectively. There was no impairment loss in relation to deferred sales commissions for the nine months ended October 31, 2022 or 2021.

9. Stockholders' Equity and Equity Incentive Plans

Common Stock

The Company's Amended and Restated Certificate of Incorporation authorized the Company to issue 1.0 billion shares of common stock at a par value of $0.0001 as of October 31, 2022 and January 31, 2022. As of October 31, 2022 and January 31, 2022, approximately 119.8 million and 113.8 million shares of common stock were issued and outstanding, respectively.

Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when and if declared by the board of directors, subject to the prior rights of holders of all classes of stock outstanding. As of October 31, 2022 and January 31, 2022, no dividends had been declared.

Stock Plans

The Company has two equity incentive plans: the 2010 Stock Plan (the "2010 Plan") and the 2020 Equity Incentive Plan (the "2020 Plan"). The number of shares of common stock available for issuance under the 2020 Plan will be increased by any shares of common stock subject to awards outstanding under the 2010 Plan that expire or otherwise terminate without having been exercised or issued in full, are tendered to or withheld by the Company for payment of an exercise price or for satisfying tax withholding obligations, or are forfeited to or repurchased by the Company due to failure to vest.

The Company has issued stock options and restricted stock units ("RSUs") to employees, directors, consultants, and advisors pursuant to both the 2010 Plan and 2020 Plan.

Employee stock options are granted with an exercise price no less than the fair value of the underlying common stock on the grant date, in general vest based on continuous service over four years, and expire 10 years from the date of grant. The value of RSUs is measured based on the grant date fair value of the awards and in general vest based on satisfying a service-based condition based on continuous service over four years.

As of October 31, 2022, there were 9.9 million shares available for grant under the 2020 Plan. The 2020 Plan provides that the number of shares reserved will automatically increase on the first day of each fiscal year, beginning on February 1, 2021, by an amount equal to the least of (i) 12,500,000 shares, (ii) 5% of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, or (iii) such other amount as the administrator of the 2020 Plan may determine.

Stock Options

The following table is a summary of option activity during the nine months ended October 31, 2022:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		*(years)*	*(in thousands)*
Balance at January 31, 2022	15,928	$ 4.20	5.9	$ 123,382
Options granted	—	$ —		
Options exercised	(3,213)	$ 3.53		
Options cancelled	(1,000)	$ 9.15		
Balance at October 31, 2022	11,715	$ 3.96	5.0	$ 48,225
Options exercisable at October 31, 2022	10,969	$ 3.63	4.9	$ 44,709

No stock options were granted during the three and nine months ended October 31, 2022 and 2021, respectively. The aggregate intrinsic value of options exercised during the three months ended October 31, 2022 and 2021 was $3.6 million and $19.4 million, respectively, and $18.8 million and $99.5 million during the nine months ended October 31, 2022 and 2021, respectively.

No income tax benefits have been recognized for stock-based compensation arrangements. As of October 31, 2022, there was $3.9 million of total unrecognized compensation expense related to unvested stock options that is expected to be recognized over a weighted-average period of 0.9 years.

Early Exercise of Employee Options

All early exercised options were fully vested in the first quarter of fiscal 2023. As of January 31, 2022, the Company had a liability of less than $0.1 million for 10,750 shares of common stock that were unvested and early exercised by employees.

Restricted Stock Units

The following table is a summary of RSU activity for the nine months ended October 31, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
	(in thousands)	
Balance at January 31, 2022	9,502	$ 17.20
Granted[(a)]	11,661	$ 8.80
Released	(2,369)	$ 15.72
Forfeited	(2,769)	$ 15.25
Balance at October 31, 2022	16,025	$ 11.65
RSUs expected to vest at October 31, 2022	16,025	$ 11.65

(a) Includes 1,023,797 awards subject to both service-based and performance-based vesting conditions based on a 100% attainment rate.

As of October 31, 2022, there was $156.4 million of total unrecognized compensation expense related to unvested employee and director RSUs, of which $3.3 million is for the RSUs subject to certain other performance metrics. Total unrecognized compensation expense related to unvested RSUs is expected to be recognized over a weighted-average period of 2.9 years.

Sensu Plans

In connection with the acquisition of Sensu, the Company assumed 33,267 options to purchase shares of common stock, granted under the Sensu, Inc. Amended and Restated 2017 Equity Incentive Plan, at a weighted-average exercise price of $4.88 per share and weighted-average fair value of $17.19 per share, of which 14,294 and 29,771 options remained outstanding as of October 31, 2022 and January 31, 2022, respectively. As of October 31, 2022, 8,620 options were vested and exercisable with a weighted-average exercise price of $4.77, and the total unrecognized compensation expense related to these awards was $0.1 million. During the nine months ended October 31, 2022, 15,477 options were exercised.

Jask Labs Inc. Plans

In connection with the acquisition of Jask Labs Inc. ("Jask Labs"), the Company assumed 265,075 options to purchase shares of common stock, granted under the Jask Labs 2015 Stock Option and Grant Plan and the Jask Labs 2018 Equity Incentive Plan, at a weighted-average exercise price of $9.86 per share and weighted-average fair value of $6.39 per share, of which 35,556 and 64,622 options remained outstanding as of October 31, 2022 and January 31, 2022, respectively. As of October 31, 2022, 33,045 options were vested and exercisable with a weighted-average exercise price of $9.04, and the total unrecognized compensation expense related to these awards was less than $0.1 million. During the nine months ended October 31, 2022, 6,885 options were exercised.

Employee Stock Purchase Plan

In September 2020, the board of directors adopted and the stockholders of the Company approved the 2020 Employee Stock Purchase Plan ("ESPP"), which became effective on September 17, 2020. The ESPP was amended in September 2021. The ESPP initially reserved and authorized the issuance of up to a total of 2,000,000 shares of common stock to participating employees. The number of shares reserved under the ESPP will automatically increase on the first day of each fiscal year, starting on February 1, 2021, in an amount equal to the least of (i) 2,500,000 shares, (ii) 1% of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, or (iii) such other amount as the administrator of the ESPP may determine. The ESPP generally provides for 24-month offering periods beginning June 15 and December 15 of each year, with each offering period consisting of four six-month purchase periods. On each purchase date, eligible employees will purchase the shares at a price per share equal to 85% of the lesser of (1) the fair market value of the Company's common stock as of the beginning of the offering period or (2) the fair market value of the Company's common stock on the purchase date, as defined in the ESPP. Under the reset provision currently authorized, if the closing stock price on the offering date of a new offering falls below the closing stock price on the offering date of an ongoing offering, the ongoing offering would terminate immediately following the purchase of ESPP shares on the purchase date immediately preceding the new offering and participants in the terminated ongoing offering would automatically be enrolled in the new offering, resulting in a modification charge to be recognized over the new offering period.

The Company recognized stock-based compensation expense related to the ESPP of $0.9 million and $0.8 million during the three months ended October 31, 2022 and 2021, respectively, and $2.0 million and $3.3 million during the nine months ended October 31, 2022 and 2021, respectively. As of October 31, 2022 and January 31, 2022, $1.9 million and $1.3 million has been withheld on behalf of employees for a future purchase under the ESPP due to the timing of payroll deductions, respectively. As of October 31, 2022, there was $62.1 million of unrecognized stock-based compensation expense related to the ESPP that is expected to be recognized over an average vesting period of 0.9 years.

During the nine months ended October 31, 2022 and 2021, 454,390, and 279,600 shares of common stock were issued under the ESPP, respectively.

Stock-Based Compensation Expense

The following table presents total stock-based compensation expense included in the condensed consolidated statements of operations (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cost of revenue	$ 418	$ 191	$ 1,092	$ 520
Research and development[(a)]	7,511	6,441	21,606	16,957
Sales and marketing	5,237	3,749	13,871	11,393
General and administrative	4,551	2,556	13,364	10,257
Total stock-based compensation expense	$ 17,717	$ 12,937	$ 49,933	$ 39,127

(a) During the three and nine months ended October 31, 2022, the Company capitalized stock-based compensation of $0.1 million and $0.3 million related to internal-use software development costs, respectively. During the three and nine months ended October 31, 2021, the Company did not capitalize any stock-based compensation related to internal-use software development costs. The research and development stock-based compensation amounts are presented net of the capitalized costs.

In connection with the acquisition of Jask Labs, the Company granted 130,180 shares of restricted common stock, with a fair value of $12.11683 per share at the time of grant, that vest over a period of two years. The Company recorded $0.2 million and $0.6 million in stock-based compensation expense, respectively, related to the vesting of the restricted common stock during the three and nine months ended October 31, 2021, respectively. The awards were fully vested as of October 31, 2021.

During the nine months ended October 31, 2022 and 2021, the Company granted 1,023,797 and 105,419 awards, respectively, to certain executives that were subject to both service-based vesting conditions and performance-based vesting conditions. For awards granted during the nine months ended October 31, 2022, the total number of shares earned will be based on the Company's performance against a specific metric for fiscal year 2023, unless such period is otherwise truncated per the terms of the award agreement. The number of shares earned and eligible for service-based vesting can range between 0% to 167% of target for our chief executive officer and between 0% and 125% for our other executives. For awards granted during the nine months ended October 31, 2022, stock-based compensation expense of $0.9 million and $3.3 million was recognized for the three and nine months ended October 31, 2022, respectively. No stock-based compensation expense was recognized on the awards that were granted during the nine months ended October 31, 2021 as the performance-based vesting conditions were not met.

10. Income Taxes

Accounting for income taxes for interim periods generally requires the provision for income taxes to be determined by applying an estimate of the annual effective tax rate for the full fiscal year to income or loss before income taxes, adjusted for discrete items, if any, for the reporting period. The Company updates its estimate of the annual effective tax rate each quarter and records a cumulative adjustment in such period.

The Company recorded income tax expense of $0.5 million and $1.5 million for the three and nine months ended October 31, 2022, respectively. The Company recorded an income tax benefit of $0.6 million and $1.1 million for the three and nine months ended October 31, 2021, respectively. Income tax expense consists primarily of income taxes in foreign jurisdictions in which the Company conducts business. Due to the Company's history of losses in the United States, a full valuation allowance on substantially all of the Company's deferred tax assets, including net operating loss carryforwards, research and development tax credits, capitalized research and development, and other book versus tax differences was maintained.

11. Net Loss per Share

Basic net loss per share attributable to the Company’s common stockholders is computed by dividing the net loss attributable to the Company’s common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is the same as basic net loss per share for all years presented because the effects of potentially dilutive items were anti-dilutive given the Company’s net loss position in each period presented.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Net loss	$ (26,289)	$ (30,836)	$ (96,919)	$ (89,799)
Weighted-average shares outstanding, basic and diluted	119,124	110,409	116,712	107,479
Net loss per share, basic and diluted	$ (0.22)	$ (0.28)	$ (0.83)	$ (0.84)

The following potential common shares were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Stock options	11,715	17,795	11,715	17,795
RSUs	16,423	6,834	16,423	6,834
ESPP	283	205	283	205
Warrants	11	11	11	11
Shares subject to repurchase	97	242	97	242
Assumed options for acquisitions	50	149	50	149
Issuable shares for acquisitions	—	194	—	194
Total anti-dilutive securities	28,579	25,430	28,579	25,430

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

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended January 31, 2022, filed with the SEC on March 14, 2022. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the sections titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors" for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. The last day of our fiscal year is January 31. Our fiscal quarters end on April 30, July 31, October 31, and January 31. Our fiscal year ending January 31, 2023 is referred to herein as fiscal 2023. Our fiscal years ended January 31, 2022 and 2021 are referred to herein as fiscal 2022 and fiscal 2021, respectively.

Overview

Sumo Logic empowers the people who power modern, digital businesses. Our mission is to be the leading software-as-a-service analytics platform for reliable and secure cloud-native applications. With our platform, we help our customers ensure application reliability, secure and protect against modern security threats, and gain insights into their cloud infrastructure. Our multi-tenant, cloud-native platform – which we refer to as our Continuous Intelligence Platform – provides powerful, real-time, machine data analytics and insights across observability and security solutions.

We generate revenue through the sale of subscriptions to customers that enable them to access our cloud-native platform. We recognize subscription revenue ratably over the term of the subscription, which is generally one to two years, but can be three years or longer. We offer multi-tiered paid subscription packages for access to our platform, the pricing for which differs based on a variety of factors, including volume of data to be ingested, duration of data retention, and breadth of access to platform features and functionalities. Our subscription packages encourage customers to expand their adoption of our platform by providing them with the flexibility to ingest and analyze large volumes of data and the ability to access a broad suite of platform features and functionalities without incurring overage fees, as well as insights into their usage patterns. We also deliver basic customer support with each of our paid subscription packages, and customers have the ability to purchase subscriptions to our premium support service. We recognize revenue from premium support service ratably over the term of the subscription.

Our go-to-market strategy consists of self-service adoption through our website, an inside sales team, a field sales team, and a partner channel. We offer free trials that enable potential customers to experience the benefits of our platform, and we see significant conversion from our trial users to paid customers, with approximately one-third of our new customers in fiscal 2022 having been free trial users who converted into paying customers. We leverage our user community to proactively identify trends, gather global insights, and create new use cases, thereby empowering us to deliver out-of-the-box value to our customers. We employ a land-and-expand business model centered around our platform offerings, which have a rapid time to value for our customers and are easily extensible to multiple use cases across a business. We utilize the analytical capabilities of our platform and our customer success team to understand how our customers use, and how they would benefit from expanding their use of our platform. This understanding helps us successfully upsell and cross sell to our existing customers.

The power of our platform, and the benefits that it delivers to customers, has driven rapid growth in our revenue. For the nine months ended October 31, 2022 and 2021, our revenue was $220.9 million and $175.1 million, respectively, representing a period over period growth rate of 26%. For the nine months ended October 31, 2022 and 2021, our annualized recurring revenue ("ARR") was $298.9 million and $244.3 million, respectively, representing a period over period growth rate of 22%. We generated GAAP operating losses of $98.7 million and $90.8 million for the nine months ended October 31, 2022 and 2021, respectively. We define non-GAAP operating loss as loss from operations excluding stock-based compensation expense and related employer payroll taxes, amortization of acquired intangible assets, acquisition-related expenses, and expenses related to a cooperation agreement. We generated non-GAAP operating losses of $33.5 million and $37.1 million for the nine months ended October 31, 2022 and 2021, respectively. See "Key Factors Affecting Our Performance" for a definition of ARR. See "Non-GAAP Financial Measures" for the reconciliation of GAAP operating loss to non-GAAP operating loss.

Impact of COVID-19

As a result of the ongoing COVID-19 pandemic, we have reduced capacity at our offices, continue to support many of our employees and contractors in working remotely, and have reduced business travel, all of which represent a continued disruption in how we operate our business. In May 2020, as part of our efforts to respond to the COVID-19 pandemic and ensure longer-term financial stability, we initiated cost reduction measures, including a headcount reduction. The operations of our partners and customers have likewise been disrupted, and we believe this has caused delays in renewal decisions for some of our existing customers, caused customers to request concessions such as extended payment terms or better pricing, and affected contraction or churn rates for our customers. While the duration and extent of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the duration and spread of the outbreak, the emergence of variants of the virus, the extent and effectiveness of containment actions, and the effectiveness of vaccination efforts, it has already had an adverse effect on the global economy and the ultimate societal and economic impact of the COVID-19 pandemic remains unknown. However, we believe that the COVID-19 pandemic will continue to accelerate customer transformation into digital businesses, which we anticipate could generate additional opportunities for us in the future. Due to our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our revenue until future periods. See “Risk Factors — The global COVID-19 pandemic has harmed and could continue to harm our business and results of operations” for further discussion of the challenges and risks we have encountered and could encounter related to the COVID-19 pandemic.

Key Factors Affecting Our Performance

New Customer Acquisition

Our business depends, in part, on our ability to add new customers. We believe the continued trend of digital transformation and increase in digital services and cloud applications across all organizations will continue to drive demand for our platform and broaden our customer base. Since our platform has offerings for organizations of all sizes and across industries, including organizations of all stages of cloud maturity, we believe these market changes present a significant opportunity for growth. As of October 31, 2022, we had over 2,400 customers worldwide, spanning organizations of a broad range of sizes and industries. However, we anticipate that continued economic uncertainty, including as a result of the COVID-19 pandemic and expectations that the macroeconomic environment may become more challenging in the future, may adversely affect our ability to add new customers in the future. We will continue to focus on new customer acquisition by investing in sales and marketing to build brand awareness, expanding our community, and driving adoption of our platform as we further capture the opportunity in our addressable market.

We define a customer as a separate legal entity, such as a company or an educational or government institution, that is under a paid contract with us or with which we are negotiating a renewal contract at the end of a given period. Given our historical experience of customer renewals, if we are in active discussions for a renewal or upgrade, we continue to include customers with expired contracts in our customer count until the customer either renews its contract or negotiations terminate without renewal. In situations where an organization has multiple subsidiaries or divisions that separately contract with us, we typically treat only the parent entity as the customer instead of treating each subsidiary or division as a separate customer. However, we count each purchaser of our self-service offering as a unique customer, regardless of other subscriptions such organization may have.

Expanding within our Existing Customer Base

Our business depends, in part, on the degree to which our land-and-expand strategy is successful. Our customers often initially adopt our platform for a specific use case and subsequently increase their adoption as they realize the benefits and flexibility of our platform. We have been successful in expanding our existing customers’ adoption of our platform as demonstrated by our dollar-based net retention rate, which we consider an indicator of our ability to retain and expand revenue from existing customers over time. Our dollar-based net retention rate as of October 31, 2022 and 2021, was 115% and 106%, respectively. Due to the realignment of our sales force, which will likely result in a relatively higher focus on new customer acquisitions, we expect it will take several quarters before we start to see a sustained improvement in our dollar-based net retention rate.

Our efficient land-and-expand model has helped us accelerate adoption within our largest customers, as evidenced by our customers with over $100,000 of ARR, which was 501 as of October 31, 2022 and 438 as of October 31, 2021.

We define ARR as the annualized recurring revenue run-rate from all customers that are under contract with us at the end of the period or with which we are negotiating a renewal contract. Given our historical experience of customer renewals, if we are in active discussions for a renewal, we continue to include customers with expired contracts in our ARR until the customer either renews its contract or negotiations terminate without renewal. For certain customers whose revenue may fluctuate from month to month based upon their specific contractual arrangements, we calculate ARR using the annualized monthly recurring revenue, or MRR, run-rate (MRR multiplied by 12). This enables us to calculate our anticipated recurring revenue for all customers based on our packaging and licensing models, which we believe provides a more accurate view of our anticipated recurring revenue.

