

Section 1: 10-Q (10-Q)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 July 31, 2019

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: 001-38240

MONGODB, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

1633 Broadway 38th Floor

New York NY

(Address of principal executive offices)

26-1463205

(I.R.S. Employer
Identification No.)

10019

(Zip Code)

Registrant's telephone number, including area code: 646-727-4092

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.001 per share	MDB	The Nasdaq Stock Market LLC (Nasdaq Global 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of September 3, 2019, there were 47,098,347 shares of the registrant's Class A common stock and 9,218,071 shares of the registrant's Class B common stock, each with a par value of \$0.001 per share, outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MONGODB, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	July 31, 2019	January 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 186,684	\$ 147,831
Short-term investments	249,369	318,139
Accounts receivable, net of allowance for doubtful accounts of \$1,479 and \$1,539 as of July 31, 2019 and January 31, 2019, respectively	66,783	72,808
Deferred commissions	18,093	15,878
Prepaid expenses and other current assets	12,444	11,580
Total current assets	533,373	566,236
Property and equipment, net	59,629	73,664
Operating lease right-of-use assets	11,698	—
Goodwill	55,484	41,878
Acquired intangible assets, net	40,102	15,894
Deferred tax assets	1,897	1,193
Other assets	39,414	34,611
Total assets	\$ 741,597	\$ 733,476
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,658	\$ 2,153
Accrued compensation and benefits	25,670	25,982
Operating lease liabilities	3,729	—
Other accrued liabilities	25,921	14,169
Deferred revenue	131,024	122,333
Total current liabilities	189,002	164,637
Deferred rent, non-current	—	2,567
Deferred tax liability, non-current	114	106
Operating lease liabilities, non-current	9,002	—
Deferred revenue, non-current	19,175	15,343
Convertible senior notes, net	223,356	216,858
Other liabilities, non-current	61,605	69,399
Total liabilities	502,254	468,910
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, par value of \$0.001 per share; 1,000,000,000 shares authorized as of July 31, 2019 and January 31, 2019; 46,885,379 and 36,286,573 shares issued and outstanding as of July 31, 2019 and January 31, 2019, respectively	47	36
Class B common stock, par value of \$0.001 per share; 100,000,000 shares authorized as of July 31, 2019 and January 31, 2019; 9,452,608 and 18,134,608 shares issued as of July 31, 2019 and January 31, 2019, respectively; 9,353,237 and 18,035,237 shares outstanding as of July 31, 2019 and January 31, 2019, respectively	9	18
Additional paid-in capital	804,224	754,612
Treasury stock, 99,371 shares (repurchased at an average of \$13.27 per share) as of July 31, 2019 and January 31, 2019	(1,319)	(1,319)
Accumulated other comprehensive loss	(332)	(174)
Accumulated deficit	(563,286)	(488,607)
Total stockholders' equity	239,343	264,566
Total liabilities and stockholders' equity	\$ 741,597	\$ 733,476

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

MONGODB, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Revenue:				
Subscription	\$ 94,156	\$ 55,086	\$ 178,150	\$ 101,155
Services	5,212	4,525	10,606	8,595
Total revenue	99,368	59,611	188,756	109,750
Cost of revenue:				
Subscription	24,373	12,116	46,968	22,186
Services	5,829	4,378	11,406	8,057
Total cost of revenue	30,202	16,494	58,374	30,243
Gross profit	69,166	43,117	130,382	79,507
Operating expenses:				
Sales and marketing	53,524	36,537	99,644	69,734
Research and development	37,140	21,430	68,008	40,075
General and administrative	16,174	12,254	30,979	23,481
Total operating expenses	106,838	70,221	198,631	133,290
Loss from operations	(37,672)	(27,104)	(68,249)	(53,783)
Other income (expense):				
Interest income	2,231	1,518	4,534	2,477
Interest expense	(4,940)	(1,294)	(9,629)	(1,294)
Other expense, net	(296)	(656)	(711)	(1,024)
Loss before provision for income taxes	(40,677)	(27,536)	(74,055)	(53,624)
Provision (benefit) for income taxes	(3,341)	246	(3,479)	713
Net loss	\$ (37,336)	\$ (27,782)	\$ (70,576)	\$ (54,337)
Net loss per share, basic and diluted	\$ (0.67)	\$ (0.54)	\$ (1.28)	\$ (1.07)
Weighted-average shares used to compute net loss per share, basic and diluted	55,647,707	51,185,258	55,186,945	50,784,422

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

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

	<u>Three Months Ended July 31,</u>		<u>Six Months Ended July 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net loss	\$ (37,336)	\$ (27,782)	\$ (70,576)	\$ (54,337)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	21	30	79	(52)
Foreign currency translation adjustment	(250)	(96)	(237)	(129)
Other comprehensive loss	(229)	(66)	(158)	(181)
Total comprehensive loss	<u>\$ (37,565)</u>	<u>\$ (27,848)</u>	<u>\$ (70,734)</u>	<u>\$ (54,518)</u>

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

MONGODB, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Class A and Class B Common Stock		Additional Paid- In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balances as of January 31, 2019	54,321,810	\$ 54	\$ 754,612	\$ (1,319)	\$ (174)	\$ (488,607)	\$ 264,566
Cumulative effect of accounting change	—	—	—	—	—	(4,103)	(4,103)
Stock option exercises	831,901	1	6,437	—	—	—	6,438
Repurchase of early exercised options	(3,981)	—	—	—	—	—	—
Vesting of early exercised stock options	—	—	127	—	—	—	127
Vesting of restricted stock units	126,346	—	—	—	—	—	—
Stock-based compensation	—	—	14,009	—	—	—	14,009
Unrealized loss on available-for-sale securities	—	—	—	—	58	—	58
Foreign currency translation adjustment	—	—	—	—	13	—	13
Net loss	—	—	—	—	—	(33,240)	(33,240)
Balances as of April 30, 2019	55,276,076	55	775,185	(1,319)	(103)	(525,950)	247,868
Stock option exercises	665,543	1	4,913	—	—	—	4,914
Repurchase of early exercised options	(209)	—	—	—	—	—	—
Vesting of early exercised stock options	—	—	70	—	—	—	70
Vesting of restricted stock units	206,587	—	—	—	—	—	—
Stock-based compensation	—	—	17,662	—	—	—	17,662
Issuance of common stock under the Employee Stock Purchase Plan	90,619	—	6,394	—	—	—	6,394
Unrealized loss on available-for-sale securities	—	—	—	—	21	—	21
Foreign currency translation adjustment	—	—	—	—	(250)	—	(250)
Net loss	—	—	—	—	—	(37,336)	(37,336)
Balances as of July 31, 2019	56,238,616	\$ 56	\$ 804,224	\$ (1,319)	\$ (332)	\$ (563,286)	\$ 239,343

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

MONGODB, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
(in thousands, except share data)
(unaudited)

	Class A and Class B Common Stock		Additional Paid- In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balances as of January 31, 2018	50,575,571	\$ 51	\$ 638,680	\$ (1,319)	\$ (159)	\$ (389,596)	\$ 247,657
Stock option exercises	40,723	—	183	—	—	—	183
Repurchase of early exercised options	(19,395)	—	—	—	—	—	—
Vesting of early exercised stock options	—	—	533	—	—	—	533
Vesting of restricted stock units	125	—	—	—	—	—	—
Stock-based compensation	—	—	7,577	—	—	—	7,577
Unrealized loss on available-for-sale securities	—	—	—	—	(82)	—	(82)
Foreign currency translation adjustment	—	—	—	—	(33)	—	(33)
Net loss	—	—	—	—	—	(26,555)	(26,555)
Balances as of April 30, 2018	50,597,024	51	646,973	(1,319)	(274)	(416,151)	229,280
Stock option exercises	1,150,864	1	7,894	—	—	—	7,895
Repurchase of early exercised options	(14,000)	—	—	—	—	—	—
Vesting of early exercised stock options	—	—	302	—	—	—	302
Vesting of restricted stock units	75,478	—	—	—	—	—	—
Stock-based compensation	—	—	9,009	—	—	—	9,009
Issuance of common stock under the Employee Stock Purchase Plan	275,874	—	5,626	—	—	—	5,626
Equity component of convertible senior notes	—	—	81,683	—	—	—	81,683
Purchase of capped calls	—	—	(37,086)	—	—	—	(37,086)
Unrealized loss on available-for-sale securities	—	—	—	—	30	—	30
Foreign currency translation adjustment	—	—	—	—	(96)	—	(96)
Net loss	—	—	—	—	—	(27,782)	(27,782)
Balances as of July 31, 2018	52,085,240	\$ 52	\$ 714,401	\$ (1,319)	\$ (340)	\$ (443,933)	\$ 268,861