Our dollar-based net retention rate is calculated as of a period end by starting with the ARR from all subscription customers as of 12 months prior to such period end, or Prior Period ARR. We then calculate the ARR from these same subscription customers as of the current period end, or Current Period ARR. Current Period ARR includes any expansion and is net of contraction or churn over the trailing 12 months but excludes ARR from new subscription customers in the current period. We then divide the Current Period ARR by the Prior Period ARR to arrive at our dollar-based net retention rate.

Continued Investment in Technology Leadership and Innovation

We intend to extend our leadership position by continuing to innovate, bringing new technologies to market, honing best practices, and driving thought leadership. Our success depends, in part, on our ability to sustain innovation and technology leadership in order to maintain a competitive advantage. We expect to continue to invest in research and development to increase our revenue and achieve long-term profitability, and we intend to continue extending the applicability of our platform as well as improving the value of our offerings for our customers. We believe that our platform is highly differentiated and has broad applicability to a wide variety of observability and security use cases, and we will continue to invest in developing and enhancing platform features and functionality to further extend the adoption of our platform. Additionally, we will continue to evaluate opportunities to acquire or invest in businesses, offerings, technologies, or talent that we believe could complement or expand our platform, enhance our technical capabilities, or otherwise offer growth opportunities. Once we complete acquisitions, we must successfully integrate and manage these acquisitions to realize their benefits.

International Expansion

We intend to continue to invest in our international operations to grow our business outside of the United States. We generated 23% and 22% of our revenue outside the United States during the three and nine months ended October 31, 2022, respectively, and 20% and 18% for the three and nine months ended October 31, 2021, respectively. We believe that global demand for observability and security analytics will continue to increase as international businesses undergo digital transformations and adopt cloud-based technologies. We currently have a sales presence throughout Asia-Pacific-Japan, and Europe, with sales offices in Sydney, Australia, Noida, India, Tokyo, Japan, and London, United Kingdom, and we further increase our global reach with our international channel partners. International expansion over the long term represents a significant opportunity and we plan to continue to invest in growing our presence internationally, both through expanding our sales and marketing efforts and leveraging channel and other ecosystem partners.

Components of Results of Operations

Revenue

We generate subscription revenue through the sale of subscriptions to customers that enable them to access our cloud-native platform. Subscription terms are generally one to two years, but can be three years or longer, and a substantial majority of our contracts are non-cancelable. Subscription revenue is driven by sales of our multi-tiered paid subscriptions, the pricing for which differs based on a variety of factors, including volume of data expected to be ingested, duration of data retention, and breadth of access to our platform features and functionalities. We deliver basic customer support with each of our paid subscription packages, and customers have the ability to purchase subscriptions to our premium support service. Due to the ease of using our platform, professional services revenue from configuration, implementation, and training services constituted approximately 1% of our total revenue for the nine months ended October 31, 2022 and 2021.

Cost of Revenue

Cost of revenue includes all direct costs to deliver and support our platform, including personnel and related costs, third-party cloud infrastructure costs for hosting our cloud platform, amortization of internal-use software and acquired developed technology, as well as allocated facilities and IT costs.

As new customers purchase access to our platform and our existing customer base expands their utilization of our platform, we will incur greater cloud infrastructure costs related to the increased volume of data being hosted. We will continue to invest additional resources in our platform infrastructure and customer support organizations to expand the capabilities of our platform features and ensure that our customers are realizing the full benefit of our platform. The level and timing of investment in these areas could affect our cost of revenue in the future.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of revenue, and gross margin is gross profit expressed as a percentage of revenue. Our gross margin may fluctuate from period to period as our revenue fluctuates, and has been and will continue to be affected by various factors, including the timing and amount of investments to maintain or expand our cloud infrastructure, the continued growth of data being hosted on our platform and customer support teams, increased compensation expenses, as well as amortization of costs associated with capitalized internal-use software and acquired intangible assets. We expect our gross profit to increase and our gross margin to remain consistent over the near term due to the continued growth in the use of our platform, but increase modestly over the longer term with cost efficiencies related to our cloud infrastructure, although our gross margins could fluctuate from period to period depending on the interplay between the factors described above.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel and related expenses are the most significant component of operating expenses and consist of salaries, employee benefit costs, payroll taxes, bonuses, sales commissions, travel-related expenses, and stock-based compensation expense, as well as the allocated portion of overhead costs for facilities and IT. Operating expenses also include cloud infrastructure fees and other services related to staging and development efforts for our platform.

Research and Development

Research and development expenses consist primarily of costs related to research, design, maintenance, and minor enhancements of our platform that are expensed as incurred. These costs consist primarily of personnel and related expenses, including allocated overhead costs, contractor and consulting fees related to the design, development, testing, and enhancement of our platform, and software, hardware, and cloud infrastructure fees for staging and development related to research and development activities necessary to support growth in our employee base and in the adoption of our platform. We expect that our research and development expenses will increase in dollar value as we continue to increase our investments in our platform. However, we anticipate research and development expenses will decrease as a percentage of our revenue over the long term, although they may fluctuate as a percentage of our revenue from period to period depending on the timing of expenses.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel and related expenses including allocated overhead costs and commissions, costs of general marketing and promotional activities, including free trials of our platform, fees for professional services related to marketing, and software and hardware to support growth in our employee base. Sales commissions earned by our sales force that are considered incremental costs of obtaining a subscription with a customer are deferred and amortized on a straight-line basis over the expected period of benefit, which we have determined to be five years. We expect that our sales and marketing expenses will increase in dollar value over the long term, though the dollar value of such expenses may fluctuate in the near term. We believe that sales and marketing expenses will continue to be our largest operating expense for the foreseeable future as we expand our sales and marketing efforts. We expect that our sales and marketing expenses will be relatively flat as a percentage of our revenue over the near term, but decrease over the long term, although they may fluctuate as a percentage of revenue from period to period depending on the timing of expenses.

General and Administrative

General and administrative expenses consist primarily of personnel and related expenses associated with our executive, finance, legal, human resources, information technology and security, and other administrative personnel. In addition, general and administrative expenses include non-personnel costs, such as fees for professional services such as external legal, accounting, and other consulting services, hardware and software costs, certain taxes other than income taxes, and overhead costs not allocated to other departments.

We expect that our general and administrative expenses will increase in dollar value as our business grows. However, we expect that our general and administrative expenses will decrease as a percentage of our revenue as our revenue grows over the long term, although they may fluctuate as a percentage of revenue from period to period depending on the timing of expenses.

Interest and Other Income (Expense), Net

Interest and other income (expense), net primarily consists of interest earned from our cash, cash equivalents, and marketable securities, and foreign currency transaction gains (losses).

Interest Expense

Interest expense primarily consists of interest incurred in connection with our previous borrowings under our revolving line of credit facility.

Provision (Benefit) for Income Taxes

Provision (benefit) for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business. We maintain a full valuation allowance on our federal and state net deferred tax assets as we have concluded that it is not more likely than not that the deferred tax assets will be realized.

Results of Operations

The following table sets forth our condensed consolidated statements of operations data for the periods indicated (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Revenue	$ 78,952	$ 62,016	$ 220,915	$ 175,076
Cost of revenue[1][2][3]	25,114	20,384	75,222	55,557
Gross profit	53,838	41,632	145,693	119,519
Operating expenses:				
Research and development[1][3]	26,462	25,464	80,351	69,768
Sales and marketing[1][2][3]	38,787	33,565	113,613	95,300
General and administrative[1][3][4]	15,906	14,015	50,454	45,258
Total operating expenses	81,155	73,044	244,418	210,326
Loss from operations	(27,317)	(31,412)	(98,725)	(90,807)
Interest and other income (expense), net	1,635	(19)	3,415	34
Interest expense	(79)	(44)	(114)	(133)
Loss before provision for income taxes	(25,761)	(31,475)	(95,424)	(90,906)
Provision (benefit) for income taxes	528	(639)	1,495	(1,107)
Net loss	$ (26,289)	$ (30,836)	$ (96,919)	$ (89,799)

(1) Includes stock-based compensation expense and related employer payroll taxes as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cost of revenue	$ 419	$ 192	$ 1,105	$ 558
Research and development[a]	7,583	6,538	21,889	17,499
Sales and marketing	5,304	3,794	14,111	11,807
General and administrative	4,595	2,727	13,530	10,821
Total stock-based compensation expense and related employer payroll taxes	$ 17,901	$ 13,251	$ 50,635	$ 40,685

(a) See Note 9 to our condensed consolidated financial statements for the capitalized stock-based compensation expense related to internal-use software development costs.

(2) Includes amortization of acquired intangible assets as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cost of revenue	$ 3,335	$ 3,614	$ 10,395	$ 8,157
Sales and marketing	150	150	450	233
Total amortization of acquired intangible assets	$ 3,485	$ 3,764	$ 10,845	$ 8,390

(3) Includes acquisition-related expenses as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cost of revenue	$ 76	$ 97	$ 228	$ 151
Research and development	48	297	597	535
Sales and marketing	95	95	281	181
General and administrative	—	—	—	3,756
Total acquisition-related expenses	$ 219	$ 489	$ 1,106	$ 4,623

(4) Includes third-party advisory and professional services expenses associated with a cooperation agreement as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
General and administrative	$ 250	$ —	$ 2,604	$ —
Total expenses related to a cooperation agreement	$ 250	$ —	$ 2,604	$ —

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	32	33	34	32
Gross profit	68 %	67 %	66 %	68 %
Operating expenses:				
Research and development	34	41	36	40
Sales and marketing	49	54	51	54
General and administrative	20	23	23	26
Total operating expenses	103 %	118 %	111 %	120 %
Loss from operations	(35)	(51)	(45)	(52)
Interest and other income (expense), net	2	—	2	—
Interest expense	—	—	—	—
Loss before provision for income taxes	(33)	(51)	(43)	(52)
Provision (benefit) for income taxes	—	(1)	1	(1)
Net loss	(33)%	(50)%	(44)%	(51)%

Note: Certain figures may not sum due to rounding.

Comparison of Three Months Ended October 31, 2022 and 2021

Revenue

	Three Months Ended October 31,			
	2022	2021	Change	% Change
		(dollars in thousands)		
Revenue	$ 78,952	$ 62,016	$ 16,936	27 %

Revenue increased by $16.9 million, or 27%, during the three months ended October 31, 2022 compared to the three months ended October 31, 2021. Approximately 90% of the revenue was attributable to existing customers, and approximately 10% was attributable to new customers for the three months ended October 31, 2022. The number of customers with greater than $100,000 of ARR increased to 501 as of October 31, 2022 from 438 as of October 31, 2021.

Cost of Revenue, Gross Profit, and Gross Margin

	Three Months Ended October 31,			
	2022	2021	Change	% Change
	(dollars in thousands)			
Cost of revenue	$ 25,114	$ 20,384	$ 4,730	23 %
Gross profit	53,838	41,632	12,206	29 %
Gross margin	68 %	67 %		

Cost of revenue increased by $4.7 million, or 23%, during the three months ended October 31, 2022 compared to the three months ended October 31, 2021. The increase in cost of revenue was primarily due to a $5.0 million increase in third-party cloud infrastructure costs and personnel costs related to providing access to and supporting our platform partially offset by a decrease in amortization of acquired developed technology of $0.3 million due to certain acquired developed technology assets being fully amortized. Gross profit increased $12.2 million and gross margin increased 1% primarily as a result of increased revenue and several initiatives to continue to optimize our cloud infrastructure costs and platform efficiency.

Research and Development

	Three Months Ended October 31,			
	2022	2021	Change	% Change
	(dollars in thousands)			
Research and development	$ 26,462	$ 25,464	$ 998	4 %
Percentage of revenue	34 %	41 %		

Research and development expenses increased by $1.0 million, or 4%, during the three months ended October 31, 2022 compared to the three months ended October 31, 2021. The increase in research and development expenses was primarily driven by a $1.0 million increase in personnel and related expenses primarily related to stock-based compensation expense and related employer payroll taxes. In addition, software, hardware, and cloud infrastructure fees for staging and development increased $0.6 million, partially offset by a $0.4 million increase in capitalized internal-use software.

Sales and Marketing

	Three Months Ended October 31,			
	2022	2021	Change	% Change
	(dollars in thousands)			
Sales and marketing	$ 38,787	$ 33,565	$ 5,222	16 %
Percentage of revenue	49 %	54 %		

Sales and marketing expenses increased by $5.2 million, or 16%, during the three months ended October 31, 2022 compared to the three months ended October 31, 2021. The increase in sales and marketing expenses was primarily driven by a $4.3 million increase in personnel and related expenses associated with an increase in average headcount as well as an increase in the average cost per head as we continue to invest in our go-to-market coverage, capacity, and expansion into new markets, of which $1.5 million was related to stock-based compensation expense and related employer payroll taxes . In addition, advertising and promotional costs, and third-party public relations and marketing services increased by $0.5 million and software subscription costs increased by $0.2 million as we continue to increase our efforts to execute our market expansion strategy.

General and Administrative

	Three Months Ended October 31,			
	2022	2021	Change	% Change
	(dollars in thousands)			
General and administrative	$ 15,906	$ 14,015	$ 1,891	13 %
Percentage of revenue	20 %	23 %		

General and administrative expenses increased by $1.9 million, or 13%, during the three months ended October 31, 2022 compared to the three months ended October 31, 2021. The increase in general and administrative expenses was primarily driven by a $3.9 million increase in personnel and related expenses associated with an increase in average headcount as well as an increase in the average cost per head as we continue to invest in personnel to support the growth of our business and reporting and compliance requirements, partially offset by a $1.6 million decrease in professional fees and a $0.4 million decrease in insurance related costs.

Interest and Other Income (Expense), Net

	Three Months Ended October 31,			
	2022	2021	Change	% Change
	(dollars in thousands)			
Interest and other income (expense), net	$ 1,635	$ (19)	$ 1,654	(8,705)%

Interest and other income (expense), net increased by $1.7 million, or 8,705%, during the three months ended October 31, 2022 compared to the three months ended October 31, 2021. The increase in interest and other income (expense), net was primarily driven by an increase in interest income due to higher yield on invested funds.

Interest Expense

	Three Months Ended October 31,			
	2022	2021	Change	% Change
	(dollars in thousands)			
Interest expense	$ (79)	$ (44)	$ (35)	80 %

Interest expense consists of amortization of costs related to our line of credit facility. The change between the three months ended October 31, 2022 and 2021 was immaterial.

Comparison of Nine Months Ended October 31, 2022 and 2021

Revenue

	Nine Months Ended October 31,			
	2022	2021	Change	% Change
	(dollars in thousands)			
Revenue	$ 220,915	$ 175,076	$ 45,839	26 %

Revenue increased by $45.8 million, or 26%, during the nine months ended October 31, 2022 compared to the nine months ended October 31, 2021. Approximately 90% of the revenue was attributable to existing customers, and approximately 10% was attributable to new customers for the nine months ended October 31, 2022. The number of customers with greater than $100,000 of ARR increased to 501 as of October 31, 2022 from 438 as of October 31, 2021.

Cost of Revenue, Gross Profit, and Gross Margin

	Nine Months Ended October 31,			
	2022	2021	Change	% Change
		(dollars in thousands)		
Cost of revenue	$ 75,222	$ 55,557	$ 19,665	35 %
Gross profit	145,693	119,519	26,174	22 %
Gross margin	66 %	68 %		

Cost of revenue increased by $19.7 million, or 35%, during the nine months ended October 31, 2022 compared to the nine months ended October 31, 2021. The increase in cost of revenue was primarily due to a $17.6 million increase in third-party cloud infrastructure costs and personnel costs related to providing access to and supporting our platform and a $2.2 million increase in amortization of acquired developed technology as a result of our acquisitions of Sensu, Inc., or Sensu, and DFLabs S.p.A., or DFLabs, in the second quarter of fiscal 2022. Gross profit increased $26.2 million while gross margin decreased 2% primarily as a result of increased third-party cloud infrastructure costs and increased amortization of acquired developed technology.

Research and Development

	Nine Months Ended October 31,			
	2022	2021	Change	% Change
		(dollars in thousands)		
Research and development	$ 80,351	$ 69,768	$ 10,583	15 %
Percentage of revenue	36 %	40 %		

Research and development expenses increased by $10.6 million, or 15%, during the nine months ended October 31, 2022 compared to the nine months ended October 31, 2021. The increase in research and development expenses was primarily driven by a $10.2 million increase in personnel and related expenses directly associated with an increase in average headcount as we continued to hire and increase resources to develop and expand the functionality of our software offerings, of which $4.4 million was related to stock-based compensation expense and related employer payroll taxes. In addition, software, hardware, and cloud infrastructure fees for staging and development increased $1.8 million, partially offset by a $1.0 million increase in capitalized internal-use software.

Sales and Marketing

	Nine Months Ended October 31,			
	2022	2021	Change	% Change
		(dollars in thousands)		
Sales and marketing	$ 113,613	$ 95,300	$ 18,313	19 %
Percentage of revenue	51 %	54 %		

Sales and marketing expenses increased by $18.3 million, or 19%, during the nine months ended October 31, 2022 compared to the nine months ended October 31, 2021. The increase in sales and marketing expenses was primarily driven by a $13.3 million increase in personnel and related expenses associated with an increase in average headcount as well as an increase in the average cost per head as we continue to invest in our go-to-market coverage, capacity, and expansion into new markets. In addition, advertising and promotional costs, and third-party public relations and marketing services increased by $2.5 million, amortization of referral fees increased by $1.2 million, and software subscription costs increased by $0.6 million as we continue our efforts to execute our market expansion strategy.

General and Administrative

	Nine Months Ended October 31,			
	2022	2021	Change	% Change
		(dollars in thousands)		
General and administrative	$ 50,454	$ 45,258	$ 5,196	11 %
Percentage of revenue.	23 %	26 %		

General and administrative expenses increased by $5.2 million, or 11%, during the nine months ended October 31, 2022 compared to the nine months ended October 31, 2021. The increase in general and administrative expenses was primarily driven by a $7.9 million increase in personnel and related expenses associated with an increase in average headcount as well as an increase in the average cost per head, and a $2.6 million increase in third-party fees related to a cooperation agreement, partially offset by the absence of $3.8 million in acquisition-related expenses during the nine months ended October 31, 2022 and a $1.2 million decrease in professional fees.

Interest and Other Income (Expense), Net

	Nine Months Ended October 31,			
	2022	2021	Change	% Change
		(dollars in thousands)		
Interest and other income (expense), net	$ 3,415	$ 34	$ 3,381	9,944 %

Interest and other income (expense), net increased by $3.4 million, or 9,944%, during the nine months ended October 31, 2022 compared to the nine months ended October 31, 2021. The increase in interest and other income (expense), net was primarily driven by an increase in interest income due to higher yield on invested funds.

Interest Expense

	Nine Months Ended October 31,			
	2022	2021	Change	% Change
		(dollars in thousands)		
Interest expense	$ (114)	$ (133)	$ 19	(14)%

Interest expense decreased by less than $0.1 million, or 14%, during the nine months ended October 31, 2022 compared to the nine months ended October 31, 2021. The decrease in interest expense was primarily driven by lower amortization of costs related to our line of credit facility.

Non-GAAP Financial Measures

In addition to our financial information presented in accordance with GAAP and the key business metrics presented above, we believe the following non-GAAP financial measures are useful to investors in evaluating our operating performance. We use the following non-GAAP financial measures, collectively, to evaluate our ongoing operations and for internal planning and forecasting purposes, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies, and to communicate with our board of directors concerning our financial performance. We believe that non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, may be helpful to investors because they provide consistency and comparability with past financial performance and meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our business, results of operations, or outlook. The non-GAAP financial measures are presented for supplemental informational purposes only, have limitations as analytical tools, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP and may be different from similarly-titled non-GAAP financial measures used by other companies. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

Non-GAAP Gross Profit and Non-GAAP Gross Margin

We define non-GAAP gross profit and non-GAAP gross margin as gross profit and gross margin, respectively, excluding stock-based compensation expense and related employer payroll taxes, amortization of acquired intangible assets, and acquisition-related expenses. The following table sets forth our non-GAAP gross profit and non-GAAP gross margin for the periods indicated (dollars in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Gross profit	$ 53,838	$ 41,632	$ 145,693	$ 119,519
Add: Stock-based compensation expense and related employer payroll taxes	419	192	1,105	558
Add: Amortization of acquired intangible assets	3,335	3,614	10,395	8,157
Add: Acquisition-related expenses	76	97	228	151
Non-GAAP gross profit	$ 57,668	$ 45,535	$ 157,421	$ 128,385
Gross margin	68 %	67 %	66 %	68 %
Non-GAAP gross margin	73 %	73 %	71 %	73 %

Non-GAAP Operating Loss and Non-GAAP Operating Margin

We define non-GAAP operating loss and non-GAAP operating margin as loss from operations and operating margin, respectively, excluding stock-based compensation expense and related employer payroll taxes, amortization of acquired intangible assets, acquisition-related expenses, and expenses related to a cooperation agreement. The following table sets forth our non-GAAP operating loss and non-GAAP operating margin for the periods indicated (dollars in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Loss from operations	$ (27,317)	$ (31,412)	$ (98,725)	$ (90,807)
Add: Stock-based compensation expense and related employer payroll taxes	17,901	13,251	50,635	40,685
Add: Amortization of acquired intangible assets	3,485	3,764	10,845	8,390
Add: Acquisition-related expenses	219	489	1,106	4,623
Add: Expenses related to a cooperation agreement	250	—	2,604	—
Non-GAAP operating loss	$ (5,462)	$ (13,908)	$ (33,535)	$ (37,109)
Operating margin	(35)%	(51)%	(45)%	(52)%
Non-GAAP operating margin	(7)%	(22)%	(15)%	(21)%

Non-GAAP Net Loss

We define non-GAAP net loss as loss from operations, excluding stock-based compensation expense and related employer payroll taxes, amortization of acquired intangible assets, acquisition-related expenses, and expenses related to a cooperation agreement. The following table sets forth our non-GAAP net loss for the periods indicated (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Net loss	$ (26,289)	$ (30,836)	$ (96,919)	$ (89,799)
Add: Stock-based compensation expense and related employer payroll taxes	17,901	13,251	50,635	40,685
Add: Amortization of acquired intangible assets	3,485	3,764	10,845	8,390
Add: Acquisition-related expenses	219	489	1,106	4,623
Add: Expenses related to a cooperation agreement	250	—	2,604	—
Non-GAAP net loss	$ (4,434)	$ (13,332)	$ (31,729)	$ (36,101)

Free Cash Flow

We define free cash flow as cash used in operating activities less purchases of property and equipment and capitalized internal-use software costs. We believe free cash flow is a useful indicator of liquidity that provides our management, board of directors, and investors with information about our future ability to generate or use cash to enhance the strength of our balance sheet and further invest in our business and pursue potential strategic initiatives. The following table sets forth our free cash flow for the periods indicated (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cash used in operating activities	$ (8,726)	$ (12,689)	$ (22,165)	$ (19,946)
Less: Purchases of property and equipment	—	(498)	(386)	(1,799)
Less: Capitalized internal-use software costs	(381)	—	(986)	—
Free cash flow	$ (9,107)	$ (13,187)	$ (23,537)	$ (21,745)
Cash provided by (used) in investing activities	$ 16,914	$ (10,228)	$ 21,297	$ (328,288)
Cash provided by financing activities	$ 1,732	$ 4,647	$ 13,854	$ 22,606

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through subscription revenue from customers accessing our cloud-native platform and the net proceeds of issuances of equity securities. We have incurred losses and generated negative cash flows from operations, as reflected in our accumulated deficit of $618.1 million as of October 31, 2022. As of October 31, 2022, we had $91.7 million in cash and cash equivalents and $250.4 million in marketable securities.

We believe our existing cash and cash equivalents, marketable securities, and cash provided by sales of access to our platform will be sufficient to meet our projected operating requirements for at least the next 12 months, despite the ongoing COVID-19 pandemic, continued supply chain disruptions, and uncertainty in the changing market and macroeconomic conditions, including inflation and rising interest rates, which may have an impact on our available cash due to customer requests for extended payment terms or better pricing. As a result of our revenue growth plans, we expect that losses and negative cash flows from operations may continue in the near term. Our future capital requirements will depend on many factors, including our subscription growth rate, subscription renewals, billing timing and frequency, pricing changes, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced platform features and functionality, the continued market adoption of our platform, and the impact of the COVID-19 pandemic on our business and results of operations, the business of our customers, and the economy. We may in the future pursue acquisitions of businesses, technologies, assets, and talent.

In February 2021, we entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank, or the SVB Agreement, which provides for a revolving line of credit. The SVB Agreement amends and restates the Loan and Security

Agreement dated as of January 31, 2016. Under the SVB Agreement, we can borrow up to $50 million. Interest on any drawdown accrues at the prime rate minus a spread rate ranging from 0.25% to 0.75%, as determined by our adjusted quick ratio, subject to either a 3.00% or 2.50% floor depending on the adjusted quick ratio. The SVB agreement is secured by substantially all of our assets and includes restrictive covenants, in each case subject to certain exceptions, that limit our ability to, among other things: incur debt, grant liens, make acquisitions, undergo a change in control, make investments, make certain dividends or distributions, repurchase or redeem stock, dispose of or transfer assets, and enter into transactions with affiliates. Pursuant to the SVB Agreement, we are also required to maintain a minimum adjusted quick ratio of 1.25 to 1.00. The SVB Agreement also contains customary events of default, upon which Silicon Valley Bank may declare all or a portion of our outstanding obligations payable to be immediately due and payable. As of October 31, 2022, we did not have any debt outstanding.

We typically invoice our subscription customers annually in advance, and in certain cases, we invoice upfront for multi-year contracts. Therefore, a substantial source of our cash is from such prepayments, which are included on our condensed consolidated balance sheets as deferred revenue. Deferred revenue consists of billed fees for our subscriptions and to a lesser extent, premium support services, prior to satisfying the criteria for revenue recognition, which are subsequently recognized as revenue in accordance with our revenue recognition policy. As of October 31, 2022, future estimated revenue related to performance obligations from non-cancelable contracts that were unsatisfied or partially unsatisfied was $354.9 million, of which we expect to recognize approximately 95% as revenue over the next 24 months, with the remaining balance recognized thereafter. As of October 31, 2022, we had deferred revenue of $148.0 million, of which $144.6 million was recorded as a current liability and is expected to be recognized as revenue within the next 12 months, subject to applicable revenue recognition criteria.

Cash Flows

The following table shows a summary of our cash flows for the periods presented (in thousands):

	Nine Months Ended October 31,	
	2022	2021
Net cash provided by (used in):		
Operating activities	$ (22,165)	$ (19,946)
Investing activities	$ 21,297	$ (328,288)
Financing activities	$ 13,854	$ 22,606

Operating Activities

Our largest source of operating cash is cash collections from sales of subscriptions to our customers. Our primary uses of cash from operating activities are for personnel and related expenses, marketing expenses, and third-party cloud infrastructure and software costs. In the last several years, we have generated negative cash flows from operating activities and have supplemented working capital requirements through net proceeds from equity financings.

Cash used in operating activities for the nine months ended October 31, 2022 of $22.2 million consisted of our net loss of $96.9 million, adjusted for non-cash charges of $81.5 million and net cash outflows of $6.8 million provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of stock-based compensation of $49.9 million, amortization of deferred sales commissions of $14.8 million, depreciation and amortization of $12.6 million, and $3.0 million of non-cash operating lease costs. Net cash outflows from changes in operating assets and liabilities were primarily the result of a $15.0 million increase in deferred sales commissions due to commissions paid on new bookings, a $6.9 million increase in accounts receivable due to new billings outpacing collections during the period, a $3.3 million decrease in lease liabilities due to monthly rental payments for our operating leases and a $0.6 million increase in prepaid expenses and other assets related to the timing of payments to vendors and amortization of prior amounts paid. Net cash outflows were partially offset by cash inflows resulting from a $10.8 million increase in deferred revenue resulting from increased billings for subscriptions and a $7.7 million increase in accounts payable and accrued expenses due to timing of payments to vendors.

Cash used in operating activities for the nine months ended October 31, 2021 of $19.9 million consisted of our net loss of $89.8 million, adjusted for non-cash charges of $63.8 million and net cash inflows of $6.0 million provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of stock-based compensation of $39.1 million, amortization of deferred sales commissions of $11.4 million, depreciation and amortization of $9.9 million, and $3.1 million of non-cash operating lease costs. Net cash inflows from changes in operating assets and liabilities were primarily the result of a $16.4 million increase in deferred revenue resulting from increased billings for subscriptions, a $6.1 million increase in accounts payable and accrued expenses due to the timing of payments to vendors, a $1.9 million decrease in accounts receivable due to collections being greater than billings during the period, and a $1.0 million decrease in prepaid expenses and other assets related to the timing of payments to vendors and amortization of prior amounts paid. Net cash inflows were partially offset by cash outflows resulting from a $16.3 million increase in deferred sales commissions due to commissions paid on new bookings and a $3.4 million decrease in lease liabilities due to monthly rental payments for our operating leases.

Investing Activities

Cash provided by investing activities for the nine months ended October 31, 2022 of $21.3 million primarily consisted of $207.7 million of maturities and sales of marketable securities partially offset by $185.0 million of purchases of marketable securities and $1.4 million in purchases of property and equipment primarily related to an increase of capitalized internal-use software development costs as well as purchases of computer hardware.

Cash used in investing activities for the nine months ended October 31, 2021 of $328.3 million primarily consisted of purchases of marketable securities of $359.6 million, cash paid for acquisitions, net of cash and restricted cash acquired of $40.3 million, and $1.8 million in purchases of property and equipment primarily related to leasehold improvements and purchases of computers for new employees partially offset by $73.4 million of maturities and of marketable securities.

Financing Activities

Cash provided by financing activities for the nine months ended October 31, 2022 of $13.9 million consisted of proceeds from common stock option exercises of $11.5 million and proceeds from employee stock purchase plan of $2.8 million, partially offset by $0.5 million of cash paid for holdback consideration in connection with acquisitions.

Cash provided by financing activities for the nine months ended October 31, 2021 of $22.6 million primarily consisted of proceeds from common stock option exercises of $18.0 million and proceeds from employee stock purchase plan of $4.7 million.

Contractual Obligations and Commitments

The Company enters into contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum, or variable price provisions, and the approximate timing of the actions under the contracts. The Company's material contractual obligations consist of third-party cloud infrastructure and lease arrangements with its corporate facilities. Refer to Notes 5 and 7 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

There has been no material change in our contractual obligations and commitments other than in the ordinary course of business since our fiscal year ended January 31, 2022. See the Annual Report on Form 10-K for the fiscal year ended January 31, 2022 for additional information regarding the Company's contractual obligations.

Indemnification Agreements

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify customers, vendors, lessors, business partners, and other parties with respect to certain matters. Some of these indemnification provisions do not provide for a maximum potential amount of future payments we could be obligated to make. No demands have been made upon us to provide indemnification under such agreements, and there are no claims that we are aware of that could have a material effect on our condensed consolidated balance sheets, condensed consolidated statements of operations and condensed consolidated statements of comprehensive loss, or condensed consolidated statements of cash flows.

Critical Accounting Policies and Estimates

We prepared our condensed consolidated financial statements and the related notes thereto, included elsewhere in this Quarterly Report on Form 10-Q, in accordance with GAAP. In preparation of these condensed consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the 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 financial statements and may involve subjective or significant judgment by management; therefore, actual results could differ from the estimates made by management. We refer to accounting estimates of this type as critical accounting policies and estimates.

Our significant accounting policies are described in the section titled "Summary of Significant Accounting Policies" in Note 2 in our Annual Report on Form 10-K for the year ended January 31, 2022. There have been no significant changes to these policies for the nine months ended October 31, 2022.

Recent Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information about the impact of certain recent accounting pronouncements on our condensed consolidated financial statements.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Risk

As of October 31, 2022, we had $77.3 million of cash equivalents invested in money market funds and $0.3 million of restricted cash primarily related to outstanding letters of credit established in connection with lease agreements for our facilities. In addition, we had $250.4 million in marketable securities, which consisted of U.S. Treasury securities, corporate debt securities, commercial paper, foreign government obligations, supranational securities, and certificates of deposits. Our cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes.

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

Foreign Currency Exchange Risk

Our reporting currency is the U.S. dollar, and the functional currency of our foreign subsidiaries is the respective local currency. The assets and liabilities of each of our foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at each balance sheet date. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as a separate component on the condensed consolidated statements of comprehensive loss. Equity transactions are translated using historical exchange rates. Expenses are translated using the average exchange rate during the year. Gains or losses due to transactions in foreign currencies are included in interest and other income (expense), net in our condensed consolidated statements of operations.

The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in foreign exchange gains and losses related to changes in foreign currency exchange rates. In the event our foreign currency denominated assets, liabilities, revenue, or expenses increase, our results of operations may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. We have not engaged in the hedging of foreign currency transactions to date, although we may choose to do so in the future.

A hypothetical 10% change in the relative value of the U.S. dollar to other currencies during any of the periods presented would not have had a material effect on our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation and supervision of our chief executive officer and our chief financial officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed 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 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.

Based on the Company's evaluation, our chief executive officer and chief financial officer concluded that, as of October 31, 2022, our disclosure controls and procedures were effective at the reasonableness assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended October 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on the Effectiveness of Controls

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

PART II - OTHER INFORMATION
Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of business, as well as governmental and other regulatory investigations and proceedings. In addition, third parties may from time to time assert claims against us in the form of letters and other communications. For example, in September 2019, attorneys representing a purported class of current and former employees in various sales roles alleged potential claims of employee misclassification and related federal and state law claims, which we disputed. In response, we mediated the dispute, and in August 2020, we entered into a settlement agreement with the purported class counsel to resolve the dispute, which was handled in arbitration resulted in us paying approximately $4.5 million in the first quarter of fiscal 2022 to resolve the class-wide claims, which included claims for employee misclassification and related federal and state claims, civil penalties under California's Private Attorneys General Act of 2004, as well as claims for failure to pay overtime, provide meal and rest breaks, pay timely wages, and provide accurate wage statements, and claims for alleged unlawful business practices.

We are not currently a party to any legal proceedings that, if determined adversely to us, would, in our opinion, have a material adverse effect on our business, results of operations, financial condition or cash flows. 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

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

Risks Related to Our Industry and Business

Our revenue growth rate and financial performance in recent periods may not be indicative of future performance.

We have experienced significant revenue growth in recent periods. For example, our revenue was $155.1 million, $202.6 million, and $242.1 million for the years ended January 31, 2020, 2021 and 2022, and was $175.1 million and $220.9 million for the nine months ended October 31, 2021 and 2022, respectively. You should not rely on our revenue for any previous quarterly or annual period as any indication of our revenue or revenue growth in future periods. As we continue to grow our business, our revenue growth rates may decline due to a number of reasons, which may include more challenging comparisons to prior periods as our revenue grows, slowing demand for our platform, increasing competition, a decrease in our renewal rates, a decrease in the growth of our overall market or market saturation, and our failure to capitalize on growth opportunities. In addition, our growth rates may experience increased volatility due to the macroeconomic environment, including inflation and rising interest rates, and global societal and economic disruption as a result of the COVID-19 pandemic.

We have a history of net losses and we may not be able to achieve or maintain profitability in the future.

We have incurred net losses since our inception, and we expect to continue to incur net losses in the near future. We incurred net losses of $92.1 million, $80.3 million, and $123.4 million for the years ended January 31, 2020, 2021 and 2022, and $89.8 million and $96.9 million for the nine months ended October 31, 2021 and 2022, respectively. As of October 31, 2022, we had an accumulated deficit of $618.1 million. Because the market for our platform is rapidly evolving, it is difficult for us to predict our future results of operations. We expect our operating expenses to increase significantly over the next several years, as we continue to hire additional personnel, particularly in sales and marketing, expand our operations and infrastructure, both domestically and internationally, and continue to develop our platform features. These efforts may be more costly than we expect and may not result in increased revenue or growth in our business. In addition to the expected costs to grow our business, we have incurred and will continue to incur significant additional legal, accounting, and other expenses as a newly public company. If we fail to increase our revenue to sufficiently offset the increases in our operating expenses, we will not be able to achieve or maintain profitability in the future.