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

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

	Six Months Ended July 31,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (70,576)	\$ (54,337)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,029	1,623
Stock-based compensation	31,671	16,586
Amortization of debt discount and issuance costs	6,498	1,094
Amortization of finance right-of-use assets	1,988	—
Non-cash interest on finance lease liabilities	1,823	—
Deferred income taxes	(4,232)	47
Accretion of discount on short-term investments	(2,751)	(1,070)
Change in operating assets and liabilities:		
Accounts receivable	6,220	6,469
Prepaid expenses and other current assets	(125)	(840)
Deferred commissions	(7,046)	(3,355)
Operating lease right-of-use assets	1,119	—
Other long-term assets	27	46
Accounts payable	440	(394)
Deferred rent	—	917
Accrued liabilities	8,285	1,957
Operating lease liabilities	(1,082)	—
Deferred revenue	12,333	6,356
Net cash used in operating activities	(9,379)	(24,901)
Cash flows from investing activities		
Purchases of property and equipment	(1,596)	(1,561)
Acquisition, net of cash acquired	(38,629)	—
Proceeds from maturities of marketable securities	280,000	118,000
Purchases of marketable securities	(209,025)	(300,467)
Net cash provided by (used in) investing activities	30,750	(184,028)
Cash flows from financing activities		
Proceeds from exercise of stock options, including early exercised stock options	11,350	8,106
Proceeds from the issuance of common stock under the Employee Stock Purchase Plan	6,394	5,626
Repurchase of early exercised stock options	(31)	(309)
Proceeds from borrowings on convertible senior notes, net of issuance costs	—	293,161
Payment for purchase of capped calls	—	(37,086)
Proceeds from tenant improvement allowance on build-to-suit lease	—	376
Net cash provided by financing activities	17,713	269,874
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(233)	(83)
Net increase in cash, cash equivalents and restricted cash	38,851	60,862
Cash, cash equivalents and restricted cash, beginning of period	148,347	62,427
Cash, cash equivalents and restricted cash, end of period	\$ 187,198	\$ 123,289
Supplemental cash flow disclosure		
Noncash investing and financing activities:		
Construction in progress related to build-to-suit lease obligations	\$ —	\$ 10,781
Reconciliation of cash, cash equivalents and restricted cash within the condensed consolidated balance sheets, end of period, to the amounts shown in the statements of cash flows above		
Cash and cash equivalents	\$ 186,684	\$ 122,771

Restricted cash, non-current	514	518
Total cash, cash equivalents and restricted cash	<u>\$ 187,198</u>	<u>\$ 123,289</u>

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

MONGODB, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

MongoDB, Inc. (“MongoDB” or the “Company”) was originally incorporated in the state of Delaware in November 2007 under the name 10Gen, Inc. In August 2013, the Company changed its name to MongoDB, Inc. The Company is headquartered in New York City. MongoDB is the leading, modern, general purpose database platform. The Company’s robust platform enables developers to build and modernize applications rapidly and cost-effectively across a broad range of use cases. Organizations can deploy the Company’s platform at scale in the cloud, on-premise, or in a hybrid environment. In addition to selling its software, the Company provides post-contract support, training and consulting services for its offerings. The Company’s fiscal year ends January 31.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated balance sheet as of July 31, 2019, the interim condensed consolidated statements of stockholders’ equity for the three and six months ended July 31, 2019 and 2018, the interim condensed consolidated statements of operations and of comprehensive loss for the three and six months ended July 31, 2019 and 2018 and the interim condensed consolidated statements of cash flows for the six months ended July 31, 2019 and 2018 are unaudited. The interim unaudited condensed consolidated financial statements have been prepared on a basis consistent with the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company’s financial position as of July 31, 2019, its statements of stockholders’ equity as of July 31, 2019 and 2018, its results of operations and of comprehensive loss for the three and six months ended July 31, 2019 and 2018 and its statements of cash flows for the six months ended July 31, 2019 and 2018. The financial data and the other financial information disclosed in the notes to these interim condensed consolidated financial statements related to the three and six-month periods are also unaudited. The results of operations for the three and six months ended July 31, 2019 are not necessarily indicative of the results to be expected for the fiscal year ending January 31, 2020 or for any other future year or interim period.

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). The condensed balance sheet data as of January 31, 2019 was derived from the Company’s audited financial statements, but does not include all disclosures required by U.S. GAAP. Therefore, these interim unaudited condensed consolidated financial statements and accompanying footnotes should be read in conjunction with the Company’s annual consolidated financial statements and related footnotes included in its Annual Report on Form 10-K for the fiscal year ended January 31, 2019 (the “2019 Form 10-K”).

Effective February 1, 2018, the Company adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. All amounts and disclosures in this Quarterly Report on Form 10-Q have been updated to comply with the new revenue standard.

Use of Estimates

The preparation of the interim unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include, but are not limited to, revenue recognition, allowances for doubtful accounts, stock-based compensation, legal contingencies, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, fair value of property and equipment and accounting for income taxes. The Company bases these estimates on historical and anticipated results, trends and various other assumptions that it believes are reasonable under the circumstances, including assumptions as to future events. Actual results could differ from those estimates.

MONGODB, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant Accounting Policies

There have been no changes to the Company's significant accounting policies as described in the Company's 2019 Form 10-K other than the adoption of the new accounting guidance related to leases and stock-based compensation, effective February 1, 2019, as discussed in "Recently Adopted Accounting Pronouncements" below. Further disclosures with respect to the Company's leases are also included in Note 7, *Leases*.

Related Party Transactions

All contracts with related parties are executed in ordinary course of business. There were no material related party transactions in the three and six months ended July 31, 2019 and 2018. As of July 31, 2019 and January 31, 2019, there were no material amounts payable to or amounts receivable from related parties.

Recently Adopted Accounting Pronouncements

Leases. In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, codified as Accounting Standards Codification 842 ("ASC 842"), which requires lessees to record the assets and liabilities arising from all leases, with the exception of short-term leases, on the balance sheet. Under ASC 842, lessees will recognize a liability for lease payments and a right-of-use asset. This guidance retains the distinction between finance leases and operating leases and the classification criteria for finance leases remains similar. For finance leases, a lessee will recognize the interest on a lease liability separate from amortization of the right-of-use asset. In addition, repayments of principal will be presented within financing activities, and interest payments will be presented within operating activities in the statement of cash flows. For operating leases, a lessee will recognize a single lease cost on a straight-line basis and classify all cash payments within operating activities in the statement of cash flows.

The Company adopted the new lease accounting standard effective February 1, 2019 using the additional transition method described in ASU No. 2018-11, *Leases – Targeted Improvements*, which was issued in July 2018. Under the additional transition method, the Company recognized the cumulative effect of initially applying the guidance as an adjustment to the operating lease right-of-use assets and operating lease liabilities on its condensed consolidated balance sheet on February 1, 2019 without retrospective application to comparative periods. The adoption of ASC 842 resulted in recognition of right-of-use assets of \$53.7 million, which included the impact of existing deferred rents of \$2.9 million and lease liabilities of \$70.2 million, along with a cumulative impact of \$4.1 million on the opening accumulated deficit, as of February 1, 2019. The Company elected the package of practical expedients permitted under the transition guidance within ASC 842, which allowed the Company to carry forward its historical assessments of whether contracts are or contain leases, lease classification and initial direct costs. See Note 7, *Leases*, for additional details.

The Company determines if an arrangement is, or contains, a lease at inception. Operating leases are disclosed separately on the condensed consolidated balance sheets and the finance lease is included in property and equipment, net, other accrued liabilities and other liabilities, non-current. The Company has elected an accounting policy to not recognize short-term leases (one year or less) on the consolidated balance sheet. Operating lease right of use assets and operating lease liabilities are recognized based on the present value of the lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, the Company's incremental borrowing rate is used based on the information available at commencement date in determining the present value of future payments. The operating lease right of use asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company accounts for lease components and non-lease components as a single lease component.

Stock-Based Compensation. In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting*, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees, with certain exceptions. The new guidance was effective for the Company for fiscal year beginning February 1, 2019 and the adoption had no material impact on its condensed consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

Goodwill Impairment. In January 2017, the FASB issued ASU No. 2017-04—*Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The new standard simplifies the measurement of goodwill by eliminating step two of the two-step impairment test. Step two measures a goodwill impairment loss by comparing the implied fair value

MONGODB, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for the Company for the fiscal year beginning February 1, 2020, though early adoption is permitted. The Company does not expect the adoption of the new accounting standard to have a material impact on its condensed consolidated financial statements.

Cloud Computing. In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. ASU No. 2018-15 becomes effective for the Company for the fiscal year beginning February 1, 2020, with early adoption permitted, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company is currently evaluating the impact of the adoption of this standard on its condensed consolidated financial statements.

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, which includes the Company's accounts receivables, certain financial instruments and contract assets. ASU No. 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. For available-for-sale debt securities, credit losses should be recorded through an allowance for credit losses. ASU No. 2016-13 becomes effective for the Company for the fiscal year beginning February 1, 2020 and requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating the impact of the adoption of this standard on its condensed consolidated financial statements.

3. Fair Value Measurements

The following tables present information about the Company's financial assets that have been measured at fair value on a recurring basis as of July 31, 2019 and January 31, 2019, and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value (in thousands):

	Fair Value Measurement at July 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents:				
Money market funds	\$ 121,230	\$ —	\$ —	\$ 121,230
Short-term investments:				
U.S. government treasury securities	249,369	—	—	249,369
Total financial assets	\$ 370,599	\$ —	\$ —	\$ 370,599

	Fair Value Measurement at January 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents:				
Money market funds	\$ 88,015	\$ —	\$ —	\$ 88,015
Short-term investments:				
U.S. government treasury securities	318,139	—	—	318,139
Total financial assets	\$ 406,154	\$ —	\$ —	\$ 406,154

The Company utilized the market approach and Level 1 valuation inputs to value its money market mutual funds and U.S. government treasury securities because published net asset values were readily available. As of July 31, 2019 and

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January 31, 2019, gross unrealized gains and unrealized losses for cash equivalents and short-term investments were not material, and the contractual maturity of all marketable securities was less than one year.

In addition to its cash, cash equivalents and short-term investments, the Company measures the fair value of its outstanding Notes (as defined below) on a quarterly basis for disclosure purposes. The Company considers the fair value of the Notes at July 31, 2019 to be a Level 2 measurement due to limited trading activity of the Notes. Refer to Note 6, *Convertible Senior Notes*, to the condensed consolidated financial statements for further details.