We face intense competition and could face pricing pressure from, and lose market share to, our competitors, which would adversely affect our business, financial condition, and results of operations.

The markets in which we operate are competitive and characterized by rapid changes in technology, customer requirements, and industry standards, and frequent introductions of improvements to existing offerings. Our business model of delivering an analytics platform for reliable and secure cloud-native applications through the cloud is still relatively new and has only recently gained market traction. Moreover, many established businesses are aggressively competing against us and have offerings that have functionalities similar to those of our platform. We expect competition to increase as other established and emerging companies enter this market, as customer requirements evolve, and as new offerings and technologies are introduced. If we are unable to anticipate or effectively react to these competitive challenges, our competitive position would weaken, and our business, financial condition, and results of operations would be adversely affected.

Our competitors and potential competitors include providers of tools such as analytics, enterprise and open source search, SIEM, SOAR, observability, monitoring, and other software offerings that customers may perceive as substitutes for our platform. Our primary competitors include Splunk and Elastic. Other competitors include Datadog and New Relic, cloud infrastructure providers such as AWS, Azure, and GCP, and various private companies.

Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages, such as:

- greater name recognition, longer operating histories, and larger customer bases;
- larger sales and marketing budgets and resources;
- broader distribution and established relationships with channel partners and customers;
- greater customer support resources;
- greater resources to make acquisitions and enter into strategic partnerships;
- lower labor and research and development costs;
- larger and more mature intellectual property rights portfolios; and
- substantially greater financial, technical, and other resources.

Conditions in our market could change rapidly and significantly as a result of technological advancements, the emergence of new entrants into the market, partnering or acquisitions by our competitors, or continuing market consolidation. New start-up companies that innovate and competitors that are making significant investments in research and development may invent similar or superior offerings and technologies that compete with our offerings. Potential customers may also believe that substitute technologies which have similar functionality or features as our platform are sufficient, or they may believe that point solutions that address narrower segments overall are nonetheless adequate for their needs. Some of our current or potential competitors have made or could make acquisitions of businesses or establish cooperative relationships that may allow them to offer more directly competitive and comprehensive offerings than were previously offered and adapt more quickly to new technologies and customer needs.

Additionally, competition continues to increase in the markets in which we operate, and we expect competition to further increase in the future, including from new and emerging companies, which could lead to increased pricing pressures. Our competitors vary in size, and some may have substantially broader and more diverse offerings, which may allow them to leverage their relationships based on other offerings or incorporate functionality into existing offerings to gain business in a manner that discourages users from purchasing access to our platform, including through selling at zero or negative margins, offering concessions, bundling offerings, or maintaining closed technology platforms. In addition, certain customer segments and industries have been more severely impacted by the ongoing effects of the COVID-19 pandemic, such as small and mid-market businesses and certain industries including manufacturing, transportation, travel, and retail, which may lead to increased pricing pressure, increased customer churn, or a reduced ability or willingness to replace a competitor's offering with our platform. Any decrease in the subscriptions prices for our platform, without a corresponding decrease in costs or increase in volume, would adversely impact our gross profit. Gross profit could also be adversely affected by a shift towards lower-tiered subscription packages. If we are unable to maintain our pricing or market share due to competitive pressures or other factors, our business, financial condition, and results of operations would be adversely affected.

The markets for our offerings are evolving, and our future success depends on the growth of these markets and our ability to adapt, keep pace, and respond effectively to evolving markets.

The markets for our offerings are in a relatively early stage of development, and it is uncertain whether these markets will grow, and even if they do grow, how rapidly they will grow, how much they will grow, or whether our platform will be widely adopted. As such, any predictions or forecasts about our future growth, revenue, and expenses may not be as accurate as they would be if we had a longer operating history or operated in more predictable markets. Any expansion in our markets depends on a number of factors, including the cost, performance, and perceived value associated with our platform and the offerings of our competitors.

Our success will depend, in part, on market acceptance and the widespread adoption of our cloud-native platform as an alternative to on-premise offerings, and selection of our platform over competing cloud offerings that may have similar functionality. Cloud technologies are still evolving and we cannot predict marketplace acceptance of our platform or the development of offerings based on entirely new technologies. Many organizations have invested substantial resources into on-premise systems and may be reluctant or unwilling to migrate to our cloud-native platform. Our market is subject to rapid technological change, evolving industry standards, and changing regulations, as well as changing customer needs, requirements, and preferences. Demand for our offering is affected by a number of factors beyond our control, including the timing of development and release of new offerings by our competitors, technological change, and growth or contraction in our market generally.

We expect the proliferation of data to lead to an increase in the data analysis demands of our customers, and our platform may not be able to meet those demands or may not be chosen by users for those needs. We have in the past experienced delays in launching additional platform features or enhanced functionality because of the swiftly changing technological landscape and evolving customer demands. Particularly as a result of the broadly applicable nature of our platform, innovation across the IT infrastructure, architecture, stack components, or IT environment can all impact the adoption rates for our platform. Our success will depend, in part, on our ability to enhance our platform, including timely developing and introducing new platform features that keep pace with technological and competitive developments, expand the use cases for our platform, and respond to changing customer needs, requirements, and preferences. It is difficult to predict customer demand for our platform or for cloud security and observability offerings generally, the size and growth rate of this market, the success of competitive offerings, or shifts in customer preferences. If the market for cloud security and observability does not grow, or if we are unable to adapt, keep pace, and respond effectively to the evolution of these markets, our business, financial condition, and results of operations would be adversely affected.

We may fail to cost-effectively acquire new customers or obtain renewals, upgrades, or expansions from our existing customers, which would adversely affect our business, financial condition, and results of operations.

Our continued growth depends, in part, on our ability to cost-effectively acquire new customers. Numerous factors, however, may impede our ability to add new customers, including our inability to convert new organizations into paying customers, our inability to negotiate terms favorable to us, our failure to attract, effectively train, retain, and motivate sales and marketing personnel, our failure to develop or expand relationships with channel or technology partners, our inability to convert initial adoption into ongoing utilization of our platform, and our failure to successfully deliver our platform and provide quality customer support once delivered.

Our success also depends, in part, on our customers renewing their subscriptions when existing contract terms expire, and our ability to expand our relationships with our existing customers. Our customers have no obligation to renew or upgrade their subscriptions, and in the normal course of business, some customers have elected not to renew. In addition, our customers may decide not to renew their subscriptions with a similar contract period or at the same prices or terms, or may decide to downgrade their subscriptions. For example, the impact of the COVID-19 pandemic on the current economic environment has caused, and may in the future cause, such customers to request concessions including extended payments terms or better pricing. We believe that the COVID-19 pandemic has also caused delays in renewal decisions for some of our existing customers, has reduced effectiveness of our sales and marketing efforts, has lengthened our sales cycle with some of our potential customers, and has reduced the duration of subscriptions. In addition, the COVID-19 pandemic could result in increased customer churn, or reduced contract value with prospective or existing customers. Our customer retention or our customers' use of our platform may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our platform and our customer support, our packaging and licensing models, the prices, features, or perceived value of competing offerings, changes to our offerings, or general economic conditions. In addition, some customers may not renew in the event such customer is acquired by another entity. We will need to continue to maintain or improve our dollar-based net retention rate to support our growth, and our ability to expand our relationships with customers may require more sophisticated and costly sales efforts. If our customers' renewals or expansions fall below expectations, and as a result our dollar-based net retention rate decreases, our business, financial condition, and results of operations would be adversely affected.

In addition, our ability to expand our relationship with our customers depends in large part on our ability to enhance and improve our platform, introduce compelling new features, and address additional use cases. The success of any new or enhanced platform features depends on several factors, including market demand for the enhanced features, timely completion and delivery, adequate quality testing, integration of our platform with existing technologies and applications, and competitive pricing. If we are unable to successfully develop new platform features, enhance our existing platform features to meet customer requirements, or otherwise gain market acceptance, our business, financial condition, and results of operations would be adversely affected. If our customers do not renew, upgrade, or expand their subscriptions, renew their subscriptions on less favorable terms, or fail to increase adoption of our platform, including tiered or premium features, our business, financial condition, and results of operations would be adversely affected.

Changes to our packaging and licensing models could adversely affect our ability to attract or retain customers.

We offer flexible, multi-tiered packaging and licensing models for our platform, including subscriptions and premium add-ons. We are continuing to iterate on our packaging and licensing models as we evaluate customer preferences, needs, and use of our platform, and expect that our packaging and licensing models will continue to evolve. Many factors could significantly affect our pricing strategies, including operating costs, our competitors' pricing and marketing strategies, customer use patterns, and general economic conditions. We may face downward pressure from our customers regarding our pricing and competitors with different pricing models may attract customers that are uncomfortable with our multi-tiered packaging and licensing models, which would cause us to lose business or modify our packaging and licensing models, both of which could adversely affect our business, financial condition, and results of operations. Changes to our packaging and licensing models may also affect our revenue recognition and other accounting policies, which may adversely affect our results of operations in any given fiscal period.

Certain of our competitors or potential competitors offer, or may in the future offer, lower-priced point solutions or a broader range of platform features. Similarly, certain competitors may use marketing strategies that enable them to attract or retain new customers at a lower cost than us. Moreover, our customers may demand substantial price discounts as part of the negotiation of subscription contracts. There can be no assurance that we will not be forced to reduce the pricing for our platform or to increase our sales and marketing and other expenses to attract and retain customers in response to competitive pressures. We have launched, and may in the future launch, new pricing strategies and initiatives, or modify existing packaging and licensing models, any of which may not ultimately be successful in attracting and retaining customers. In addition, if the features on our platform change, then we may need to revise our packaging and licensing methodologies. Any such changes to our packaging and licensing models or our ability to efficiently price our platform could adversely affect our business, financial condition, and results of operations.

Our results of operations vary and are unpredictable from period to period, which could cause the market price of our common stock to decline.

Our results of operations may fluctuate from period to period as a result of a number of factors, many of which are outside of our control and may be difficult to predict. Some of the factors that may cause our results of operations to fluctuate from period to period include:

- market acceptance and the level of demand for our platform;
- the quality and level of our execution of our business strategy and operating plan;
- the effectiveness of our sales and marketing programs;
- the length of our sales cycle, including the timing of renewals;
- our ability to attract new customers and convert our pipeline into paying customers, particularly large enterprises;
- our ability to retain customers and expand their adoption of our platform, particularly our largest customers;
- our ability to successfully expand internationally and penetrate key markets;
- technological changes and the timing and success of new or enhanced platform features by us or our competitors or any other change in the competitive landscape of our market;
- changes in deferred revenue and remaining performance obligations due to seasonality, the timing of renewals, average contract term, or the timing of software revenue recognition, all of which may impact implied growth rates;
- changes to our packaging and licensing models, which may impact the timing and amount of revenue recognized;
- increases in and the timing of operating expenses that we may incur to grow our operations and to remain competitive;

- pricing pressure as a result of competition or otherwise;
- seasonal buying patterns;
- delays in our sales cycle, decreases in sales to new customers, and reductions in upselling and cross-selling to existing customers due to the impact on global business and IT spending as a result of the COVID-19 pandemic;
- the implementation of cost-saving activities as a result of the COVID-19 pandemic, including the effect of a hiring pause or headcount reductions;
- the impact and costs, including those with respect to integration, related to the acquisition of businesses, talent, technologies, or intellectual property rights;
- changes in the legislative or regulatory environment;
- adverse litigation judgments, settlements, or other litigation-related costs; and
- general macroeconomic conditions in either domestic or international markets, including as a result of inflation, rising interest rates, and geopolitical uncertainty and instability such as the recent conflict in Ukraine.

Any one or more of the factors above may result in significant fluctuations in our results of operations. We also intend to continue to invest significantly to grow our business in the near future rather than optimizing for profitability or cash flows. In addition, we generally experience seasonality in terms of when we enter into agreements with customers, and our quarterly results of operations generally fluctuate from quarter to quarter depending on customer buying habits. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in revenue, due to the fact that we recognize subscription revenue ratably over the term of the subscription, which is generally one to two years, but can be three years or longer. We expect that seasonality will continue to affect our results of operations in the future and may reduce our ability to predict cash flow and optimize the timing of our operating expenses.

The variability of our results of operations or other operating estimates could result in our failure to meet our expectations or those of securities analysts or investors. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our common stock could decline, and we could face costly lawsuits, including securities class action suits.

The global COVID-19 pandemic has harmed and could continue to harm our business and results of operations.

The COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people, goods, and services worldwide, including in the geographic areas in which we conduct our business operations and from which we generate our revenue. It has also caused extreme societal, economic, and financial market volatility, resulting in business shutdowns and potentially leading to a global economic downturn. The magnitude and duration of the resulting decline in business activity cannot currently be estimated with any degree of certainty and has had several effects on our business and results of operations, including, among other things:

- negatively impacting global IT spending, which has adversely affected demand and may continue to adversely affect demand for our platform, caused potential customers to delay or forgo purchases of subscriptions to our platform, lengthening our sales cycle, and caused some existing customers to fail to renew subscriptions, reduce their usage, or fail to expand their usage of our platform within their organizations; and
- restricting our sales operations and marketing efforts, including limiting the ability of our sales force to travel to existing customers and potential customers, and reducing the effectiveness of such efforts in some cases.

The COVID-19 pandemic may cause us to continue to experience the foregoing challenges in our business in the future and could have other effects on our business, including increasing customer churn, delaying collections or resulting in an inability to collect accounts receivable as a result of extended payment terms, concessions, or customer inability to pay, causing some of our customers to go out of business, and disrupting our ability to develop new offerings and enhance existing offerings, market and sell our platform, and conduct business activities generally.

In light of the uncertain and evolving situation relating to the spread of COVID-19, we have taken precautionary measures intended to reduce the risk of the virus spreading to our employees, our customers, and the communities in which we operate, and we may take further actions as required by government entities or that we determine are in the best interests of our employees, customers, partners, and suppliers. In particular, governmental authorities have in the past instituted shelter-in-place policies or other restrictions in many jurisdictions in which we operate, including in the San Francisco Bay Area where our headquarters are located. Even once shelter-in-place policies or other governmental restrictions have been lifted, we have taken a measured and careful approach to have employees returning to offices and travel for business. These precautionary measures and policies could negatively impact employee recruiting, productivity, training and development, and collaboration, or otherwise disrupt our business operations. The extent and duration of working remotely may also affect our ability to attract and retain employees, manage employee expectations regarding returning to offices, and expose us to increased risks of security breaches or incidents. We may need to enhance the security of our platform, our data, and our internal IT infrastructure, which may require additional resources and may not be successful. Furthermore, in the first half of fiscal 2021, we took a number of proactive actions to manage our operating expenses in light of the uncertainty caused by the COVID-19 pandemic, including effecting a hiring pause, implementing a reduction in executive salaries, and implementing headcount reductions across our company, and we may be required to take similar actions in the future.

In addition, COVID-19 has disrupted and may continue to disrupt the operations of our customers and channel partners. Other disruptions or potential disruptions include restrictions on our personnel and the personnel of our partners to travel and access customers for training, delays in product development efforts, and additional government requirements or other incremental mitigation efforts that may further impact our business and results of operations. The extent to which the COVID-19 pandemic continues to impact our business and results of operations will also depend on future developments that are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the disease, the duration and spread of the outbreak, the emergence of variants of the virus, the scope of travel restrictions imposed in geographic areas in which we operate, mandatory or voluntary business closures, the impact on businesses and financial and capital markets, and the extent and effectiveness of actions taken throughout the world to contain the virus or treat its impact. An extended period of global supply chain and economic disruption as a result of the COVID-19 pandemic could have a material negative impact on our business, results of operations, and financial condition, though the full extent and duration is uncertain. To the extent the COVID-19 pandemic continues to adversely affect our business and financial results, it is likely to also have the effect of heightening many of the other risks described in this "Risk Factors" section.

Our sales cycle can be long and unpredictable, and our sales efforts require considerable time and expense.

Our quarterly results of operations fluctuate, in part, because of the resource intensive nature of our sales efforts and the length and variability of our sales cycle. The length of our sales cycle, from initial contact with our sales team to a contractual commitment from a customer, can vary substantially from customer to customer based on customer size, deal complexity, as well as whether a sale is made directly by us or through a channel partner. We recently expanded our packaging and licensing model. Our limited experience marketing and selling under this packaging and licensing model may affect the length of our sales cycle and our ability to predict the length of our sales cycle or the anticipated size of potential subscriptions. Our sales cycle can vary considerably, and may be lengthened and made more uncertain by regional or global events, such as the COVID-19 pandemic. Such events have resulted in and may continue to cause a general reduction in IT spending by our customers, which will further affect our ability to estimate not only the length of the sales cycle, but also the anticipated size of potential subscriptions. Further, our sales cycle has lengthened as we continue to focus our sales efforts on large enterprises. In addition, our results of operations depend, in part, on subscription renewals from customers and increasing sales to our existing customers, which may also be reduced as a result of regional or global events. If a customer does not renew on time or as expected, it can negatively affect our revenue for a given period. It is difficult to predict exactly whether or when we will make a sale to a potential customer or if we can increase sales to our existing customers. As a result, initial sales or renewals have, in some cases, occurred in quarters subsequent to what we anticipated, or have not occurred at all. The loss or delay of one or more transactions in a quarter could impact our results of operations for that quarter and any future quarters for which revenue from that transaction is delayed.

The loss of, or a significant reduction in use of our platform by, our largest customers would result in lower revenue and harm our results of operations.

Our future success depends, in part, on establishing and maintaining successful relationships with a diverse set of customers. Our largest customers come from a variety of industries, including industries that are subject to significant fluctuations in their business, which may result in fluctuations in their use of our platform and the revenue we generate from them. Certain larger customers can also have greater variability in the revenue we generate from them because of the nature of their specific contractual arrangements or use cases with us, which could impact our results of operations, as well as ARR, dollar-based net retention rate, and other business metrics. For example, our current largest revenue customer is in the digital entertainment industry, which is characterized by significant revenue volatility and intense competition, and its business is affected by the timing of its feature releases, consumer preferences and actions by and disputes with other parties in its ecosystem. As a result, we have in the past and may in the future experience revenue variability and unpredictability from this customer from period to period as its business fluctuates. Further, certain customer industries have been more severely impacted by the ongoing effects of the COVID-19 pandemic, such as manufacturing, transportation, travel, and retail, leading to increased fluctuations in their business and their adoption of our platform. The loss of one or more large customers or a reduction in usage by any such customers would reduce our revenue and negatively impact forecasts of future growth, ARR, dollar-based net retention rate, and other business metrics. The portion of our revenue attributable to individual customers may increase in the future, which would increase our dependency on a limited number of customers for a larger portion of our revenue. If we fail to maintain relationships with existing large customers or develop relationships with new customers that generate significant revenue for us, our business, financial condition, and results of operations would be harmed.

We depend on our sales force, and we may fail to attract, retain, motivate, or train our sales force, which could adversely affect our business, financial condition, and results of operations.

We depend on our sales force to obtain new customers and to drive additional sales to existing customers by selling them new subscriptions and expanding the value of their existing subscriptions. We believe that there is significant competition for sales personnel, including sales representatives, sales managers, and sales engineers, with the skills and technical knowledge that we require. Our ability to achieve revenue growth will depend, in part, on our decision to hire and success in recruiting, training, and retaining sufficient numbers of sales personnel to support our growth. Our hiring, training, and retention efforts have been, and may further be, hindered by the constraints placed on our business as a result of the COVID-19 pandemic, including measures that we take proactively and those that are imposed upon us by government authorities. New hires require significant training and may take significant time before they achieve full productivity, and our remote and online onboarding and training processes may be less effective and take longer. Further, hiring sales personnel in new countries requires additional set up and upfront costs that we may not recover if the sales personnel fail to achieve full productivity. If we are unable to attract, retain, motivate, and train sufficient numbers of effective sales personnel, our sales personnel do not reach significant levels of productivity in a timely manner, or our sales personnel are not successful in bringing potential customers into the pipeline, converting them into new customers, or increasing sales to our existing customer base, our business, financial condition, and results of operations would be adversely affected.

We utilize free trials and other go-to-market strategies, and we may not be able to realize the benefits of these strategies.

We utilize lead generation and other go-to-market strategies, including offering free trials of our platform, to encourage awareness, usage, familiarity with, and adoption of our platform. We spend a substantial amount of time and resources on our sales efforts without any assurance that our efforts will produce a sale. We also rely on our sales and marketing teams to promote and market our platform. These strategies may not be successful in continuing to generate sufficient sales opportunities necessary to increase our revenue. Many users of free trials of our platform never become paying customers. To the extent that users do not become, or we are unable to successfully attract, paying customers, we will not realize the intended benefits of these marketing strategies and our ability to grow our revenue will be adversely affected.

If our website fails to rank prominently in unpaid search results, traffic to our website could decline and our business, financial condition, and results of operations could be adversely affected.

Our success depends, in part, on our ability to attract users through unpaid Internet search results. The number of potential customers that we attract to our website from search engines is due in large part to how and where our website ranks in unpaid search results. These rankings can be affected by a number of factors, many of which are not in our direct control, and they may change frequently. For example, a search engine may change its ranking algorithms, methodologies, or design layouts. As a result, links to our website may not be prominent enough to drive traffic to our website, and we may not know how or otherwise be in a position to influence the results. Any reduction in the number of users directed to our website could negatively impact our ability to attract new customers or require us to increase our customer acquisition expenditures, which could adversely affect our business, financial condition, and results of operations.

We may be unable to build and maintain successful relationships with our channel partners or such channel partners may fail to perform, which could adversely affect our business, financial condition, results of operations, and growth prospects.

We employ a go-to-market business model whereby a portion of our revenue is generated by sales through our channel partners, such as independent software vendors, resellers, managed service providers, managed security service providers, and cloud infrastructure providers, that further expand the reach of our direct sales force into additional geographies, sectors, and industries. In particular, we have entered, and intend to continue to enter, into strategic sales distributor and reseller relationships in certain international markets where we do not have a local presence. We provide certain of our channel partners with specific training and programs to assist them in selling access to our platform, but there can be no assurance that these steps will be effective, and restrictions on travel and other limitations as a result of the COVID-19 pandemic undermine our efforts to provide training and build relationships. In addition, if our channel partners are unsuccessful in marketing and selling access to our platform, it would limit our expansion into certain geographies, sectors, and industries. If we are unable to develop and maintain effective sales incentive programs for our channel partners, we may not be able to incentivize these partners to sell access to our platform to customers.

Some of these partners may also market, sell, and support offerings that are competitive with ours, may devote more resources to the marketing, sales, and support of such competitive offerings, may have incentives to promote our competitors' offerings to the detriment of our own, or may cease selling access to our platform altogether. Our channel partners could subject us to lawsuits, potential liability, and reputational harm if, for example, any of our channel partners misrepresents the functionality of our platform to customers or violates laws or our or their corporate policies. Our ability to achieve revenue growth in the future will depend, in part, on our success in maintaining successful relationships with our channel partners, identifying additional channel partners, and training our channel partners to independently sell access to our platform. If our channel partners are unsuccessful in selling access to our platform, or if we are unable to enter into arrangements with or retain a sufficient number of high quality channel partners in each of the regions in which we sell access to our platform and keep them motivated to sell access to our platform, our business, financial condition, results of operations, and growth prospects could be adversely affected.

Our ability to increase sales depends, in part, on the quality of our customer support, and our failure to offer high quality support would harm our reputation and adversely affect our business and results of operations.

Our customers sometimes depend on our technical support services to resolve issues relating to our platform. If we do not succeed in helping our customers quickly resolve issues or provide effective ongoing education related to our platform, our reputation could be harmed and our existing customers may not renew or upgrade their subscriptions. To the extent that we are unsuccessful in hiring, training, and retaining adequate customer support resources, our ability to provide adequate and timely support to our customers, and our customers' satisfaction with our platform, will be adversely affected. Our failure to provide and maintain high quality customer support would harm our reputation and brand and adversely affect our business, financial condition, and results of operations.

Our international operations and continued international expansion subject us to additional costs and risks, which could adversely affect our business, financial condition, and results of operations.

We have a limited history of marketing, selling, and supporting our platform internationally. We generated 16% of our revenue outside the United States in each of fiscal 2020 and 2021, respectively, and 18% in fiscal 2022. We generated 18% and 22% of our revenue outside the United States for the nine months ended October 31, 2021 and October 31, 2022, respectively. Our growth strategy depends, in part, on our continued international expansion. We are continuing to adapt to and develop strategies to address international markets, but there is no guarantee that such efforts will be successful.

Additionally, our international sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and managing collections in countries where our recourse may be more limited, as well as longer collection periods;
- higher costs of doing business internationally, including costs incurred in establishing and maintaining office space and equipment for our international operations;
- differing labor regulations, especially in the European Union, or EU, where labor laws may be more favorable to employees;
- challenges inherent to efficiently recruiting and retaining talented and capable employees in foreign countries and maintaining our company culture and employee programs across all of our offices;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- management communication and integration problems resulting from language and cultural differences and geographic dispersion;
- costs associated with language localization of our platform;
- risks associated with trade restrictions and foreign legal requirements, including any importation, certification, and localization of our platform that may be required in foreign countries;
- greater risk of unexpected changes in regulatory requirements, tariffs and tax laws, trade laws, export quotas, customs duties, treaties, and other trade restrictions;
- costs of compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations, including, but not limited to data privacy, data protection, and data security regulations, particularly in the EU;

- compliance with anti-bribery laws, including, without limitation, the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. Travel Act, and the UK Bribery Act 2010, violations of which could lead to significant fines, penalties, and collateral consequences for our company;

- risks relating to the implementation of exchange controls, including restrictions promulgated by the OFAC, and other similar trade protection regulations and measures;

- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact our financial condition and result in restatements of, or irregularities in, financial statements;

- the uncertainty of protection for intellectual property rights in some countries;

- exposure to regional or global public health issues, such as the outbreak of the COVID-19 pandemic, and to travel restrictions and other measures undertaken by governments in response to such issues;

- challenges caused by the conflict in Ukraine on countries in the region in which we have operations, such as Poland and Macedonia;

- general economic and political conditions in these foreign markets, including political and economic instability in some countries;

- foreign exchange controls or tax regulations that might prevent us from repatriating cash earned outside the United States; and

- double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the United States or the foreign jurisdictions in which we operate.

These and other factors could harm our ability to generate revenue outside of the United States and, consequently, adversely affect our business, financial condition, and results of operations.

We may fail to effectively manage our growth, which would adversely affect our business, financial condition, and results of operations.

We are a rapidly growing company, and our future growth depends, in part, on our ability to continue to meet the expanding needs of our customers and to attract new customers. Our customer count increased from 2,137 as of January 31, 2020, to 2,164 as of January 31, 2021, and 2,396 as of January 31, 2022, respectively. As existing customers gain more experience with our platform, they may broaden their reliance on our platform, which may require that we expand our operations infrastructure as well as our dependence on third parties to support that infrastructure. To manage this growth effectively, we will need to continue to improve and expand our internal IT systems, technological operations infrastructure, financial infrastructure, and operating and administrative systems and controls, which we may not be able to do efficiently in a timely manner, or at all. To do so, we may seek to deploy offerings from third-party providers, which may not be available on commercially reasonable terms, or at all, and may not perform to our expectations. Any future growth would add complexity to our organization and require effective coordination across our organization, and failure to manage such future growth effectively could result in increased costs. If we do not accurately predict our architecture requirements, our existing customers may experience delays, interruptions, or service outages that may subject us to financial liabilities or customer losses. If we are unable to effectively manage our growth, our business, financial condition, and results of operations would be adversely affected.

We depend on our management team and other highly skilled personnel, and we may fail to attract, retain, motivate, or integrate highly skilled personnel, which could adversely affect our business, financial condition, and results of operations.

We depend on the continued contributions of our management team, key employees, and other highly skilled personnel. Our management team and key employees are at-will employees, which means they may terminate their relationship with us at any time. The loss of the services of any of our key personnel or delays in hiring required personnel, particularly within our research and development and engineering teams, could adversely affect our business, financial condition, and results of operations.

Our future success also depends, in part, on our ability to continue to attract and retain highly skilled personnel. Competition for these personnel in the San Francisco Bay Area, where our headquarters is located, and in other locations where we maintain offices, is intense, and the industry in which we operate is generally characterized by significant competition for skilled personnel as well as high employee attrition. We may not be successful in attracting, retaining, training, or motivating qualified personnel to fulfill our current or future needs. Furthermore, our ability to attract and retain employees may be affected by the COVID-19 pandemic and its effects on global workforce patterns and employee expectations regarding returning to offices, and may result in a more geographically distributed workforce than we anticipate. Additionally, the former employers of our new employees may attempt to assert that our new employees or we have breached their legal obligations, which may be time-consuming, distracting to management, and may divert our resources. Current and potential personnel also often consider the value of equity awards they receive in connection with their employment, and to the extent the perceived value of our equity awards declines relative to our competitors, our ability to attract and retain highly skilled personnel may be harmed. If we fail to attract and integrate new personnel or retain and motivate our current personnel, our business, financial condition, and results of operations could be adversely affected.

We may be unable to make acquisitions and investments, successfully integrate acquired companies into our business, or our acquisitions and investments may not meet our expectations, any of which could adversely affect our business, financial condition, and results of operations.

We have in the past acquired, and we may in the future acquire or invest in, businesses, offerings, technologies, or talent that we believe could complement or expand our platform, enhance our technical capabilities, or otherwise offer growth opportunities. We may not be able to fully realize the anticipated benefits of such acquisitions or investments. For example, we acquired DFLabs and Sensu in the second quarter of fiscal 2022. We may not successfully integrate DFLabs' or Sensu's people or solutions with ours, or achieve market acceptance of our combined solutions. The pursuit of potential acquisitions may divert the attention of management and cause us to incur significant expenses related to identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

There are inherent risks in integrating and managing acquisitions. If we acquire additional businesses, we may not be able to assimilate or integrate the acquired personnel, operations, solutions, and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits or synergies from the acquired business due to a number of factors, including, without limitation:

- unanticipated costs or liabilities associated with the acquisition, including the failure to adequately identify or assess significant problems, liabilities or other issues, including issues with the acquired company's technology or intellectual property, product quality, data security, privacy practices, accounting practices, employees, customers or partners, regulatory compliance, or legal or financial contingencies, particularly when the acquired company operates in international jurisdictions;
- incurrence of acquisition-related expenses, which would be recognized as a current period expense;
- inability to generate sufficient revenue to offset acquisition or investment costs, including addressing issues related to the availability of offerings on multiple platforms and from cross-selling and up-selling our products to the acquired company's installed customer base or the acquired company's products to our installed customer base;
- inability to maintain relationships with customers and partners of the acquired business;
- challenges with incorporating acquired products, technologies, and rights into our platform and maintaining quality and security standards consistent with our brand;
- challenges and costs associated with successfully integrating or incorporating the acquired company's services, employees, customers, partners, business operations and administrative systems with ours, particularly when the acquired company operates in international jurisdictions;
- inability to identify security vulnerabilities in acquired technology prior to integration with our technology and platform;
- inability to achieve anticipated synergies or unanticipated difficulty with integration into our corporate culture;
- failure to accurately predict how the acquired company's pipeline will convert into sales or revenues following the acquisition, as conversion rates post-acquisition may be quite different from the acquired company's historical conversion rates and can be affected by changes in business practices that we implement;
- delays in customer purchases due to uncertainty related to any acquisition;
- the need to integrate or implement additional controls, procedures, and policies;

- any difficulties in consolidating the acquired company's financial results with ours, in particular as a result of different accounting principles or financial reporting standards, and the adverse consequences to us of any delay in obtaining the necessary financial information for such consolidation, any unanticipated change in financial information previously reported to us, or the impact the acquired company's financial performance has on our financial performance as a result of such consolidation;
- challenges caused by distance, language, and cultural differences;
- harm to our existing business relationships with business partners and customers as a result of the acquisition;
- potential loss of key employees;
- use of resources that are needed in other parts of our business and diversion of management and employee resources;
- inability to recognize acquired deferred revenue in accordance with our revenue recognition policies;
- the disruption of our ongoing business and the diversion of management's attention by transition or integration issues; and
- use of substantial portions of our available cash or the incurrence of debt to consummate the acquisition.

Acquisitions also increase the risk of unforeseen legal liability, including for potential violations of applicable law or industry rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses that are not discovered by due diligence during the acquisition process. We may have to pay cash, incur debt, or issue equity or equity-linked securities to pay for any future acquisitions, each of which could adversely affect our financial condition or the market price of our common stock. The sale of equity or issuance of equity-linked debt to finance any future acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

Our reputation and brand are important to our success, and we may not be able to maintain and enhance our reputation and brand, which would adversely affect our business, financial condition, and results of operations.

We believe that maintaining and enhancing our reputation as a leader in security and reliability for cloud applications is critical to our relationship with our existing customers, users, and channel partners and our ability to attract new customers and channel partners. The successful promotion of our brand will depend on a number of factors, including our marketing efforts, our ability to continue to develop high-quality features for our platform, our ability to successfully differentiate our platform from those of our competitors, our ability to maintain the reputation of our platform for data security, and our ability to obtain, maintain, protect and enforce our intellectual property and proprietary rights. Our brand promotion activities may not be successful or yield increased revenue. In addition, independent industry analysts often provide reports of our platform, as well as the offerings of our competitors, and perception of our platform in the marketplace may be significantly influenced by these reports. If these reports are negative, or less positive as compared to those of our competitors, our reputation and brand may be adversely affected. Additionally, the performance of our channel partners may affect our reputation and brand if customers do not have a positive experience with our platform as implemented by our channel partners or with the implementation generally. At times, competitors may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. Additionally, our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks, or if we are otherwise unable to establish name recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected. The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new geographies and markets and as more sales are generated through our channel partners. Any increase in revenue from such brand promotion initiatives may not offset the increased expenses we incur. If we do not successfully maintain and enhance our reputation and brand, our business, financial condition, and results of operations would be adversely affected.

We provide service level commitments under our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service, or face contract termination with refunds of prepaid amounts related to unused subscriptions, which could harm our business, financial condition, and results of operations.

Our customer contracts contain service level commitments, which contain specifications regarding the availability and performance of our platform. Any failure of or disruption to our infrastructure could impact the performance of our platform and the availability of services to customers. If we are unable to meet our stated service level commitments or if we suffer extended periods of poor performance or unavailability of our platform, we may be contractually obligated to provide affected customers with service credits for future subscriptions, and, in certain cases, face contract termination with refunds of prepaid amounts related to unused subscriptions. If we suffer performance issues or downtime that exceeds the service level commitments under our contracts with our customers, our business, financial condition, and results of operations would be adversely affected.

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

We have historically derived a small portion of our revenue from contracts with federal, state, local, and foreign governments, and we believe that the future success and growth of our business will depend in part on our ability to continue to procure government contracts. Sales to public sector customers include additional challenges that affect our ability to enter into agreements, including:

- changes in fiscal or contracting policies;
- decreases in available government funding;
- changes in government programs or applicable requirements;
- changes in government sanctions programs and related policies;
- the adoption of new laws or regulations or changes to existing laws or regulations;
- noncompliance with contract provisions or government procurement or other applicable regulations;
- an extended government shutdown or other potential delays or changes in the government appropriations or other funding authorization processes; and
- delays in the payment of our invoices by government payment offices.

Additionally, although we have achieved FedRAMP Moderate Authorization, any change in our FedRAMP certification would impede our ability to enter into contracts with government entities. If we do not successfully manage our FedRAMP certification, our sales to governments and governmental agencies could be delayed or limited, and as a result, our business, financial condition, and results of operations would be adversely affected.

Our business could be adversely affected by economic downturns.

Prolonged economic uncertainties or downturns could adversely affect our business, financial condition, and results of operations. Negative conditions in the general economy in either the United States or abroad, including conditions resulting from financial and credit market fluctuations, changes in economic policy, trade uncertainty, including changes in tariffs, sanctions, international treaties, and other trade restrictions, the occurrence of a natural disaster or global public health crisis, such as the COVID-19 pandemic, or armed conflicts, could continue to cause a decrease in corporate spending on IT offerings in general and negatively affect the growth of our business. We are currently experiencing uncertainty with respect to the macroeconomic environment, including inflation and rising interest rates, and believe that the macroeconomic environment may become more challenging in the future.