4. Business Combinations

The Company acquired all of the issued and outstanding capital stock of Tighddb, Inc. (“Realm”) on May 7, 2019 (the “Acquisition Date”) for a purchase price of \$39.0 million in cash, subject to working capital, cash, debt, transaction expenses and other closing adjustments. Realm, based in San Francisco, California, offers a mobile database, as well as a platform with real-time data synchronization between mobile applications and cloud databases.

The Company used the acquisition method to account for the purchase of Realm, which met the definition of a business. During the three months ended July 31, 2019, the Company finalized the working capital, cash, debt, transaction expenses and other closing adjustments and identified and recorded the fair value of the assets and liabilities acquired, as well as the residual value to goodwill. The allocation of the purchase price was based on available information and assumptions at the time of the initial valuation and may be subject to change within the measurement period.

The total merger consideration, after closing adjustments, was \$38.8 million, which included adjustments for cash and working capital. The following table represents a summary of the purchase price (in thousands):

	Amounts	
Purchase price pursuant to the merger agreement	\$	39,000
Estimated cash amount		115
Downward closing working capital adjustment		(352)
Total purchase price to be allocated	\$	<u>38,763</u>

The following table summarizes the purchase price allocation fair values of the assets acquired and liabilities and the value of goodwill assumed at the Acquisition Date (in thousands):

	Estimated Fair Value	
Financial and tangible assets, net	\$	43
Identifiable intangible asset - developed technology		27,300
Identifiable intangible asset - customer relationships		1,700
Deferred revenue		(350)
Goodwill		10,070
Total purchase price	\$	<u>38,763</u>

Financial and tangible assets, net primarily include the cash acquired and accounts receivable, net of existing Realm obligations as of the Acquisition Date.

Developed technology includes both the Realm mobile database and the Realm Object Server, which together automatically synchronizes data between mobile applications and cloud databases, including MongoDB Atlas. The Company determined the economic useful life to be five years based on expected time period that the asset would contribute to the Company’s future cash flows without significant upgrades. The fair value of developed technology was estimated using the reproduction cost method (Level 3), which utilized assumptions for the cost to replace, such as the workforce, timing and resources required, as well as a theoretical profit margin and opportunity cost.

Customer relationships represent the fair value of projected subscription revenue that is expected to be generated from existing customers as of the Acquisition Date. The Company determined the economic useful life to be five years and the fair value of customer relationships was estimated using the replacement cost approach (Level 3), which utilized assumptions for

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

sales and marketing expenses to determine the estimated cost to acquire a Realm customer. Other assumptions include a theoretical profit margin and opportunity costs.

These two intangible assets acquired are being amortized over their estimated useful lives using the straight-line method of amortization, which approximates the distribution of the economic value of the identified intangible assets. See Note 5, *Goodwill and Acquired Intangible Assets, Net*, for further details

Deferred revenue was estimated at fair value under the cost build-up method (Level 3), which was determined based on estimated direct and indirect costs to support and fulfill the subscription obligation plus an assumed operating margin. Deferred revenue will be recognized based on the revenue criteria set forth in Note 2, *Summary of Significant Accounting Policies*, in the Company's 2019 Form 10-K.

Goodwill related to the acquisition, which represents the difference between the purchase price and fair values of identifiable net assets, is primarily attributable to assembled workforce, as well as expected synergies of the combination. The goodwill is not tax deductible for U.S. income tax purposes. In addition to the goodwill recorded through the purchase price allocation disclosed in the table above, the Company recorded an additional \$3.5 million to goodwill resulting from deferred tax liabilities associated with the acquired intangible assets. Refer to Note 12, *Income Taxes*, for further discussion of the tax impact of the acquisition.

The Company incurred acquisition-related costs for the Realm acquisition of \$0.6 million during the six months ended July 31, 2019. These acquisition-related costs were included in general and administrative expenses in the Company's condensed consolidated statements of operations.

The Company included Realm's estimated fair value of assets acquired and liabilities assumed in its condensed consolidated balance sheet beginning on the Acquisition Date. The results of operations for Realm subsequent to the Acquisition Date have been included in, but are not material to, the Company's condensed consolidated statements of operations for the three and six months ended July 31, 2019. The pro forma results of operations for the Realm acquisition have not been presented because they were not material to the Company's condensed consolidated statements of operations for the three and six months ended July 31, 2019 and 2018.

5. Goodwill and Acquired Intangible Assets, Net

The following table summarizes the changes in the carrying amount of goodwill during the periods presented (in thousands):

Balance, January 31, 2019	\$	41,878
Increase in goodwill related to business combinations		13,606
Balance, July 31, 2019	\$	55,484

Refer to Note 4, *Business Combinations*, for further details on the addition to goodwill.

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The gross carrying amount and accumulated amortization of the Company's intangible assets are as follows (in thousands):

	July 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	\$ 34,700	\$ (7,703)	\$ 26,997
Domain name	155	(140)	15
Customer relationships	15,200	(2,110)	13,090
Total	\$ 50,055	\$ (9,953)	\$ 40,102

	January 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed technology	\$ 7,400	\$ (4,358)	\$ 3,042
Domain name	155	(128)	27
Customer relationships	13,500	(675)	12,825
Total	\$ 21,055	\$ (5,161)	\$ 15,894

Acquired intangible assets are amortized on a straight-line basis. As of July 31, 2019, the weighted-average remaining useful lives of identifiable, acquisition-related intangible assets was 4.6 years for developed technology, 0.7 years for domain name and 4.3 years for customer relationships. Amortization expense of intangible assets was \$3.1 million and \$4.8 million for the three and six months ended July 31, 2019, respectively. Amortization expense for developed technology and the domain name was included as research and development expense in the Company's condensed consolidated statements of operations. Amortization expense for customer relationships was included as sales and marketing expense in the Company's condensed consolidated statements of operations.

As of July 31, 2019, future amortization expense related to the intangible assets is as follows (in thousands):

Years Ending January 31,	
Remainder of 2020	\$ 5,323
2021	8,504
2022	8,500
2023	8,500
2024	7,825
2025	1,450
Total	\$ 40,102

6. Convertible Senior Notes

In June 2018, the Company issued \$250.0 million aggregate principal amount of 0.75% convertible senior notes due 2024 (the "Notes") in a private placement and, in July 2018, the Company issued an additional \$50.0 million aggregate principal amount of the Notes pursuant to the exercise in full of the initial purchasers' option to purchase additional Notes. The Notes are senior unsecured obligations of the Company, and interest is payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2018, at a rate of 0.75% per year. The Notes will mature on June 15, 2024, unless earlier converted, redeemed or repurchased. The total net proceeds from the offering, after deducting initial purchase discounts and estimated debt issuance costs, were approximately \$291.1 million.

The initial conversion rate is 14.6738 shares of the Company's Class A common stock per \$1,000 principal amount of Notes, which is equal to an initial conversion price of approximately \$68.15 per share of Class A common stock, subject to adjustment upon the occurrence of specified events. The Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding March 15, 2024, only under the following circumstances:

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (1) during any fiscal quarter commencing after the fiscal quarter ending on October 31, 2018 (and only during such fiscal quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the Notes on each applicable trading day;
- (2) during the five-business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate of the Notes on each such trading day;
- (3) if the Company calls any or all of the Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or
- (4) upon the occurrence of specified corporate events (as set forth in the indenture governing the Notes).

On or after March 15, 2024, until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of \$1,000 principal amount, at the option of the holder, regardless of the foregoing circumstances. Upon conversion, the Company will satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of the Company's Class A common stock or a combination of cash and shares of the Company's Class A common stock, at the Company's election. If a fundamental change (as defined in the indenture governing the Notes) occurs prior to the maturity date, holders of the Notes will have the right to require the Company to repurchase for cash all or any portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date, or if the Company elects to redeem the Notes, the Company will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event or redemption in certain circumstances. It is the Company's current intent to settle the principal amount of the Notes in cash.

During the three months ended July 31, 2019, the conditional conversion feature of the Notes was triggered as the last reported sale price of the Company's Class A common stock was more than or equal to 130% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on July 31, 2019 (the last trading day of the fiscal quarter), and therefore the Notes are currently convertible, in whole or in part, at the option of the holders between August 1, 2019 through October 31, 2019. Whether the Notes will be convertible following such period will depend on the continued satisfaction of this condition or another conversion condition in the future. As of July 31, 2019, the Company had not received any conversion notices. Since the Company has the election of repaying the Notes in cash, shares of the Company's Class A common stock, or a combination of both, the Company continued to classify the Notes as long-term debt on the Company's condensed consolidated balance sheet as of July 31, 2019.

The Company may not redeem the Notes prior to June 20, 2021. On or after June 20, 2021, the Company may redeem for cash all or any portion of the Notes, at its option, if the last reported sale price of its Class A common stock was at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides a notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

In accounting for the issuance of the Notes, the Notes were separated into liability and equity components. The carrying amounts of the liability component was calculated by measuring the fair value of similar liabilities that do not have associated convertible features. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the respective Notes. This difference represents the debt discount that is amortized to interest expense over the respective terms of the Notes using the effective interest rate method. The carrying amount of the equity component representing the conversion option was \$84.2 million. The equity component was recorded in additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the debt issuance costs of \$8.8 million related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on their relative values. Issuance costs attributable to the liability component were \$6.3 million and will be amortized, along with the debt discount, to interest expense over the contractual term of the Notes at an effective interest rate of 7.03%. Issuance costs attributable to the equity component

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

were \$2.5 million and are netted against the equity component representing the conversion option in additional paid-in capital.

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

	July 31, 2019	
Principal	\$	300,000
Unamortized debt discount		(71,096)
Unamortized debt issuance costs		(5,548)
Net carrying amount	\$	223,356

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

	July 31, 2019	
Debt discount for conversion option	\$	84,168
Issuance costs		(2,485)
Net carrying amount	\$	81,683

As of July 31, 2019, the total estimated fair value of the Notes was approximately \$654.3 million. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. The fair value of the Notes is primarily affected by the trading price of the Company's common stock and market interest rates.

The following table sets forth the interest expense related to the Notes (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Contractual interest expense	\$ 563	\$ 200	\$ 1,126	\$ 200
Amortization of debt discount	3,082	1,034	6,115	1,034
Amortization of issuance costs	195	60	383	60
Total	\$ 3,840	\$ 1,294	\$ 7,624	\$ 1,294

Capped Calls

In connection with the pricing of the Notes, the Company entered into privately negotiated capped call transactions with certain counterparties (the "Capped Calls"). The Capped Calls each have an initial strike price of approximately \$68.15 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped Calls have initial cap prices of \$106.90 per share, subject to certain adjustments. The Capped Calls are expected to partially offset the potential dilution to the Company's Class A common stock upon any conversion of the Notes, with such offset subject to a cap based on the cap price. The Capped Calls cover, subject to anti-dilution adjustments, approximately 4.4 million shares of the Company's Class A common stock. The Capped Calls are subject to adjustment upon the occurrence of specified extraordinary events affecting the Company, including merger events, tender offers and the announcement of such events. In addition, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including nationalization, insolvency or delisting, changes in law, failures to deliver, insolvency filings and hedging disruptions. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of \$37.1 million incurred to purchase the Capped Calls was recorded as a reduction to additional paid-in capital and will not be remeasured.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Leases

Finance Lease

In December 2017, the Company entered into a lease agreement for 106,230 rentable square feet of office space (the “Premises”) to accommodate its growing employee base in New York City. The Company received delivery of the Premises on January 1, 2018 to commence construction to renovate the Premises. Total estimated aggregate base rent payments over the initial 12-year term of the lease are \$87.3 million and payments began in July 2019. The Company has the option to extend the term of the lease by an additional 5 years.

Operating Leases

The Company has entered into non-cancelable operating leases, primarily related to rental of office space expiring through 2029. The Company recognizes operating lease costs on a straight-line basis over the term of the agreement, taking into account adjustments for market provisions such as free or escalating base monthly rental payments or deferred payment terms such as rent holidays that defer the commencement date of the required payments. The Company may receive renewal or expansion options, leasehold improvement allowances or other incentives on certain lease agreements.

Lease Costs

The components of the Company’s lease costs included in its condensed consolidated statement of operations were as follows (in thousands):

	Three Months Ended July 31, 2019	Six Months Ended July 31, 2019
Finance lease cost:		
Amortization of right-of-use assets	\$ 994	\$ 1,988
Interest on lease liabilities	918	1,823
Operating lease cost	1,386	2,353
Short-term lease cost	308	703
Total lease cost	\$ 3,606	\$ 6,867

Balance Sheet Components

The balances of the Company’s operating and finance leases were recorded on the condensed consolidated balance sheet as follows (in thousands):

	July 31, 2019
Operating Leases:	
Operating lease right-of-use assets	\$ 11,698
Operating lease liabilities (current)	3,729
Operating lease liabilities, non-current	9,002
Finance Lease:	
Property and equipment, net	\$ 41,399
Other accrued liabilities	4,200
Other liabilities, non-current	61,605

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Supplemental Information

The following table presents supplemental information related to the Company's operating and finance leases (in thousands, except weighted-average information):

	Six Months Ended July 31, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance lease	\$	—
Operating cash flows from operating leases		2,083
Financing cash flows from finance lease		—
Right-of-use assets obtained in exchange for lease obligations:		
Finance lease	\$	—
Operating leases		2,567
Weighted-average remaining lease term (in years):		
Finance lease		10.4
Operating leases		4.7
Weighted-average discount rate:		
Finance lease		5.6%
Operating leases		6.1%

Maturities of Lease Liabilities

Future minimum lease payments under non-cancelable finance and operating leases on an annual undiscounted cash flow basis as of July 31, 2019 were as follows (in thousands):

Year Ending January 31,	Finance Lease Operating Leases	
Remainder of 2020	\$ 3,732	\$ 3,248
2021	8,073	4,926
2022	8,073	2,869
2023	8,073	2,781
2024	8,073	1,300
Thereafter	51,274	2,264
Total minimum payments	87,298	17,388
Less imputed interest	(21,493)	(4,657)
Present value of future minimum lease payments	65,805	12,731
Less current obligations under leases	(4,200)	(3,729)
Non-current lease obligations	\$ 61,605	\$ 9,002

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Future minimum lease payments under non-cancelable financing and operating leases, based on the previous lease accounting standard, as of January 31, 2019, were as follows (in thousands):

Year Ending January 31,	Financing Lease	Operating Leases
2020	\$ 3,732	\$ 4,578
2021	8,073	3,765
2022	8,073	2,277
2023	8,073	2,224
2024	8,073	922
Thereafter	51,274	2,149
Total minimum payments	\$ 87,298	\$ 15,915

8. Commitments and Contingencies

Non-cancelable Material Commitments

During the six months ended July 31, 2019, there have been no material changes outside the ordinary course of business to the Company's contractual obligations and commitments from those disclosed in the 2019 Form 10-K.

Legal Matters

From time to time, the Company has become involved in claims and other legal matters arising in the ordinary course of business. For example, on March 12, 2019, Realtime Data ("Realtime") filed a lawsuit against the Company in the United States District Court for the District of Delaware alleging that the Company is infringing three U.S. patents that it holds: U.S. Patent No. 9,116,908, U.S. Patent No. 9,667,751 and U.S. Patent No. 8,933,825. The patent infringement allegations in the lawsuit relate to data compression, decompression, storage and retrieval. Realtime seeks monetary damages and injunctive relief. In August 2019, the District Court approved the Company and Realtime's stipulation to stay Realtime's lawsuit against the Company pending the outcome of Realtime's appeal of the District Court's decision to invalidate two of the asserted patents in a separate action.

The Company investigates these claims as they arise. Although claims are inherently unpredictable, the Company is currently not aware of any matters that, if determined adversely to the Company, would individually or taken together have a material adverse effect on its business, financial position, results of operations or cash flows.

The Company accrues estimates for resolution of legal and other contingencies when losses are probable and estimable. From time to time, the Company is a party to litigation and subject to claims and threatened claims incident to the ordinary course of business, including intellectual property claims, labor and employment claims, breach of contract claims, and other matters.

Although the results of litigation and claims are inherently unpredictable, the Company believes that there was not at least a reasonable possibility that the Company had incurred a material loss with respect to such loss contingencies, as of July 31, 2019 and January 31, 2019, therefore, the Company has not recorded an accrual for such contingencies.

Indemnification

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, including business partners, landlords, contractors and parties performing its research and development. Pursuant to these arrangements, the Company agrees to indemnify, hold harmless and reimburse the indemnified party for certain losses suffered or incurred by the indemnified party as a result of the Company's activities. The terms of these indemnification agreements are generally perpetual. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the fair value of these agreements is not material. The Company maintains commercial general liability insurance and product liability insurance to offset certain of the Company's potential liabilities under these indemnification provisions.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company has entered into indemnification agreements with each of its directors and executive officers. These agreements require the Company to indemnify such individuals, to the fullest extent permitted by Delaware law, for certain liabilities to which they may become subject as a result of their affiliation with the Company.

9. Revenue

Disaggregation of Revenue

Based on the information provided to and reviewed by the Company's Chief Executive Officer, the Company believes that the nature, amount, timing and uncertainty of its revenue and cash flows and how they are affected by economic factors is most appropriately depicted through the Company's primary geographical markets and subscription product categories. The Company's primary geographical markets are North and South America ("Americas"); Europe, Middle East and Africa ("EMEA"); and Asia Pacific. The Company also disaggregates its subscription products between its MongoDB Atlas-related offerings, which includes mLab, and other subscription products, which includes MongoDB Enterprise Advanced.

The following table presents the Company's revenues disaggregated by primary geographical markets, subscription product categories and services (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Primary geographical markets:				
Americas	\$ 64,967	\$ 38,736	\$ 122,730	\$ 72,156
EMEA	27,810	17,937	53,231	31,961
Asia Pacific	6,591	2,938	12,795	5,633
Total	\$ 99,368	\$ 59,611	\$ 188,756	\$ 109,750
Subscription product categories and services:				
MongoDB Atlas-related	\$ 36,787	\$ 10,607	\$ 67,650	\$ 17,570
Other subscription	57,369	44,479	110,500	83,585
Services	5,212	4,525	10,606	8,595
Total	\$ 99,368	\$ 59,611	\$ 188,756	\$ 109,750

Customers located in the United States accounted for 60% of total revenue for both the three and six months ended July 31, 2019 and 60% and 61% of total revenue for the three and six months ended July 31, 2018, respectively. Customers located in the United Kingdom accounted for 10% of total revenue for both the three and six months ended July 31, 2019 and 12% and 11% for the three and six months ended July 31, 2018, respectively. No other country accounted for 10% or more of revenue for the periods presented.

As of July 31, 2019 and 2018, substantially all of the Company's long-lived assets were located in the United States.