These conditions could make it extremely difficult for our customers and us to forecast and plan future business activities accurately and could cause our customers to reevaluate their decision to purchase access to our platform, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. For example, the impact of the COVID-19 pandemic on the current economic environment has caused and may in the future cause our customers to reduce their spending on, or duration of, their contracts with us, or request concessions including extended payment terms or better pricing. Further, during challenging economic times our customers may face issues in gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us, if at all. If that were to occur, we may be required to increase our allowance for doubtful accounts, which would adversely affect our results of operations.

A substantial downturn in any of the industries in which our customers operate may cause firms to react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on IT offerings. Customers in these industries may delay or cancel projects or seek to lower their costs by renegotiating vendor contracts. To the extent purchases of access to our platform are perceived by customers and potential customers to be discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending.

We cannot predict the timing, strength, or duration of any economic slowdown, instability, or recovery, generally or within any particular industry or geography. Any economic downturns of the general economy or industries in which we operate would adversely affect our business, financial condition, and results of operations. For example, the full impact of the COVID-19 pandemic is unknown at this time, but could result in adverse changes in our results of operations for an unknown period of time as the virus and its related social and economic impacts spread.

Our business and results of operations are subject to the effects of a rising rate of inflation.

The United States has recently experienced higher levels of inflation than historical norms. According to the U.S. Department of Labor, the annual inflation rate for the United States was approximately 7.0% for 2021. If the inflation rate stays at this level or continues to increase, such as increases in the costs of labor, it will likely affect our expenses, especially employee compensation expenses. Additionally, the United States is experiencing an acute workforce shortage, which in turn, has created a hyper-competitive wage environment that may increase our operating costs. Further, inflation is likely to result in rising interest rates and have other adverse effects on the macroeconomic environment, which could adversely impact our customers and their ability to purchase our products and services. As such, inflation could adversely affect our business and results of operations.

Our business could be adversely affected by unexpected events such as pandemics, natural disasters, political crises, or social instability.

A significant natural disaster, such as an earthquake, fire, hurricane, tornado, flood, or significant power outage, could disrupt our operations, mobile networks, the Internet, or the operations of our third-party technology providers. In particular, our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. In addition, any unforeseen public health crises, such as the ongoing COVID-19 pandemic, political crises, such as terrorist attacks, war, and other political instability, or other catastrophic events, whether in the United States or abroad, can continue to adversely affect our operations or the economy as a whole. For example, the impact of the ongoing conflict in Ukraine on global economic conditions and our business are unknown at this time. The impact of any natural disaster, act of terrorism, or other disruption to us or our third-party providers' abilities could result in decreased demand for our platform or a delay in the provision of our platform, which would adversely affect our business, financial condition, and results of operations. All of the aforementioned risks would be further increased if our disaster recovery plans prove to be inadequate.

We use certain third-party services to manage and operate our business, and any failure or interruption in the services provided by these third parties could adversely affect our business, financial condition, and results of operations.

We use a number of third-party services to manage and operate our business, including pricing software to assist our sales and marketing teams and our finance and accounting teams. These services are critical to our ability to increase our sales to customers, operate, and maintain our platform, and accurately maintain books and records. Any disruption in these services could impair our ability to execute on our operating plan and disrupt our business. Further, if these services cease to be available to us on commercially reasonable terms, or at all, we may be required to use additional or alternative services, or to develop additional capabilities within our business, any of which could require significant resources and adversely affect our business, financial condition, and results of operations.

We believe our long-term value as a company will be greater if we focus on growth, which may negatively impact our results of operations in the near term.

We believe our long-term value as a company will be greater if we focus on growth over short-term results. As a result, our results of operations may be negatively impacted in the near term compared to if our strategy were to maximize short-term profitability. Significant expenditures on sales and marketing efforts, developing and enhancing our platform, and expanding our research and development efforts may not ultimately grow our business or lead to expected long-term results. If our strategy does not lead to expected growth or if we are ultimately unable to achieve results of operations at the levels expected by securities analysts and investors, the market price of our common stock could decline.

Risks Related to Privacy, Cybersecurity, Intellectual Property, and Technical Infrastructure

Any actual or perceived security or privacy breach could interrupt our operations, harm our reputation and brand, result in financial exposure, and lead to loss of user confidence in us or decreased use of our platform, any of which could adversely affect our business, financial condition, and results of operations.

The use of our platform involves the collection, storage, processing, and transmission of customers' data. In addition, we collect, process, store, and transmit our own data as part of our business operations. Our data or our customers' data may include personal data, or confidential or proprietary information. Increasingly, threats from computer malware, ransomware, viruses, social engineering (including phishing attacks), denial of service or other attacks, employee theft or misuse, and general hacking have become more prevalent in our industry, particularly against cloud-native services and vendors of security solutions. Any of these security incidents could result in unauthorized access to, damage to, disablement or encryption of, use or misuse of, disclosure of, modification of, destruction of, or loss of our data or our customers' data, or disrupt our ability to provide our platform. Any actual or perceived security breach or incident could interrupt our operations, harm our reputation and brand, result in remediation and cybersecurity protection costs, result in lost revenue, lead to litigation and legal risks, increase our insurance premiums, result in any other financial exposure, lead to loss of user confidence in us or decreased use of our platform, and otherwise damage our competitiveness, business, financial condition, and results of operations.

We engage third-party vendors and service providers to store and otherwise process some of our and our customers' data, including sensitive and personal information. There have been and may continue to be significant supply chain cyber attacks generally, and our third-party vendors and service providers may be targeted or impacted by such attacks. We cannot guarantee that our or our third-party vendors and service providers' systems and networks have not been breached or impacted by security incidents or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our services. Our ability to monitor our third-party vendors and service providers' data security is limited, and, in any event, third parties may be able to circumvent those security measures, resulting in the unauthorized access to, misuse, disclosure, loss or destruction of our and our customers' data, including sensitive and personal information.

We have taken steps to protect the data that we have access to, but our security measures or those of our third-party service providers could be insufficient and breached as a result of third-party action, employee errors, technological limitations, defects or vulnerabilities in our offerings or those of our third-party service providers, malfeasance, or otherwise. Additionally, with a majority of our employees currently working remotely due to the COVID-19 pandemic, we may be exposed to increased risks of security breaches or incidents. As a result of the war in the Ukraine, there may also be a heightened risk of potential cyberattacks by state actors or others since Russia's invasion of Ukraine. We may need to enhance the security of our platform, our data, and our internal IT infrastructure, which may require additional resources and may not be successful. Furthermore, because we do not control our third-party service providers and our ability to monitor their data security is limited, we cannot ensure the security measures they take will be sufficient to protect our and our customers' data. There can be no assurance that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. We have developed systems and processes to protect the integrity, confidentiality, and security of our data and our customers' data, but our security measures or those of our third-party service providers could fail and result in unauthorized access to, damage to, disablement or encryption of, use or misuse of, disclosure of, modification of, destruction of, or loss of such data. Further, because there are many different security breach techniques and such techniques continue to evolve and are generally not detected until after an incident has occurred, we may be unable to implement adequate preventative measures, anticipate attempted security breaches or other security incidents, or react in a timely manner. In addition, we have recently seen an increase in phishing attempts and spam emails in connection with the COVID-19 pandemic.

Any security breach or other security incident that we or our third-party service providers experience, or the perception that one has occurred, could result in a loss of customer confidence in the security of our platform, harm our reputation and brand, reduce the demand for our platform, disrupt normal business operations, require us to spend material resources to investigate or correct the breach and to prevent future security breaches and incidents, expose us to legal liabilities, including litigation, regulatory enforcement and orders, disputes, investigations, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for remediation, any of which could adversely affect our results of operations. In addition, our remediation efforts may not be successful. We cannot ensure that any limitation of liability provisions in our customer and user agreements, contracts with third-party vendors and service providers, and other contracts for a security lapse or breach or other security incident would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim. These risks may increase as we continue to grow and collect, process, store, and transmit increasingly large amounts of data.

Many governments have enacted laws requiring companies to notify individuals of data security incidents or unauthorized transfers involving certain types of personal data. Accordingly, security incidents experienced by our competitors, by our customers or by us may lead to negative publicity. Further, if a security breach occurs with respect to another SaaS provider, our customers and potential customers may lose trust in the security of software delivered through the cloud generally, which could adversely impact our ability to retain existing customers or attract new ones, which could adversely affect our business, financial condition, and results of operations.

Moreover, our insurance coverage may not be adequate for liabilities incurred or cover any indemnification claims against us relating to any security incident or breach or an insurer may deny coverage of claims. In the future, we may not be able to secure insurance for such matters on commercially reasonable terms, or at all. 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 adversely affect our business, financial condition, and results of operations.

Real or perceived defects, errors, or vulnerabilities in our platform could harm our reputation and adversely affect our business, financial condition, and results of operations.

Our platform is complex and, despite extensive testing and quality control, has in the past and may in the future contain defects, errors, or vulnerabilities, or may not perform as contemplated. These defects, errors, or vulnerabilities could result in exposure of data, data loss, data leakage, unanticipated downtime, or other events that would result in harm to our reputation, loss of customers or revenue, refunds, order cancellations, service terminations, or lack of market acceptance of our platform. Cloud-based services often contain undetected defects, errors, or vulnerabilities when first introduced or when new versions or enhancements are released. As the use of our platform, including features that were recently developed, expands to more sensitive, secure, or mission critical uses by our customers, we may be subject to increased scrutiny, reputational risk, or liability should our platform fail to perform as contemplated in such deployments. In addition, the wide availability of open source software used in our solutions could expose us to security vulnerabilities. In addition, we make the source code of some of our proprietary platform features available to facilitate collaboration, but this may also enable others to compete more effectively. Public availability of such software may make it easier for others to compromise our platform. We have in the past and may in the future identify defects, errors, or vulnerabilities, which inadvertently permit access to or exposure of customer data. Any such defects, errors, or vulnerabilities would require us to make corrections to our platform, which could require us to allocate significant research and development and customer support resources to address any such problems. Further, as we make acquisitions, we may encounter difficulties in integrating acquired technologies into our services and in augmenting those technologies to meet the quality standards that are consistent with our brand and reputation.

Our agreements with customers, channel partners, and other third parties may include indemnification provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred in connection with any such defects or errors on our platform, or other liabilities relating to or arising from our platform. Some of these indemnity agreements provide for uncapped liability for which we would be responsible, and some indemnity provisions survive termination or expiration of the applicable agreement. Large indemnity payments could harm our business, financial condition, and results of operations. Although we attempt to contractually limit our liability with respect to such indemnity obligations, we are not always successful and may still incur substantial liability related to such claims. In addition, although we carry general liability insurance, our insurance against this liability may not be adequate to cover a potential claim, and such coverage may not be available to us on acceptable terms, or at all. Any dispute with a customer or other third party with respect to such obligations could have adverse effects on our relationship with such customer or other third party, our reputation, or demand for our platform. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

We rely on Amazon Web Services ("AWS") to deliver our platform to our customers, and any disruption of, or interference with, our use of AWS could adversely affect our business, financial condition, and results of operations.

AWS is a third-party provider of cloud infrastructure services. We outsource substantially all of the infrastructure relating to our cloud-native platform to AWS. Our customers need to be able to access our platform at any time, without interruption or degradation of performance. Our platform depends, in part, on the virtual cloud infrastructure hosted in AWS. Although we have disaster recovery plans that utilize multiple AWS locations, any incident affecting their infrastructure that may be caused by fire, flood, severe storm, earthquake or other natural disasters, power loss, telecommunications failures, cyber-attacks, terrorist or other attacks, and other similar events beyond our control, could adversely affect our cloud-native platform. Additionally, AWS may experience threats or attacks from computer malware, ransomware, viruses, social engineering (including phishing attacks), denial of service or other attacks, employee theft or misuse and general hacking have become more prevalent in our industry, particularly against cloud-native services and vendors of security solutions. Any of these security incidents could result in unauthorized access to, damage to, disablement or encryption of, use or misuse of, disclosure of, modification of, destruction of, or loss of our data or our customers' data or disrupt our ability to provide our platform or service. A prolonged AWS service disruption affecting our cloud-native platform for any of the foregoing reasons would adversely impact our ability to serve our customers and could damage our reputation with current and potential customers, expose us to liability, result in substantial costs for remediation, cause us to lose customers, or otherwise harm our business, financial condition, or results of operations. We may also incur significant costs for using alternative hosting sources or taking other actions in preparation for, or in reaction to, events that damage the AWS services we use.

Our commercial agreement with AWS will remain in effect until the completion of its term or if terminated by AWS or us for cause upon a breach of the agreement. Termination upon a material breach is subject to providing the breaching party prior notice and a 30-day cure period. In the event that our AWS service agreements are terminated, or there is a lapse of service, elimination of AWS services or features that we utilize, or damage to such facilities, we could experience interruptions in access to our platform as well as significant delays and additional expense in arranging for or creating new facilities or re-architecting our platform for deployment on a different cloud infrastructure service provider, which would adversely affect our business, financial condition, and results of operations.

Any failure to obtain, maintain, protect, or enforce our intellectual property and proprietary rights could harm our business, financial condition, and results of operations.

Our success depends, in part, upon our ability to obtain, maintain, protect, and enforce our intellectual property rights, including our proprietary technology, know-how, and our brand. We rely on a combination of patents, copyrights, trademarks, service marks, trade secret laws, and contractual provisions in an effort to establish and protect our proprietary rights. However, the steps we take to obtain, maintain, protect, and enforce our intellectual property rights may be inadequate, and if we fail to protect or enforce our intellectual property rights adequately, our competitors might gain access to our proprietary technology and develop and commercialize similar services or technologies, and our business, financial condition, results of operations, or prospects could be adversely affected. While we have been issued patents in the United States and have additional patent applications pending, there can be no assurance that our patent applications will result in issued patents. Even if we continue to seek patent protection in the future, we may be unable to obtain or maintain patent protection for our technology. In addition, any patents issued from pending or future patent applications or licensed to us in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Any of our patents, trademarks, or other intellectual property rights may be challenged or circumvented by others or invalidated or held unenforceable through administrative process or litigation in the United States, or in foreign jurisdictions. There can be no guarantee that others will not infringe on our trademarks or patents, independently develop similar offerings, duplicate any of our offerings, or design around our patents or other intellectual property rights. Further, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Moreover, policing unauthorized use of our technologies, trade secrets, and intellectual property may be difficult, expensive, and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating, or otherwise violating our intellectual property rights.

We rely, in part, on trade secrets, proprietary know-how, and other confidential information to maintain our competitive position. While we generally enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances and other third parties, we cannot assure you that these agreements will be effective in controlling access to, distribution, use, misuse, misappropriation, reverse engineering, or disclosure of our proprietary information, know-how, and trade secrets. Further, these agreements do not prevent our competitors or partners from independently developing offerings that are substantially equivalent or superior to ours. These agreements may be breached, and we may not have adequate remedies for any such breach. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret or know-how is difficult, expensive, and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets and know-how.

We may be required to spend significant resources in order to monitor and protect our intellectual property rights, and some violations may be difficult or impossible to detect. Litigation may be necessary in the future to enforce our intellectual property rights, and such litigation could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights, and, if such defenses, counterclaims, and countersuits are successful, we could lose valuable intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could impair the functionality of our platform, delay introductions of enhancements to our platform, result in our substituting inferior or more costly technologies into our platform, or harm our reputation and brand. In addition, we may be required to license additional technology from third parties to develop and market new platform features, which may not be on commercially reasonable terms, or at all, and would adversely affect our ability to compete.

Claims by others that we infringed their proprietary technology or other intellectual property rights would harm our business.

We may become subject to intellectual property disputes. Our success depends, in part, on our ability to develop and commercialize our platform and services without infringing, misappropriating, or otherwise violating the intellectual property rights of third parties. However, we may not be aware if our platform is infringing, misappropriating, or otherwise violating third-party intellectual property rights, and such third parties may bring claims alleging such infringement, misappropriation, or violation. Companies in the software and technology industries, including some of our current and potential competitors, are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. In addition, certain companies and rights holders seek to enforce and monetize patents or other intellectual property rights they own, have purchased, or otherwise obtained. Many potential litigants, including some of our competitors and patent-holding companies, have the ability to dedicate substantial resources to assert their intellectual property rights and to defend claims that may be brought against them.

Any claim of infringement by a third party, even those without merit, against us or for which we are required to provide indemnification could cause us to incur substantial costs defending against the claim, could distract our management from our business, and could require us to cease use of such intellectual property. Further, because of the substantial amount of discovery required in connection with intellectual property litigation, we risk compromising our confidential information during this type of litigation. We may be required to make substantial payments for legal fees, settlement fees, damages, royalties, or other fees in connection with a claimant securing a judgment against us, we may be subject to an injunction or other restrictions that cause us to cease selling subscriptions to our platform, we may be required to redesign any allegedly infringing portion of our platform or we may agree to a settlement that prevents us from distributing our platform or a portion thereof, any of which could adversely affect our business, financial condition, and results of operations.

With respect to any intellectual property rights claim, we may have to seek out a license to continue operations found to be in violation of such rights, which may not be available on favorable or commercially reasonable terms and may significantly increase our operating expenses. Some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. If a third party does not offer us a license to its intellectual property on commercially reasonable terms, or at all, we may be required to develop alternative, non-infringing technology, which could require significant time (during which we would be unable to continue to offer our affected platform features), effort, and expense, and may ultimately not be successful. Any of these events would adversely affect our business, financial condition, and results of operations.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and results of operations. Moreover, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it would have a substantial adverse effect on our business, results of operations, or the market price of our common stock.

Our platform contains third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to deliver our platform or subject us to litigation or other actions.

Our platform contains software modules licensed to us by third-party authors under “open source” licenses, and we expect to continue to incorporate such open source software in our platform in the future. We also contribute to the open source developer community and encourage integration and development around our platform. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide support, warranties, indemnification, or other contractual protections regarding infringement claims or the quality of the code.

Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use, or grant other licenses to our intellectual property. We seek to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require the release of the source code of our proprietary software to the public. However, if we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar offerings with lower development effort and time and ultimately could result in a loss of our competitive advantages. Alternatively, to avoid the public release of the affected portions of our source code, we could be required to expend substantial time and resources to re-engineer some or all of our software. Our platform incorporates software that is licensed under an open source license which would require release of proprietary code if such platform was distributed to third parties. We take steps to ensure that our platform is not distributed, but business conditions could arise that make such distribution necessary or advisable. Additionally, some open source projects have known vulnerabilities and architectural instabilities and are provided on an “as-is” basis, which, if not properly addressed, could negatively affect the performance of our platform.