Contract Liabilities

The Company's contract liabilities are recorded as deferred revenue in the Company's consolidated balance sheet and consists of customer invoices issued or payments received in advance of revenues being recognized from the Company's subscription and services contracts. Deferred revenue, including current and non-current balances, as of July 31, 2019 and January 31, 2019 was \$150.2 million and \$137.7 million, respectively. For the six months ended July 31, 2019 and 2018, revenue recognized from deferred revenue at the beginning of each period was \$83.9 million and \$55.6 million, respectively.

Remaining Performance Obligations

Remaining performance obligations represent the aggregate amount of the transaction price in contracts allocated to performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations include unearned revenue, multi-year contracts with future installment payments and certain unfulfilled orders against accepted customer contracts at the end of any given period. As of July 31, 2019, the aggregate transaction price allocated to remaining performance obligations was \$175.7 million. Approximately 55% is expected to be recognized as revenue over the next 12 months and the remainder thereafter. The Company applied the practical expedient to omit

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disclosure with respect to the amount of the transaction price allocated to remaining performance obligations if the related contract has a total duration of 12 months or less.

Unbilled Receivables

Revenue recognized in excess of invoiced amounts creates an unbilled receivable, which represents the Company's unconditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Unbilled receivables were recorded as part of accounts receivable, net in the Company's consolidated balance sheets. As of July 31, 2019, unbilled receivables were \$10.1 million.

Costs Capitalized to Obtain Contracts with Customers

The Company capitalizes the incremental costs that are directly associated with non-cancelable subscription contracts with customers and consist of sales commissions paid to the Company's sales force, which were recorded as deferred commissions and other assets, depending on the expected length of the deferral, in the Company's consolidated balance sheets.

Deferred commissions were \$55.7 million as of July 31, 2019. Amortization expense with respect to deferred commissions was \$4.6 million and \$9.0 million for the three and six months ended July 31, 2019, respectively, and \$3.4 million and \$6.5 million for the three and six months ended July 31, 2018, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented.

10. Equity Incentive Plans and Employee Stock Purchase Plan*2008 Stock Incentive Plan and 2016 Equity Incentive Plan*

The Company adopted the 2008 Stock Incentive Plan (as amended, the "2008 Plan") in 2008 and the 2016 Equity Incentive Plan (as amended, the "2016 Plan") in 2016, primarily for the purpose of granting stock-based awards to employees, directors and consultants. With the establishment of the 2016 Plan in December 2016, all shares available for grant under the 2008 Plan were transferred to the 2016 Plan. The Company no longer grants any stock-based awards under the 2008 Plan and any shares underlying stock options canceled under the 2008 Plan will be automatically transferred to the 2016 Plan.

Stock Options

The 2016 Plan provides for the issuance of incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The Company's Board of Directors or a committee thereof determines the vesting schedule for all equity awards. Stock option awards generally vest over a period of four years with 25% vesting on the one-year anniversary of the award and the remainder vesting monthly over the next 36 months of the grantee's service to the Company.

The following table summarizes stock option activity for the six months ended July 31, 2019 (in thousands, except share and per share data and years):

	Shares	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance - January 31, 2019	8,621,010	\$ 7.75	6.7	\$ 729,392
Stock options exercised	(1,497,444)	7.56		
Stock options forfeited and expired	(134,012)	10.82		
Balance - July 31, 2019	6,989,554	\$ 7.74	6.3	\$ 946,975
Vested and exercisable - January 31, 2019	5,342,183	\$ 6.95	6.0	\$ 456,275
Vested and exercisable - July 31, 2019	4,660,444	\$ 7.02	5.7	\$ 634,751

MONGODDB, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Restricted Stock Units

The 2016 Plan provides for the issuance of restricted stock units (“RSUs”) to employees, directors and consultants. RSUs granted to new employees generally vest over a period of four years with 25% vesting on the one-year anniversary of the vesting start date and the remainder vesting quarterly over the next 12 quarters, subject to the grantee’s continued service to the Company. RSUs granted to existing employees generally vest quarterly over a period of four years, subject to the grantee’s continued service to the Company.

The following table summarizes RSU activity for the six months ended July 31, 2019:

	Shares	Weighted-Average Grant Date Fair Value per RSU
Unvested - January 31, 2019	1,988,774	\$ 54.22
RSUs granted	1,313,327	112.54
RSUs vested	(332,933)	57.23
RSUs forfeited and canceled	(138,614)	73.65
Unvested - July 31, 2019	2,830,554	\$ 79.97

2017 Employee Stock Purchase Plan

In October 2017, the Company’s Board of Directors adopted, and stockholders approved, the 2017 Employee Stock Purchase Plan (the “2017 ESPP”). A total of 2.0 million shares of the Company’s Class A common stock have been authorized for issuance under the 2017 ESPP. Subject to any plan limitations, the 2017 ESPP allows eligible employees to contribute, normally through payroll deductions, up to 15% of their earnings for the purchase of the Company’s Class A common stock at a discounted price per share. Except for the initial offering period, the ESPP provides for separate six-month offering periods. The initial offering period began October 18, 2017 and ended June 15, 2018. During the three months ended July 31, 2019, the Company issued 90,619 shares of Class A common stock under the 2017 ESPP.

Unless otherwise determined by the Board of Directors or a committee thereof, the Company’s Class A common stock will be purchased for the accounts of employees participating in the 2017 ESPP at a price per share that is the lesser of (1) 85% of the fair market value of the Company’s Class A common stock on the first trading day of the offering period, which for the initial offering period was the price at which shares of the Company’s Class A common stock were first sold to the public, or (2) 85% of the fair market value of the Company’s Class A common stock on the last trading day of the offering period.

Stock-Based Compensation Expense

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Cost of revenue—subscription	\$ 1,214	\$ 489	\$ 2,202	\$ 848
Cost of revenue—services	721	281	1314	465
Sales and marketing	5,944	2,129	10,884	4,347
Research and development	6,114	2,904	10,634	5,110
General and administrative	3,669	3,206	6,637	5,816
Total stock-based compensation expense	\$ 17,662	\$ 9,009	\$ 31,671	\$ 16,586

11. Net Loss Per Share

The Company calculates basic net loss per share by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net loss per share is computed by giving effect to all potentially dilutive common stock equivalents outstanding for the period, including stock options and

MONGODB, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

restricted stock units. Basic and diluted net loss per share was the same for each period presented, as the inclusion of all potential common shares outstanding would have been anti-dilutive due to the net loss reported for each period presented.

The rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock are identical, except with respect to voting. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to 10 votes per share. As the liquidation and dividend rights are identical for Class A and Class B common stock, the undistributed earnings are allocated on a proportionate basis and the resulting net loss per share will, therefore, be the same for both Class A and Class B common stock on an individual or combined basis.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
<i>Numerator:</i>				
Net loss	\$ (37,336)	\$ (27,782)	\$ (70,576)	\$ (54,337)
<i>Denominator:</i>				
Weighted-average shares used to compute net loss per share, basic and diluted	55,647,707	51,185,258	55,186,945	50,784,422
Net loss per share, basic and diluted	\$ (0.67)	\$ (0.54)	\$ (1.28)	\$ (1.07)

The shares underlying the conversion option in the Notes were not considered in the calculation of diluted net loss per share as the effect would have been anti-dilutive. Based on the initial conversion price, the entire outstanding principal amount of the Notes as of July 31, 2019 would have been convertible into approximately 4.4 million shares of the Company's Class A common stock. However, the Company currently expects to settle the principal amount of the Notes in cash. As a result, only the amount by which the conversion value exceeds the aggregate principal amount of the Notes (the "conversion spread") is considered in the diluted earnings per share computation under the treasury stock method. The conversion spread has a dilutive impact on diluted net income per share when the average market price of the Company's Class A common stock for a given period exceeds the initial conversion price of \$68.15 per share for the Notes. In connection with the issuance of the Notes, the Company entered into Capped Calls, which were not included for purposes of calculating the number of diluted shares outstanding, as their effect would have been anti-dilutive. The Capped Calls are expected to partially offset the potential dilution to the Company's Class A common stock upon any conversion of the Notes.

During the three months ended July 31, 2019, the average market price of the Company's Class A common stock was \$150.59, which exceeded the initial conversion price. The Company had not received any conversion notices through the issuance date of these unaudited condensed consolidated financial statements. For disclosure purposes, the Company calculated the potentially dilutive effect of the conversion spread, which is included in the table below.

The following weighted-average outstanding potentially dilutive shares of common stock were excluded from the computation of diluted net loss per share for the periods presented because the impact of including them would have been anti-dilutive.

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Stock options to purchase Class A common stock	2,212,684	3,361,686	2,342,061	3,450,512
Stock options to purchase Class B common stock	5,185,198	8,271,986	5,442,820	8,636,638
Unvested restricted stock units	2,926,998	1,441,964	2,744,235	1,044,241
Early exercised stock options	31,583	132,297	39,480	172,778
Shares underlying the conversion spread in the convertible senior notes	2,409,899	—	2,177,490	—

MONGODB, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Income Taxes

The Company recorded a provision (benefit) related to income taxes of \$(3.3) million and \$(3.5) million for the three and six months ended July 31, 2019, respectively, and \$0.2 million and \$0.7 million for the three and six months ended July 31, 2018, respectively. The overall benefit recorded during the three and six months ended July 31, 2019 was driven by a net release of \$3.5 million in the Company's valuation allowance on deferred tax assets primarily as a result of deferred taxes recorded in purchase accounting as part of the Realm acquisition. The provision related to income taxes during the prior-year periods was primarily due to foreign taxes offset by excess tax deductions in the United Kingdom with respect to stock option exercises. The calculation of income taxes is based upon the estimated annual effective tax rates for the year applied to the current period income (loss) before tax plus the tax effect of any significant unusual items, discrete events or changes in tax law.

The Company assesses uncertain tax positions in accordance with ASC 740-10, *Accounting for Uncertainties in Tax*. As of July 31, 2019, the Company's net unrecognized tax benefits totaled \$4.6 million, of which \$0.1 million would impact the Company's effective tax rate if recognized. The Company anticipates that the amount of reasonably possible unrecognized tax benefits that could decrease over the next twelve months due to the expiration of certain statutes of limitations and settlement of tax audits is not material to the Company's interim unaudited condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Unless the context otherwise indicates, references in this report to the terms “MongoDB,” “the Company,” “we,” “our” and “us” refer to MongoDB, Inc., its divisions and its subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (1) our interim unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and (2) the audited consolidated financial statements and the related notes and the discussion under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2019 (the “2019 Form 10-K”). All information presented herein is based on our fiscal calendar, which ends January 31. Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years ended January 31 and the associated quarters, months and periods of those fiscal years. Effective February 1, 2018, the Company adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* as discussed in the Company’s consolidated financial statements and related notes “Recently Adopted Accounting Pronouncements.” All amounts and disclosures in this Quarterly Report on Form 10-Q have been updated to comply with the new revenue standard.

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements are often identified by the use of words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “will,” “would” or the negative or plural of these words or similar expressions or variations, including our expectations regarding our future operating expenses. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled “Risk Factors,” set forth in Part 2, Item 1A of this Quarterly Report on Form 10-Q. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Our corporate website is located at www.mongodb.com. We make available free of charge, on or through our corporate website, our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with, or furnishing such reports to, the SEC. Information contained on our corporate website is not part of this Quarterly Report on Form 10-Q or any other report filed with or furnished to the SEC.

Overview

MongoDB is the leading modern, general purpose database platform. Our robust platform enables developers to build and modernize applications rapidly and cost-effectively across a broad range of use cases. Organizations can deploy our platform at scale in the cloud, on-premise, or in a hybrid environment. Software applications are redefining how organizations across industries engage with their customers, operate their businesses and compete with each other. A database is at the heart of every software application. As a result, selecting a database is a highly strategic decision that directly affects developer productivity, application performance and organizational competitiveness. Our platform addresses the performance, scalability, flexibility and reliability demands of modern applications, while maintaining the strengths of legacy databases. Our business model combines the developer mindshare and adoption benefits of open source with the economic benefits of a proprietary software subscription business model. MongoDB is headquartered in New York City and our total headcount was 1,491 as of July 31, 2019, an increase from 1,055 as of July 31, 2018.

We generate revenue primarily from sales of subscriptions, which accounted for 95% and 94% of our total revenue for the three and six months ended July 31, 2019, respectively, and 92% of our total revenue for both the three and six months ended July 31, 2018. Our primary subscription package is MongoDB Enterprise Advanced, which represented 52% and 53% of our subscription revenue for the three and six months ended July 31, 2019, respectively, and 64% and 65% of our subscription revenue for the three and six months ended July 31, 2018, respectively. For the fiscal years ended January 31, 2019, 2018 and 2017, MongoDB Enterprise Advanced represented 60%, 69% and 72% of our subscription revenue, respectively. MongoDB Enterprise Advanced is our comprehensive offering for enterprise customers that can be run in the cloud, on-premise or in a hybrid environment, and includes our proprietary commercial database server, enterprise management capabilities, our graphical user interface, analytics integrations, technical support and a commercial license to our platform.

Many of our enterprise customers initially get to know our software by using Community Server, which is our free-to-download version of our database that includes the core functionality developers need to get started with MongoDB without all the features of our commercial platform. As a result, our direct sales prospects are often familiar with our platform and may have already built applications using our technology. We sell subscriptions directly through our field and inside sales teams, as well as indirectly through channel partners. Our subscription offerings are generally priced on a per server basis, subject to a per server RAM limit. The majority of our subscription contracts are one year in duration and invoiced upfront. When we enter into multi-year subscriptions, we typically invoice the customer on an annual basis.

We introduced MongoDB Atlas in June 2016. MongoDB Atlas is our cloud-hosted database-as-a-service (“DBaaS”) offering that includes comprehensive infrastructure and management, which we run and manage in the cloud. During the three and six months ended July 31, 2019, MongoDB Atlas revenue represented 37% and 36% of our total revenue, respectively, and during the three and six months ended July 31, 2018, MongoDB Atlas revenue represented 18% and 16% of our total revenue, respectively, reflecting the continued growth of MongoDB Atlas since its introduction. We have experienced strong growth in self-serve customers of MongoDB Atlas. These customers are charged monthly based on their usage. In addition, we have also seen growth in MongoDB Atlas customers sold by our sales force. These customers typically sign annual commitments and pay in advance or are invoiced monthly based on usage. Given our platform has been downloaded from our website more than 70 million times since February 2009 and over 30 million times in the last 12 months alone, a core component of our growth strategy for MongoDB Atlas is to convert developers and their organizations who are already using Community Server to become customers of MongoDB Atlas and enjoy the benefits of a managed offering.

We also generate revenue from services, which consist primarily of fees associated with consulting and training services. Revenue from services accounted for 5% and 6% of our total revenue for the three and six months ended July 31, 2019, respectively, and 8% of our total revenue for both the three and six months ended July 31, 2018. We expect to continue to invest in our services organization as we believe it plays an important role in accelerating our customers’ realization of the benefits of our platform, which helps drive customer retention and expansion.

We believe the market for our offerings is large and growing. According to IDC, the worldwide database software market, which it refers to as the data management software market, is forecast to be \$64 billion in 2019 growing to approximately \$98 billion in 2023, representing an 11% compound annual growth rate. We have experienced rapid growth and have made substantial investments in developing our platform and expanding our sales and marketing footprint. We intend to continue to invest heavily to grow our business to take advantage of our market opportunity rather than optimizing for profitability or cash flow in the near term.

Key Factors Affecting Our Performance

Growing Our Customer Base

We are focused on continuing to grow our customer base. We have invested, and expect to continue to invest, heavily in our sales and marketing efforts and developer community outreach, which are critical to driving customer acquisition. As of July 31, 2019, we had over 15,000 customers across a wide range of industries and in over 100 countries, compared to over 7,400 customers as of July 31, 2018. All affiliated entities are counted as a single customer.

Our customer count as of July 31, 2019 includes customers acquired from ObjectLabs Corporation (“mLab”) and Tightdb, Inc. (“Realm”), which acquisitions closed on November 1, 2018 and May 7, 2019, respectively. Our definition of “customer” excludes (1) users of our free offerings, (2) users acquired from mLab who spend \$20 or less per month with us and (3) self-serve users acquired from Realm. The excluded mLab and Realm users collectively represent an immaterial portion of the revenue associated with users acquired from those acquisitions.

As of July 31, 2019, we had over 1,850 customers that were sold through our direct sales force and channel partners, as compared to over 1,600 such customers as of July 31, 2018. These customers, which we refer to as our Direct Sales Customers, accounted for 78% and 77% of our subscription revenue for the three and six months ended July 31, 2019, respectively, and 87% and 88% of our subscription revenue for the three and six months ended July 31, 2018, respectively.

Increasing Adoption of MongoDB Atlas

MongoDB Atlas, our hosted multi-cloud offering, is an important part of our run-anywhere strategy. With MongoDB Atlas, customers can enjoy the benefits of consuming MongoDB as a service in the public cloud, enabling customers to remove themselves from the complexity of managing the database and related underlying infrastructure. We initially

launched MongoDB Atlas in 2016 and generated revenue by migrating existing users of our Community Server. During 2018, we expanded the functionality available in MongoDB Atlas beyond that of our Community Server offering, including adding advanced security features, enterprise-standard authentication and database auditing to MongoDB Atlas to allow Atlas to support mission-critical enterprise workloads.

MongoDB Atlas is available on all three major cloud providers (Amazon Web Services (“AWS”), Google Cloud Platform (“GCP”) and Microsoft Azure) in North America, Europe and Asia Pacific. In addition, MongoDB Atlas is available on AWS Marketplace, making it easier for AWS customers to buy and consume MongoDB Atlas. We recently announced a new business partnership with GCP that will provide deeper product integration and unified billing for GCP customers who are also MongoDB Atlas customers. This partnership will allow GCP customers a seamless integration of all the features of MongoDB Atlas with GCP’s identity and access management, logging and monitoring, Kubernetes and Tensorflow. We also announced an expanded relationship with Microsoft. The new availability of MongoDB Atlas on the Microsoft Azure Marketplace will offer unified billing for joint customers of MongoDB Atlas and Microsoft and will make it easier for established Azure customers to purchase and use MongoDB Atlas. In addition, MongoDB will be part of Microsoft’s strategic partner program.

We have invested significantly in MongoDB Atlas and our ability to drive adoption of MongoDB Atlas is a key component of our growth strategy. We offer a free tier on AWS, GCP and Microsoft Azure, which provides limited processing power and storage, in order to drive usage and adoption of MongoDB Atlas among developers. In addition, we offer tools to easily migrate existing users of our Community Server offering to MongoDB Atlas. From its launch in June 2016, we have grown MongoDB Atlas to over 13,200 customers as of July 31, 2019. The growth in MongoDB Atlas customers included new customers to MongoDB and existing MongoDB Enterprise Advanced customers adding incremental MongoDB Atlas workloads, as well as customers from mLab, as described above.