Although we monitor our use of open source software to avoid subjecting our platform to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. or foreign courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to provide or distribute our platform. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their platform, and the licensors of such open source software provide no warranties or indemnities with respect to such claims. As a result, we and our customers could be subject to lawsuits by parties claiming ownership of what we believe to be open source software. Moreover, we cannot assure you that our processes for controlling our use of open source software in our platform will be effective. If we are held to have breached or failed to fully comply with all the terms and conditions of an open source software license, or if an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations, could be subject to significant damages, enjoined from the sale of subscriptions to our platform or other liability, or be required to seek costly licenses from third parties to continue providing our platform on terms that are not economically feasible, to re-engineer our platform, to discontinue or delay the provision of our platform if re-engineering could not be accomplished on a timely basis, or to make generally available, in source code form, our proprietary code, any of which would adversely affect our business, financial condition, and results of operations.

We license certain editions of our offerings under an open source licensing model, which may limit our ability to monetize certain of our offerings and present other challenges.

With the acquisition of Sensu, an edition of one of our offerings, Sensu Go, is freely available under a permissive open source software license, the MIT license. That version is complemented by paid versions of Sensu under proprietary or other limited license terms, employing a business strategy called open-core licensing model, which has spurred adoption of paid offerings with additional features or commercial benefits. We may in the future have additional open source editions of our paid offerings. However, open source editions typically have very low conversion rates to paid editions, and we may not be able to convert users to customers at a rate high enough to offset the expense of maintaining the open source edition. While open source offerings can enjoy the benefit of community contributions and support, we may not be able to engage the community sufficiently to take advantage of this potential benefit. Moreover, open source offerings under a permissive license can be freely used by competitors without any consideration. Competitors can, for example, easily copy the project and create a competing one that may divert potential customers from our open source or paid offerings. This may result in our expending significant effort and expense maintaining an offering that will benefit our competitors. In addition, managing trademark and branding rights for open source offerings can be difficult, because the law regarding the interaction of trademark rights and open source licensing is evolving and uncertain. It may therefore be risky or difficult to enforce our trademark and branding rights for open source offerings. Finally, in the event we later wish to cease support of an open source edition in favor of paid editions, that decision may draw criticism, result in negative public relations, and reduce the popularity of the paid offerings.

The rapidly evolving framework of privacy, data protection, data transfers, or other laws or regulations worldwide may limit the use and adoption of our services and adversely affect our business.

We are subject to a variety of federal, state, local, and international laws, directives, and regulations, as well as contractual obligations, relating to the collection, use, retention, security, disclosure, transfer, and other processing of personal information and other data. The regulatory framework for privacy, data protection, and data transfers worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. For example, the European Court of Justice in 2020 struck down the EU-US Privacy Shield framework, which provided companies with a mechanism to comply with data protection requirements when transferring personal data from the EU to the United States. In some cases, data privacy laws and regulations, such as the EU's General Data Protection Regulation, or GDPR, which took effect in May 2018, impose additional obligations directly on us as both a data controller and a data processor, as well as on many of our customers. The European Commission approved revised standard contractual clauses for the transfer of personal data outside the European Economic Area, or EEA, in June 2021 which impose a range of new requirements on organizations exporting or importing personal data subject to the GDPR and which are required to be implemented. The United Kingdom enacted a Data Protection Act in May 2018 that substantially implemented the GDPR, and has implemented legislation referred to as the "UK GDPR" that generally provides for implementation of the GDPR in the United Kingdom. On June 28, 2021, the European Commission announced a decision that the United Kingdom is an "adequate country" to which personal data could be exported from the EEA, but this decision must be renewed and may face challenges in the future, creating uncertainty regarding transfers of personal data to the United Kingdom from the EEA. On February 2, 2022, the UK's Information Commissioner's Office issued new standard contractual clauses to support personal data transfers out of the UK, which became effective March 21, 2022, and are required to be implemented. Additionally, we cannot fully predict how the Data Protection Act, the UK GDPR, and other United Kingdom data protection laws or regulations may develop in the medium to longer term nor the effects of divergent laws and guidance regarding how data transfers to and from the United Kingdom will be regulated in the future. We may, in addition to other impacts from evolving laws, regulations, and guidance relating to cross-border data transfer, experience additional costs associated with increased compliance burdens and be required to engage in new contract negotiations with third parties that aid in processing personal data on our behalf or localize certain personal data. In addition, domestic data privacy laws continue to evolve and could expose us to further regulatory or operational burdens. For example, the California Consumer Privacy Act, or CCPA, which took effect in January 2020, and the California Privacy Rights Act, or CPRA, which was approved by voters in November 2020, and similar legislation recently enacted or proposed in other states, require new disclosures, afford consumers new abilities, or otherwise create new obligations. The U.S. federal government also is contemplating privacy legislation. Some countries also are considering or have passed legislation requiring local storage and processing of data, or similar requirements, which could increase the cost and complexity of delivering our platform. Complying with the GDPR, CCPA, CPRA, or other laws, regulations, amendments to or re-interpretations of existing laws and regulations, and contractual or other obligations relating to privacy, data protection, data transfers, data localization, or information security may require us to make changes to our services to enable us or our customers to meet new legal requirements, incur substantial operational costs, modify our data practices and policies, and restrict our business operations. Any actual or perceived failure by us to comply with these laws, regulations, or other obligations may lead to significant fines, penalties, regulatory investigations, lawsuits, significant costs for remediation, damage to our reputation, or other liabilities.

In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on our ability to provide our services globally. Our customers expect us to meet certain voluntary certification and other standards established by third parties. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our services to certain customers and could harm our business.

Furthermore, the uncertain and shifting regulatory environment may cause concerns regarding data privacy and may cause our customers or our customers' customers to resist providing the data necessary to allow our customers to use our services effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our services and limit adoption of our platform. Additionally, some statutory requirements, both in the United States and abroad, such as the Health Insurance Portability and Accountability Act of 1996, or HIPAA, include obligations for companies to notify individuals of security breaches involving particular personal information, which could result from breaches experienced by us or our service providers. Although we may have contractual protections with our service providers, any actual or perceived security breach or incident could harm our reputation and brand, expose us to potential liability, or require us to expend significant resources on data security and in responding to any such actual or perceived breach or incident.

These laws, regulations, standards, or other obligations relating to privacy, data protection, data transfers, data localization, or information security could require us to take on more onerous obligations in our contracts, restrict our ability to store, transfer, and process data or, in some cases, impact our ability to offer our services in certain locations, to deploy our solutions, to reach current and prospective customers, or to derive insights from customer data globally. If we are obligated to fundamentally change our business activities and practices or modify our platform, we may be unable to make such changes and modifications in a commercially reasonable manner, or at all, and our ability to develop new platform features could be limited. The costs of compliance with, and other burdens imposed by, these laws, regulations, standards, and obligations, or any inability to adequately address privacy, data protection, or information security-related concerns, even if unfounded, may limit the use and adoption of our services, reduce overall demand for our services, make it more difficult to meet expectations from or commitments to customers, impact our reputation, or slow the pace at which we close sales transactions, any of which could harm our business, financial condition, and results of operations.

We incorporate technology from third parties into our platform, and our inability to maintain rights to such technology would harm our business and results of operations.

We license software and other technology from third parties that we incorporate into or integrate with our platform. We cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell access to our platform. In addition, many licenses are non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Some of our agreements with our licensors may be terminated for convenience by them, or otherwise provide for a limited term. If we are unable to continue to license any of this technology for any reason, our ability to develop and sell access to our platform containing such technology could be harmed. Similarly, if we are unable to license necessary technology from third parties now, or in the future, on commercially reasonable terms or at all, we may be forced to acquire or develop alternative technology, which we may be unable to do in a commercially feasible manner, or at all, and we may be required to use alternative technology of lower quality or performance standards, which would adversely affect our business, financial condition, and results of operations.

Our platform may not interoperate with our customers' infrastructure or with third-party offerings, which would adversely affect our business and results of operations.

Our platform is often operated in large scale, complex technology environments. Our platform must interoperate with our customers' existing network and security infrastructure. These complex systems are developed, delivered, and maintained by our customers, myriad vendors, and service providers. As a result, the components of our customers' infrastructure have different specifications, rapidly evolve, utilize multiple protocol standards, include multiple versions and generations of offerings, and may be highly customized. We must be able to interoperate and provide our platform to customers with highly complex and customized networks, which requires careful planning and execution. Our customers and some channel partners require training and experience in the proper use of and the benefits that can be derived from our platform to maximize their potential. Further, when new or updated elements of our customers' infrastructure or new industry standards or protocols are introduced, we may have to update or enhance our platform to continue to effectively serve our customers. We offer prebuilt integrations with a variety of third-party cloud and software providers to allow customers to consolidate data across their infrastructure onto our platform, and we will need to continue to maintain existing integrations as other providers upgrade their offerings and develop new integrations with emerging technologies. Our competitors or other vendors may refuse to work with us to allow their offerings to interoperate with our platform, which could make it difficult for our platform to function properly in customer networks that include these third-party offerings.

We may not deliver or maintain interoperability quickly or cost-effectively, or at all. These efforts require capital investment and engineering resources. If we fail to maintain the compatibility of our platform with our customers' network and security infrastructures, our customers may not be able to fully adopt our platform, and we may, among other consequences, experience reduced demand for our platform, which could adversely affect our business, financial condition, and results of operations. Further, the incorrect or improper implementation or use of our software, our failure to train customers on how to benefit from full utilization of our platform, or our failure to provide support services to our customers may result in errors or loss of data and as a result, dissatisfied customers, negative publicity, and harm to our reputation and brand, or legal claims against us. All of the foregoing would result in lost opportunities for additional sales to these customers, any of which would adversely affect our business, financial condition, results of operations, and growth prospects.

Risks Related to Legal and Regulatory Matters

We may be subject to claims that we have wrongfully hired an employee from a competitor, or that our employees, consultants, or independent contractors have wrongfully used or disclosed confidential information of third parties or that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees, consultants, and advisors, or individuals that may in the future serve as our employees, consultants, and advisors, are currently or were previously employed at companies including our competitors or potential competitors. Although we try to ensure that our employees, consultants, independent contractors, and advisors do not use the confidential or proprietary information, trade secrets, or know-how of others in their work for us, we have in the past received notices from former employers and we may be subject to claims that we or have inadvertently or otherwise used or disclosed confidential or proprietary information, trade secrets, or know-how of these third parties, or that our employees, consultants, independent contractors, or advisors have inadvertently or otherwise used or disclosed confidential information, trade secrets, or know-how of such individual's current or former employer. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial cost and be a distraction to our management and employees. Claims that we, our employees, consultants, or advisors have misappropriated the confidential or proprietary information, trade secrets, or know-how of third parties could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Our business is subject to a wide range of laws and regulations, many of which are evolving, and failure to comply with such laws and regulations could harm our business, financial condition, and results of operations.

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing privacy and data protection laws and regulations, employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import and export controls, federal securities laws, and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States. These laws and regulations impose added costs on our business. Noncompliance with applicable regulations or requirements could subject us to:

- investigations, enforcement actions, orders, and sanctions;
- mandatory changes to our Continuous Intelligence Platform;
- disgorgement of profits, fines, and damages;
- civil and criminal penalties or injunctions;
- claims for damages by our customers or channel partners;
- termination of contracts;
- loss of intellectual property rights; and
- temporary or permanent debarment from sales to government organizations.

If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, financial condition, and results of operations could be adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could materially harm our business, financial condition, and results of operations.

We endeavor to comply with all applicable employment laws. However, the scope and interpretation of these laws are often uncertain and may be conflicting, including varying standards and interpretations between state and federal law, between individual states, and even at the city and municipality level. As a result, their application in practice may change or develop over time through judicial decisions or as new guidance or interpretations are provided by regulatory and governing bodies, such as federal, state, and local administrative agencies. From time to time, we may be subject to litigation or threats of litigation regarding such varying rules and standards. For example, in September 2019, attorneys representing a purported class of current and former employees in various sales roles alleged potential claims of employee misclassification and related federal and state law claims, which we disputed. In response, we mediated the dispute, and in August 2020, we entered into a settlement agreement with the purported class counsel to resolve the dispute, which was handled in arbitration and resulted in us paying approximately $4.5 million in the first quarter of fiscal 2022 to resolve the class-wide claims, which included claims for employee misclassification and related federal and state claims, civil penalties under California's Private Attorneys General Act of 2004, as well as claims for failure to pay overtime, provide meal and rest breaks, pay timely wages, and provide accurate wage statements, and claims for alleged unlawful business practices.

In addition, we must comply with laws and regulations relating to the formation, administration, and performance of contracts with the public sector, including U.S. federal, state, and local governmental organizations, which affect how we and our channel partners do business with governmental agencies. Selling access to our platform to the U.S. government, whether directly or through channel partners, also subjects us to certain regulatory and contractual requirements. Failure to comply with these requirements by either us or our channel partners could subject us to investigations, fines, and other penalties, which would have an adverse effect on our business, financial condition, results of operations, and prospects. Violations of certain regulatory and contractual requirements, or failure to maintain required certifications, could also result in us being suspended or debarred from future government contracting. Any of these outcomes would adversely affect our business, financial condition, results of operations, and growth prospects.

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

Our software may be subject to U.S. export control laws and regulations including the Export Administration Regulations and trade and economic sanctions maintained by the Office of Foreign Assets Control, or the OFAC. As such, an export license may be required to export or re-export our platform to certain countries, end-users, and end-uses. Because we incorporate encryption functionality into our platform, we also are subject to certain U.S. export control laws that apply to encryption items. If we were to fail to comply with such U.S. export controls laws and regulations, U.S. economic sanctions, or other similar laws, we could be subject to both civil and criminal penalties, including substantial fines, possible incarceration for employees and managers for willful violations, and the possible loss of our export or import privileges. Obtaining the necessary export license for a particular sale or offering may not be possible and may be time-consuming and may result in the delay or loss of sales opportunities. Further, U.S. export control laws and economic sanctions prohibit the export of offerings to certain U.S. embargoed or sanctioned countries, governments, and persons, as well as for prohibited end-uses. Even though we take precautions to ensure that we and our channel partners comply with all relevant export control laws and regulations, any failure by us or our channel partners to comply with such laws and regulations could have negative consequences for us, including reputational harm, government investigations, and penalties.

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

We are subject to anti-corruption, anti-bribery, and similar laws, and non-compliance with such laws can subject us to criminal penalties or significant fines, harm our reputation, and adversely affect our business, financial condition, results of operations, and growth prospects.

We are subject to the FCPA, the U.K. Bribery Act 2010, and other anti-corruption, anti-bribery, and anti-money laundering laws in various jurisdictions both domestic and abroad. We leverage third parties, including channel partners, to sell access to our platform and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that all of our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, any of which could harm our reputation and adversely affect our business, financial condition, results of operations, and growth prospects.

Changes in U.S. tax laws and regulations and those which we are subject to in various tax jurisdictions could adversely affect our business, financial condition, and results of operations.

In December 2017, the legislation commonly referred to as the Tax Cuts and Jobs Act, or the Tax Act, was enacted, which contains significant changes to U.S. tax law, including a reduction in the corporate tax rate and a transition to a new territorial system of taxation. The primary impact of the new legislation on our provision (benefit) for income taxes was a reduction of the future tax benefits of our deferred tax assets as a result of the reduction in the corporate tax rate. However, since we have recorded a full valuation allowance against our deferred tax assets, these changes did not have a material impact on our condensed consolidated financial statements. The impact of the Tax Act will likely be subject to ongoing technical guidance and accounting interpretation, which we will continue to monitor and assess. As we expand the scale of our international business activities, any changes in the U.S. or foreign taxation of such activities may increase our worldwide effective tax rate and harm our business, financial condition, and results of operations.

On August 16, 2022, the Inflation Reduction Act of 2022 was signed into law, with tax provisions primarily focused on implementing a 15% minimum tax on global adjusted financial statement income, effective for tax years beginning after December 31, 2022, and a 1% excise tax on share repurchases occurring after December 31, 2022. These and other changes to tax laws and regulations, or interpretation thereof, in the United States or other tax jurisdictions in which we do business, could adversely impact our business, financial condition, and results of operation.

Our international operations subject us to potentially adverse tax consequences.

We generally conduct our international operations through subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the value of assets sold or acquired or income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest, and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows, and lower overall profitability of our operations.

There is also a high level of uncertainty in today's tax environment stemming from both global initiatives put forth by the Organisation for Economic Co-operation and Development, or the OECD, and unilateral measures being implemented by various countries due to a lack of consensus on these global initiatives. As an example, the OECD has put forth two proposals—Pillar One and Pillar Two—that revise the existing profit allocation and nexus rules (profit allocation based on location of sales versus physical presence) and ensure a minimal level of taxation, respectively. Further, unilateral measures such as digital services tax and corresponding tariffs in response to such measures are creating additional uncertainty. If these proposals are passed, it is likely that we will have to pay higher taxes in countries where such rules are applicable.

We are subject to tax examinations by the Internal Revenue Service, or the IRS, and other domestic and foreign tax authorities. An adverse outcome of any such audit or examination by the IRS or other tax authority could have a material adverse effect on our financial condition and results of operations.

We are, and expect to continue to be, subject to review and audit by the IRS and other tax authorities in various domestic and foreign jurisdictions. As a result, we may receive assessments in multiple jurisdictions on various tax-related assertions. Taxing authorities may challenge our tax positions and methodologies on various matters, including our positions regarding the collection of sales and use taxes and the jurisdictions in which we are subject to taxes, which could expose us to additional taxes. We assess the likelihood of adverse outcomes resulting from any ongoing tax examinations to determine the adequacy of our provision (benefit) for income taxes. These assessments can require considerable judgments and estimates. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a variety of jurisdictions. There can be no assurance that our tax positions and methodologies or calculation of our tax liabilities are accurate or that the outcomes from tax examinations will not have an adverse effect on our financial condition and results of operations. A difference in the ultimate resolution of tax uncertainties from what is currently estimated could have an adverse effect on our financial condition and results of operations.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of January 31, 2022, we had $506.1 million of federal and $325.5 million of state net operating loss carryforwards, or NOLs, available to reduce future taxable income, which will begin to expire in 2030 for federal and California purposes. It is possible that we will not generate taxable income in time to use NOLs before their expiration, or at all. Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change NOLs to offset its post-change income may be limited. In general, an "ownership change" will occur if there is a cumulative change in our ownership by "5-percent shareholders" that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. The Company has performed a Section 382 ownership change analysis through January 31, 2022. Based on the results of this analysis, we concluded that the Company did experience an ownership change on December 31, 2021 and that our utilization of net operating loss carryforwards will be subject to an annual limitation. However, it is not expected that the annual limitation will result in the expiration of tax attribute carryforwards prior to utilization.