Retaining and Expanding Revenue from Existing Customers

The economic attractiveness of our subscription-based model is driven by customer renewals and increasing existing customer subscriptions over time, referred to as land-and-expand. We believe that there is a significant opportunity to drive additional sales to existing customers, and expect to invest in sales and marketing and customer success personnel and activities to achieve additional revenue growth from existing customers. If an application grows and requires additional capacity, our customers increase their subscriptions to our platform. In addition, our customers expand their subscriptions to our platform as they migrate additional existing applications or build new applications, either within the same department or in other lines of business or geographies. Also, as customers modernize their information technology infrastructure and move to the cloud, they may migrate applications from legacy databases. Our goal is to increase the number of customers that standardize on our database within their organization, which can include offering centralized internal support or providing MongoDB-as-a-service internally. Over time, the average subscription amount for our Direct Sales Customers has increased. In addition, self-service customers have begun to increase their consumption of our products, particularly MongoDB Atlas.

We monitor annualized recurring revenue (“ARR”) to help us measure our subscription performance. We define ARR as the subscription revenue we would contractually expect to receive from customers over the following 12 months assuming no increases or reductions in their subscriptions. ARR excludes self-service products, including MongoDB Atlas not sold on a commitment basis. ARR also excludes professional services. For customers who utilize our self-service offerings, we measure the annualized monthly recurring revenue (“MRR”), which is calculated by annualizing their usage of our self-serve products in the prior 30 days and assuming no increases or reductions in their usage. The number of customers with \$100,000 or greater in ARR and annualized MRR was 622 and 438 as of July 31, 2019 and 2018, respectively. Our ability to increase sales to existing customers will depend on a number of factors, including customers’ satisfaction or dissatisfaction with our products and services, competition, pricing, economic conditions or overall changes in our customers’ spending levels.

Components of Results of Operations

Revenue

Subscription Revenue. We derive subscription revenue by offering subscriptions to our platform and hosted database-as-a-service solutions. Revenue from subscriptions to our platform is recognized upfront for the license component and ratably for the technical support and when-and-if available update components. Revenue from our hosted database-as-a-service solutions is primarily generated on a usage basis and is billed either in arrears or paid up front. The majority of our subscription contracts are one year in duration and are invoiced upfront. Our subscription contracts are generally non-cancelable and non-refundable. When we enter into multi-year subscriptions, we typically invoice the customer on an annual basis.

Services Revenue. Services revenue is comprised of consulting and training services and is recognized over the period of delivery of the applicable services. We recognize revenue from services agreements as services are delivered.

We expect our revenue may vary from period to period based on, among other things, the timing and size of new subscriptions, the proportion of term license contracts that commence within the period, the rate of customer renewals and expansions, delivery of professional services, the impact of significant transactions and seasonality of or fluctuations in usage for our consumption-based customers.

Cost of Revenue

Cost of Subscription Revenue. Cost of subscription revenue primarily includes personnel costs, including salaries, bonuses and benefits, and stock-based compensation, for employees associated with our subscription arrangements principally related to technical support and allocated shared costs, as well as depreciation and amortization. Our cost of subscription revenue for our hosted as-a-service solutions includes third-party cloud infrastructure expenses. We expect our cost of subscription revenue to increase in absolute dollars as our subscription revenue increases and, depending on the results of MongoDB Atlas, our cost of subscription revenue may increase as a percentage of subscription revenue as well.

Cost of Services Revenue. Cost of services revenue primarily includes personnel costs, including salaries, bonuses and benefits, and stock-based compensation, for employees associated with our professional service contracts, as well as travel costs, allocated shared costs and depreciation and amortization. We expect our cost of services revenue to increase in absolute dollars as our services revenue increases.

Gross Profit and Gross Margin

Gross Profit. Gross profit represents revenue less cost of revenue.

Gross Margin. Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our products and services, the mix of products sold, transaction volume growth and the mix of revenue between subscriptions and services. We expect our gross margin to fluctuate over time depending on the factors described above and, to the extent MongoDB Atlas revenue increases as a percentage of total revenue, our gross margin may decline as a result of the associated hosting costs of MongoDB Atlas.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development and general and administrative expenses. Personnel costs are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for facilities, information technology and employee benefit costs.

Sales and Marketing. Sales and marketing expense consists primarily of personnel costs, including salaries, sales commission and benefits, bonuses and stock-based compensation. These expenses also include costs related to marketing programs, travel-related expenses and allocated overhead. Marketing programs consist of advertising, events, corporate communications, and brand-building and developer-community activities. We expect our sales and marketing expense to increase in absolute dollars over time as we expand our sales force and increase our marketing resources, expand into new markets and further develop our channel program.

Research and Development. Research and development expense consists primarily of personnel costs, including salaries, bonuses and benefits, and stock-based compensation. It also includes amortization associated with intangible acquired assets and allocated overhead. We expect our research and development expenses to continue to increase in absolute dollars, as we continue to invest in our platform and develop new products.

General and Administrative. General and administrative expense consists primarily of personnel costs, including salaries, bonuses and benefits, and stock-based compensation for administrative functions including finance, legal, human resources and external legal and accounting fees, as well as allocated overhead. We expect general and administrative expense to increase in absolute dollars over time as we continue to invest in the growth of our business and incur the costs of compliance associated with being a publicly traded company.

Other Income (Expense), net

Other income (expense), net consists primarily of interest income and gains and losses from foreign currency transactions.

Provision (Benefit) for Income Taxes

Provision for income taxes consists primarily of state income taxes in the United States and income taxes in certain foreign jurisdictions in which we conduct business. As of January 31, 2019, we had net operating loss (“NOL”) carryforwards for federal, state and Irish income tax purposes of \$369.2 million, \$246.3 million and \$189.5 million, respectively, which may be available to offset taxable income in the future, subject to changes made by the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) with respect to federal NOLs and which begin to expire in the year ending January 31, 2028 for federal purposes and January 31, 2020 for state purposes if not utilized. The Tax Act included changes to the uses and limitations of NOLs. While the Tax Act allows for federal NOLs incurred in tax years beginning prior to December 31, 2017 to be carried forward indefinitely, the Tax Act also imposes an 80% limitation on the use of federal NOLs that are generated in tax years beginning after December 31, 2017. Ireland allows NOLs to be carried forward indefinitely. The deferred tax assets associated with the NOL carryforwards in each of these jurisdictions are subject to a full valuation allowance.

Three and Six Months Ended July 31, 2019 Summary

For the three months ended July 31, 2019, our total revenue was \$99.4 million as compared to \$59.6 million for the three months ended July 31, 2018. Our net loss was \$37.3 million for the three months ended July 31, 2019 as compared to \$27.8 million for the three months ended July 31, 2018.

For the six months ended July 31, 2019, our total revenue was \$188.8 million as compared to \$109.8 million for the six months ended July 31, 2018. Our net loss was \$70.6 million for the six months ended July 31, 2019 as compared to \$54.3 million for the six months ended July 31, 2018.

Our operating cash flow was \$(9.4) million and \$(24.9) million for the six months ended July 31, 2019 and 2018, respectively. Our free cash flow was \$(11.0) million and \$(26.5) million for the six months ended July 31, 2019 and 2018, respectively. See the section titled “Liquidity and Capital Resources—Non-GAAP Free Cash Flow” below.

Results of Operations

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of our total revenue (unaudited, in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Consolidated Statements of Operations Data:				
Revenue:				
Subscription	\$ 94,156	\$ 55,086	\$ 178,150	\$ 101,155
Services	5,212	4,525	10,606	8,595
Total revenue	99,368	59,611	188,756	109,750
Cost of revenue:				
Subscription ⁽¹⁾	24,373	12,116	46,968	22,186
Services ⁽¹⁾	5,829	4,378	11,406	8,057
Total cost of revenue	30,202	16,494	58,374	30,243
Gross profit	69,166	43,117	130,382	79,507
Operating expenses:				
Sales and marketing ⁽¹⁾	53,524	36,537	99,644	69,734
Research and development ⁽¹⁾	37,140	21,430	68,008	40,075
General and administrative ⁽¹⁾	16,174	12,254	30,979	23,481
Total operating expenses	106,838	70,221	198,631	133,290
Loss from operations	(37,672)	(27,104)	(68,249)	(53,783)
Other income (expense), net	(3,005)	(432)	(5,806)	159
Loss before provision for income taxes	(40,677)	(27,536)	(74,055)	(53,624)
Provision (benefit) for income taxes	(3,341)	246	(3,479)	713
Net loss	\$ (37,336)	\$ (27,782)	\$ (70,576)	\$ (54,337)

⁽¹⁾ Includes stock-based compensation expense as follows (unaudited, in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Cost of revenue—subscription	\$ 1,214	\$ 489	\$ 2,202	\$ 848
Cost of revenue—services	721	281	1,314	465
Sales and marketing	5,944	2,129	10,884	4,347
Research and development	6,114	2,904	10,634	5,110
General and administrative	3,669	3,206	6,637	5,816
Total stock-based compensation expense	\$ 17,662	\$ 9,009	\$ 31,671	\$ 16,586

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Percentage of Revenue Data:				
Revenue:				
Subscription	95 %	92 %	94 %	92 %
Services	5 %	8 %	6 %	8 %
Total revenue	100 %	100 %	100 %	100 %
Cost of revenue:				
Subscription	24 %	20 %	25 %	20 %
Services	6 %	7 %	6 %	8 %
Total cost of revenue	30 %	28 %	31 %	28 %
Gross profit	70 %	72 %	69 %	72 %
Operating expenses:				
Sales and marketing	54 %	61 %	53 %	63 %
Research and development	37 %	36 %	36 %	37 %
General and administrative	16 %	21 %	16 %	21 %
Total operating expenses	108 %	118 %	105 %	121 %
Loss from operations	(38)%	(45)%	(36)%	(49)%
Other income (expense), net	(3)%	(1)%	(3)%	— %
Loss before provision for income taxes	(41)%	(46)%	(39)%	(49)%
Provision (benefit) for income taxes	(3)%	1 %	(2)%	1 %
Net loss	(38)%	(47)%	(37)%	(50)%

Comparison of the Three Months Ended July 31, 2019 and 2018

Revenue

(unaudited, in thousands)	Three Months Ended July 31,		Change	
	2019	2018	\$	%
Subscription	\$ 94,156	\$ 55,086	\$ 39,070	71%
Services	5,212	4,525	687	15%
Total revenue	\$ 99,368	\$ 59,611	\$ 39,757	67%

Total revenue growth reflects increased demand for our platform and related services. Subscription revenue increased by \$39.1 million primarily due to \$22.5 million from sales to new customers, including mLab customers. The remainder of the increase in subscription revenue resulted from sales to our existing customers. The increase in services revenue was driven primarily by an increase in sales of professional services to new customers.