The Tax Act, as amended by the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, among other things, includes changes to U.S. federal tax rates and the rules governing NOLs. Unused U.S. federal NOLs for taxable years beginning before January 1, 2018, may be carried forward to offset future taxable income, if any, until such unused NOLs expire which have a twenty-year carryforward period. Under current law, U.S. federal NOLs incurred in taxable years after December 31, 2017, can be carried forward indefinitely, but the deductibility of such U.S. federal NOLs incurred in taxable years beginning after December 31, 2020, is limited to 80% of taxable income. NOLs arising in taxable years beginning after December 31, 2020, may not be carried back. As we maintain a full valuation allowance against our U.S. NOLs, these changes did not impact our consolidated balance sheet as of January 31, 2022 or October 31, 2022. However, in future years, if and when a net deferred tax asset is recognized related to our NOLs, the changes in the carryforward/carryback periods as well as the new limitation on the use of NOLs may significantly impact our valuation allowance assessments for NOLs generated after December 31, 2017.

There is also a risk that due to federal or state regulatory changes, such as suspensions on the use of NOLs, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added, or similar taxes, and any such assessments could adversely affect our business, financial condition, and results of operations.

We do not collect sales and use, value added, and similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable. Sales and use, value added, and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties, and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties, interest, or future requirements would adversely affect our financial condition and results of operations. Further, in June 2018, the Supreme Court held in *South Dakota v. Wayfair, Inc.* that states could impose sales tax collection obligations on out-of-state sellers even if those sellers lack any physical presence within the states imposing the sales taxes. Under *Wayfair*, a person requires only a "substantial nexus" with the taxing state before the state may subject the person to sales tax collection obligations therein. An increasing number of states (both before and after the publication of *Wayfair*) have considered or adopted laws that attempt to impose sales tax collection obligations on out-of-state sellers. The Supreme Court's *Wayfair* decision has removed a significant impediment to the enactment and enforcement of these laws, and it is possible that states may seek to tax out-of-state sellers on sales that occurred in prior tax years, which could create additional administrative burdens for us, put us at a competitive disadvantage if such states do not impose similar obligations on our competitors, and decrease our future sales, which would adversely impact our business, financial condition, and results of operations.

We may become involved in claims, lawsuits, government investigations, and other proceedings that could adversely affect our business, financial condition, and results of operations.

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including intellectual property, commercial, product liability, employment, class action, whistleblower, and other litigation and claims, and governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, cause us to incur significant expenses or liability, or require us to change our business practices. In addition, the expense of litigation and the timing of this expense from period to period are difficult to estimate, subject to change, and could adversely affect our financial condition and results of operations. Because of the potential risks, expenses, and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by agreeing to settlement agreements. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

Risks Relating to Financial and Accounting Matters

Remaining performance obligations and calculated billings may not be accurate indicators of business activity within a period.

Investors or analysts may look to both remaining performance obligations and the sum of revenue and changes in deferred revenue, sometimes referred to as "calculated billings," as indicators of business activity in a period for businesses such as ours. However, these measures may significantly differ from underlying business activity for a number of reasons including:

- a relatively large number of transactions occur at the end of the quarter. Invoicing of those transactions may or may not occur before the end of the quarter based on various factors including receipt of information from the customer and volume of transactions. A shift of a few days has little economic impact on our business, but will shift deferred revenue from one period into the next;

- multi-year contracts and multi-year upfront billings may distort trends;
- some subscriptions may have deferred start dates; and
- some services may only be invoiced upon delivery.

Accordingly, we do not believe that remaining performance obligations or calculated billings are necessarily accurate indicators of future performance for any given period. Analysts or investors may view these measures as important as many subscription-based companies report these as key metrics. Thus, any changes in our remaining performance obligations or calculated billings could be different from the expectations of investors or analysts, and thus may adversely affect the market price of our common stock.

We recognize substantially all of our revenue ratably over the term of the relevant subscription period, and as a result, downturns or upturns in sales may not be immediately reflected in our results of operations.

We recognize substantially all of our revenue ratably over the term of our subscription agreements with our customers, which is generally one to two years, but can be three years or longer. As a result, a substantial portion of the revenue that we report in each period will be derived from the recognition of deferred revenue relating to agreements entered into in prior periods. Consequently, a decline in new sales or renewals in any one period may not be immediately reflected in our results of operations for such period. Any such decline, however, would be reflected in future periods. Accordingly, the effect of significant downturns in sales and market acceptance of and demand for our platform and changes in our rate of renewals, or customer churn, which have occurred due to the COVID-19 pandemic, may not be fully reflected in our results of operations until future periods. Our subscription-based model also makes it difficult to rapidly increase our revenue through additional sales in any period, as revenue from new customers generally will be recognized over the term of the applicable agreement.

We also intend to increase our investment in research and development, sales and marketing, and general and administrative functions, and other areas to grow our business. These costs are generally expensed as incurred (with the exception of sales commissions), as compared to our revenue, substantially all of which is recognized ratably in future periods. We may recognize the costs associated with such increased investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our financial condition and results of operations.

Our metrics and estimates used to evaluate our performance are subject to inherent challenges in measurement, and real or perceived inaccuracies in those estimates may harm our reputation and negatively affect our business.

We regularly review and may adjust our processes for calculating our metrics used to evaluate our growth, measure our performance, and make strategic decisions. These metrics are calculated using internal company data and have not been evaluated by a third party. Our metrics and estimates may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology or the assumptions on which we rely. Additionally, the metrics and forecasts we disclose relating to the size and expected growth of our addressable market may prove to be inaccurate. Even if the markets in which we compete meet the size estimates and growth we have forecasted, our business could fail to grow at similar rates, if at all. If securities analysts or investors do not consider our metrics to be accurate representations of our business, or if we discover material inaccuracies in our estimates, then the market price of our common stock could decline, our reputation and brand could be harmed, and our business, financial condition, and results of operations could be adversely affected.

Our loan and security agreement provides our lender with a first-priority lien against substantially all of our assets and contains restrictive covenants which could limit our operational flexibility and otherwise adversely affect our financial condition.

Our loan and security agreement contains a number of covenants that limit our ability to incur debt, grant liens, make acquisitions, undergo a change in control, make investments, make certain dividends or distributions, repurchase or redeem stock, dispose of or transfer assets, and enter into transactions with affiliates. Our loan and security agreement is secured by substantially all of our assets. The terms of our loan and security agreement may restrict our current and future operations and could adversely affect our ability to finance our future operations or capital needs or to execute preferred business strategies. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategy and compete against companies who are not subject to such restrictions. Additionally, our obligations to repay principal and interest on our indebtedness make us vulnerable to economic or market downturns. As of October 31, 2022, we had no outstanding loan balance under this facility.

Our failure to comply with the covenants or payment requirements, or other events specified in our loan and security agreement, could result in an event of default and our lender may accelerate our obligations under our loan and security agreement and foreclose upon the collateral, or we may be forced to sell assets, restructure our indebtedness, or seek additional equity capital, which would dilute our stockholders' interests. Our failure to comply with any covenant could result in an event of default under the agreement and the lender could make the entire debt immediately due and payable. If this occurs, we might not be able to repay our debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be on terms that are acceptable to us. Any of the foregoing could adversely affect our business, financial condition, or results of operations.

We may require additional capital, which may not be available on terms acceptable to us, or at all.

Historically, we have funded our operations and capital expenditures primarily through equity issuances and cash generated from our operations. To support our growing business, we must have sufficient capital to continue to make significant investments in our platform. If we raise additional funds through the issuance of equity, equity-linked, or debt securities, those securities may have rights, preferences, or privileges senior to those of common stock, and our existing stockholders may experience dilution. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities.

We evaluate financing opportunities from time to time, and our ability to obtain financing will depend on, among other things, our development efforts, business plans, and operating performance, and the condition of the capital markets at the time we seek financing. We cannot be certain that additional financing will be available to us on favorable terms, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business, financial condition, and results of operations would be adversely affected.

Our results of operations may be adversely affected by changes in accounting principles applicable to us.

Generally accepted accounting principles in the United States, or GAAP, are subject to interpretation by the Financial Accounting Standards Board, or the FASB, the SEC, and other various bodies formed to promulgate and interpret appropriate accounting principles. Changes in accounting principles applicable to us, or varying interpretations of current accounting principles, in particular, with respect to revenue recognition of our packaging and licensing model, could have a significant effect on our reported results of operations. Further, any difficulties in the 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.

Our estimates or judgments relating to our critical accounting policies may be based on assumptions that change or prove to be incorrect, which could cause our results of operations to fall below expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the recognition and measurement of certain assets and liabilities and revenue and expenses that is not readily apparent from other sources. Our accounting policies that involve judgment include those related to revenue recognition, the period of benefit for deferred sales commissions, assumptions used for estimating the fair value of common stock to calculate stock-based compensation (prior to the closing of the IPO), capitalization of internal-use software costs, valuation of goodwill and intangible assets, allowance for doubtful accounts, and valuation allowances associated with income taxes. If our assumptions change or if actual circumstances differ from those in our assumptions, our results of operations could be adversely affected, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

We may fail to maintain an effective system of internal controls, which may result in material misstatements of our condensed consolidated financial statements or cause us to fail to meet our periodic reporting obligations.

In connection with the audit of our consolidated financial statements as of and for the fiscal year ended January 31, 2020, we identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness that we identified occurred because we had not designed and maintained effective controls over certain aspects of our information technology systems. More specifically, we did not design and maintain effective user access controls to adequately restrict user and privileged access to financial enterprise resource planning applications, including ensuring appropriate segregation of duties as it relates to the preparation and review of journal entries and the monitoring of system changes. This material weakness did not result in any errors to the consolidated financial statements as of and for the fiscal year ended January 31, 2020, nor did we find any evidence of management override of entries in our financial reporting process. To address this material weakness, we took actions to improve our control environment related to certain aspects of our information technology systems. As of the year ended January 31, 2021, we concluded that our remediation efforts have been successful, and that the previously-identified material weakness in our internal control over financial reporting has been remediated. However, while the material weakness has been remediated, we continue to seek improvements to enhance our control environment and to strengthen our internal controls to provide reasonable assurance that our financial statements continue to be fairly stated in all material respects.

We can give no assurance that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our condensed consolidated financial statements that could result in a restatement of our financial statements, and could cause us to fail to meet our reporting obligations, any of which could diminish investor confidence in us and cause a decline in the price of our common stock.

We may fail to maintain an effective system of disclosure controls and internal control over financial reporting, which could impair our ability to produce timely and accurate financial statements or comply with applicable regulations.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the listing standards of the Nasdaq Global Select Market. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Our current controls and any new controls that we develop may become inadequate because of changes in the conditions in our business, including increased complexity resulting from any international expansion, the expanded work-from-home practices of our employees in response to COVID-19, new product offerings or from strategic transactions. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely adversely affect the market price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq Global Select Market.

Our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could have an adverse effect on our business, financial condition, and results of operations, and could cause a decline in the market price of our common stock.

We may face fluctuations in currency exchange rates, which could adversely affect our financial condition and results of operations.

As we continue to expand internationally, we will become more exposed to fluctuations in currency exchange rates. A portion of our operating expenses are incurred outside of the United States and denominated in foreign currencies. The strengthening of the U.S. dollar relative to foreign currencies increases the real cost of our platform for our customers outside of the United States, which could lead to the lengthening of our sales cycle or reduced demand for our platform. As we continue our international expansion, increased international sales may result in foreign currency denominated sales, increasing our foreign currency risk. Moreover, this continued expansion will increase operating expenses incurred outside the United States and denominated in foreign currencies. If we are not able to successfully hedge against the risks associated with currency fluctuations, our financial condition and results of operations would be adversely affected. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure, which would adversely affect our financial condition and results of operations.

Risks Relating to Ownership of our Common Stock and Governance Matters

Our executive officers, directors, and holders of 5% or more of our common stock continue to have substantial control over us, which will limit your ability to influence the outcome of important transactions, including a change in control.

Our executive officers, directors, and our stockholders who own 5% or more of our outstanding common stock and their affiliates, in the aggregate, beneficially own a substantial portion of the outstanding shares of our common stock. As a result, these stockholders, if acting together, will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions, or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing, or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company, and might ultimately affect the market price of our common stock.

The market price of our common stock may be volatile, and you could lose all or part of your investment.

The market price of our common stock may be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the market price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new offerings or platform features;
- the public’s reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- short selling of our common stock or related derivative securities;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- actual or anticipated developments in our business, our competitors’ businesses, or the competitive landscape generally;
- announced or completed acquisitions of businesses, offerings, or technologies by us or our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- new laws or regulations, or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management; and

- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, would result in substantial costs and a diversion of our management's attention and resources.

Sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur, could cause our stock price to decline and impair our ability to raise capital through the sale of additional equity securities.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. If our stockholders sell, or the market perceives that our stockholders intend to sell, a substantial amount of our common stock in the public market, the market price of our common stock could decline and our ability to raise capital through the sale of additional equity securities could be impaired. Many of our existing equity holders have substantial unrecognized gains on the value of the equity they hold, and may take, or attempt to take, steps to sell, directly or indirectly, their shares or otherwise secure, or limit the risk to, the value of their unrecognized gains on those shares.

In addition, certain of our stockholders are entitled, under our investors' rights agreement, to require us to register shares owned by them for public sale in the United States. Sales of our common stock pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the market price of our common stock to fall and make it more difficult for you to sell shares of our common stock.

The issuance of additional stock in connection with financings, acquisitions, investments, our equity incentive plans, or otherwise will dilute all other stockholders.

Our amended and restated certificate of incorporation authorizes us to issue up to 1,000,000,000 shares of common stock and up to 100,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, acquisition, investment, our equity incentive plans, or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

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

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

- our board of directors is classified into three classes of directors with staggered three-year terms, and directors will only be able to be removed from office for cause;
- certain amendments to our amended and restated certificate of incorporation require the approval of at least 66 ⅔% of our then-outstanding common stock;
- our stockholders are only be able to take action at a meeting of stockholders and will not be able to take action by written consent for any matter;
- our amended and restated certificate of incorporation does not provide for cumulative voting;
- vacancies on our board of directors are able to be filled only by our board of directors and not by stockholders;
- a special meeting of our stockholders may only be called by the chairperson of our board of directors, our Chief Executive Officer, or a majority of our board of directors;
- certain litigation against us can only be brought in Delaware;

- our amended and restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without further action by our stockholders; and

- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

Our amended and restated bylaws designate a state or federal court located within the State of Delaware and the federal district courts of the United States as the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (iii) any action arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws, or (iv) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants. Our amended and restated bylaws further provide that the federal district courts of the United States will be the exclusive forum for resolving any complaints asserting a cause of action arising under the Securities Act of 1933, as amended, or the Securities Act.

Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision. This exclusive-forum provision may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. This exclusive forum provision will not apply to any causes of action arising under the Securities Act or the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. If a court were to find either exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our results of operations.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about us, our business, or our market, or if they change their recommendations regarding our common stock adversely, the market price and trading volume of our common stock 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, our business, our market, or our competitors. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If any of the analysts who cover us change their recommendation regarding our common stock adversely, provide more favorable relative recommendations about our competitors, or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If few securities analysts commence coverage of us, or if one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets and demand for our securities could decrease, which could cause the price and trading volume of our common stock to decline.

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

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Additionally, our ability to pay cash dividends on our common stock is limited by restrictions under the terms of our credit facility with Silicon Valley Bank. As a result, stockholders must rely on sales of their common stock after price appreciation as the only way to realize any future gains on their investment.

General Risk Factors

Operating as a public company requires us to incur substantial costs and will require substantial management attention.

As a public company, we incur substantial legal, accounting, and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Exchange Act, the applicable requirements of the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the rules and regulations of the SEC, and the listing standards of the Nasdaq Global Select Market. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business, financial condition, and results of operations. As a result of disclosure of information in filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors. In addition, as a public company, we have been and may continue to be subject to stockholder activism, which can lead to additional substantial costs, distract management, cause concern to our current or potential customers, employees, investors, strategic partners and other constituencies, and impact the manner in which we operate our business in ways we cannot currently anticipate. For example, in connection with the negotiation and entry into a cooperation agreement in May 2022 with Scaler Gauge Fund, L.P., one of our stockholders, we appointed a new director and agreed to appoint an additional new director in the future, and we incurred additional general and administrative expenses during the nine months ended October 31, 2022 of $2.6 million related thereto. In addition, our stock price could experience periods of increased volatility as a result of stockholder activism.

Certain members of our management team have limited experience managing a publicly traded company, and certain members joined us more recently. As such, our management team may not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and results of operations.

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

Sales of Unregistered Securities

None.

Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certifications 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.				
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2022, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Sumo Logic, 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 this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

SUMO LOGIC, INC.

Date: December 6, 2022	By:	/s/ Ramin Sayar
	Name:	Ramin Sayar
	Title:	Chief Executive Officer (Principal Executive Officer)
Date: December 6, 2022	By:	/s/ Stewart Grierson
	Name:	Stewart Grierson
	Title:	Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

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

I, Ramin Sayar, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Sumo Logic, 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 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 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: December 6, 2022	By:	/s/ Ramin Sayar
	Name:	Ramin Sayar
	Title:	Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

I, Stewart Grierson, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Sumo Logic, 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 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 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: December 6, 2022	By:	/s/ Stewart Grierson
	Name:	Stewart Grierson
	Title:	Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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

I, Ramin Sayar, 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 Sumo Logic, Inc. for the fiscal quarter ended October 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Sumo Logic, Inc.

Date: December 6, 2022	By:	/s/ Ramin Sayar
	Name:	Ramin Sayar
	Title:	Chief Executive Officer (Principal Executive Officer)

I, Stewart Grierson, 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 Sumo Logic, Inc. for the fiscal quarter ended October 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Sumo Logic, Inc.

Date: December 6, 2022	By:	/s/ Stewart Grierson
	Name:	Stewart Grierson
	Title:	Chief Financial Officer (Principal Financial Officer)