Cost of Revenue, Gross Profit and Gross Margin Percentage

(unaudited, in thousands)	Three Months Ended July 31,		Change	
	2019	2018	\$	%
Subscription cost of revenue	\$ 24,373	\$ 12,116	\$ 12,257	101%
Services cost of revenue	5,829	4,378	1,451	33%
Total cost of revenue	30,202	16,494	13,708	83%
Gross profit	\$ 69,166	\$ 43,117	\$ 26,049	60%
Gross margin	70 %	72%		
Subscription	74 %	78%		
Services	-12 %	3%		

The increase in subscription cost of revenue was primarily due to a \$9.2 million increase in third-party cloud infrastructure costs, including costs associated with the growth of MongoDB Atlas, as well as a \$1.9 million increase in personnel costs and stock-based compensation associated with increased headcount in our support organization. The increase in services cost of revenue was primarily due to higher headcount in our services organization. Total headcount in our support and services organizations increased 22% from July 31, 2018 to July 31, 2019.

Our overall gross margin declined due to the increase in subscription revenue from MongoDB Atlas as a percentage of our overall revenue. This change in revenue mix caused gross margin to decline due to the increase in third-party cloud infrastructure costs associated with MongoDB Atlas. In addition, our cost of revenue included higher personnel costs and stock-based compensation. Our services gross margin is subject to fluctuations as a result of timing of sales of standalone consulting and training services.

Operating Expenses

Sales and Marketing

(unaudited, in thousands)	Three Months Ended July 31,		Change	
	2019	2018	\$	%
Sales and marketing	\$ 53,524	\$ 36,537	\$ 16,987	46%

The increase in sales and marketing expense included \$10.3 million from higher personnel costs and stock-based compensation, driven by an increase in our sales and marketing headcount to 615 as of July 31, 2019 from 433 as of July 31, 2018. A portion of the increased personnel costs was from higher payroll taxes associated with employee stock option exercises and restricted stock unit vesting as a result of our higher average stock price as compared to the prior-year period. Sales and marketing expense also increased \$2.3 million from costs associated with our higher headcount, including increased travel and related expenses and higher commissions expense. In addition, expenses increased \$2.1 million due to higher spend on marketing programs, including for MongoDB Atlas and our expanded annual developers conference, MongoDB World. Sales and marketing expense included \$0.8 million from the amortization for the customer relationships intangible asset primarily associated with our acquisition of mLab on November 1, 2018.

Research and Development

(unaudited, in thousands)	Three Months Ended July 31,		Change	
	2019	2018	\$	%
Research and development	\$ 37,140	\$ 21,430	\$ 15,710	73%

The increase in research and development expense was primarily driven by a \$9.7 million increase in personnel costs and stock-based compensation as we increased our research and development headcount by 50%, inclusive of employees who joined us as part of the Realm and mLab acquisitions. A portion of the increased personnel costs was from higher payroll taxes associated with employee stock option exercises and restricted stock unit vesting as a result of our higher average stock price as compared to the prior-year period. Also included in research and development expenses are \$2.4 million from the amortization of our acquired developed technology intangible assets and \$1.9 million from the amortization of the founder holdback associated with our acquisition of mLab.

General and Administrative

(unaudited, in thousands)	Three Months Ended July 31,		Change	
	2019	2018	\$	%
General and administrative	\$ 16,174	\$ 12,254	\$ 3,920	32%

The increase in general and administrative expense was primarily due to a 47% increase in general and administrative personnel headcount resulting in an increase of \$3.2 million from higher personnel costs and stock-based compensation. A portion of the increased personnel costs was from higher payroll taxes associated with employee stock option exercises and restricted stock unit vesting as a result of our higher average stock price as compared to the prior-year period. In addition, professional services expense, particularly for legal and recruiting costs, increased \$1.0 million. These higher general and administrative expenses were driven, in part, by the increased compliance requirements of being a publicly traded company that no longer qualified as an emerging growth company as of January 31, 2019. General and administrative expense also included \$0.2 million of costs associated with our acquisition of Realm, which closed on May 7, 2019.

Other Income (Expense), net

(unaudited, in thousands)	Three Months Ended July 31,		Change	
	2019	2018	\$	%
Other income (expense), net	\$ (3,005)	\$ (432)	\$ (2,573)	596%

The increase in other expense, net for the three months ended July 31, 2019 was primarily due to interest expense related to our 0.75% convertible senior notes issued in June and July 2018 (the “Notes”), as well as interest expense associated with our financing lease for our New York City office, which expense had previously been capitalized as a build-to-suit asset during the construction phase. These expenses were partially offset by an increase in interest income derived from our larger average cash equivalents and short-term investments balance during the three months ended July 31, 2019 as compared to prior-year period.

Provision (Benefit) for Income Taxes

(unaudited, in thousands)	Three Months Ended July 31,		Change	
	2019	2018	\$	%
Provision (benefit) for income taxes	\$ (3,341)	\$ 246	\$ (3,587)	-1458%

The benefit for income taxes for the three months ended July 31, 2019 was primarily due to a non-recurring tax benefit associated with the acquisition of Realm intangible assets, which reduced our deferred tax asset and the related valuation allowance. Refer to Note 12, *Income Taxes*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details.

Comparison of the Six Months Ended July 31, 2019 and 2018

Revenue

(unaudited, in thousands)	Six Months Ended July 31,		Change	
	2019	2018	\$	%
Subscription	\$ 178,150	\$ 101,155	\$ 76,995	76%
Services	10,606	8,595	2,011	23%
Total revenue	\$ 188,756	\$ 109,750	\$ 79,006	72%

Total revenue growth reflects increased demand for our platform and related services. Subscription revenue increased by \$77.0 million primarily due to \$39.2 million from sales to new customers, including mLab customers. The remainder of the increase in subscription revenue resulted from sales to existing customers. The increase in services revenue was driven primarily by an increase in sales of professional services to new customers.

Cost of Revenue, Gross Profit and Gross Margin Percentage

(unaudited, in thousands)	Six Months Ended July 31,		Change	
	2019	2018	\$	%
Subscription cost of revenue	\$ 46,968	\$ 22,186	\$ 24,782	112%
Services cost of revenue	11,406	8,057	3,349	42%
Total cost of revenue	58,374	30,243	28,131	93%
Gross profit	\$ 130,382	\$ 79,507	\$ 50,875	64%
Gross margin	69 %	72%		
Subscription	74 %	78%		
Services	(8)%	6%		

The increase in subscription cost of revenue was primarily due to a \$19.1 million increase in third-party cloud infrastructure costs, including costs associated with the growth of MongoDB Atlas, as well as a \$3.9 million increase in personnel costs and stock-based compensation associated with increased headcount in our support organization. The increase in services cost of revenue was primarily due to higher headcount in our services organization. Total headcount in our support and services organizations increased 22% from July 31, 2018 to July 31, 2019.

Our overall gross margin declined due to the increase in subscription revenue from MongoDB Atlas as a percentage of our overall revenue. This change in revenue mix caused gross margin to decline due to the increase in third-party cloud infrastructure costs associated with MongoDB Atlas. In addition, our cost of revenue included higher personnel costs and stock-based compensation. Our services gross margin is subject to fluctuations as a result of timing of sales of standalone consulting and training services.

Operating Expenses

Sales and Marketing

(unaudited, in thousands)	Six Months Ended July 31,		Change	
	2019	2018	\$	%
Sales and marketing	\$ 99,644	\$ 69,734	\$ 29,910	43%

The increase in sales and marketing expense included \$17.1 million from higher personnel costs and stock-based compensation, driven by an increase in our sales and marketing headcount to 615 as of July 31, 2019 from 433 as of July 31, 2018. A portion of the increased personnel costs was from higher payroll taxes associated with employee stock option exercises and restricted stock unit vesting as a result of our higher average stock price as compared to the prior-year period. Sales and marketing expense also increased \$5.1 million from costs associated with our higher headcount, including increased travel and related expenses and higher commissions expense. In addition, expenses increased \$3.0 million due to higher spend on marketing programs, including for MongoDB Atlas and our expanded annual developers conference, MongoDB World. Sales and marketing expense included \$1.4 million from the amortization for the customer relationships intangible asset primarily associated with our acquisition of mLab on November 1, 2018.

Research and Development

(unaudited, in thousands)	Six Months Ended July 31,		Change	
	2019	2018	\$	%
Research and development	\$ 68,008	\$ 40,075	\$ 27,933	70%

The increase in research and development expense was primarily driven by a \$17.8 million increase in personnel costs and stock-based compensation as we increased our research and development headcount by 50%, inclusive of employees who joined us as part of the Realm and mLab acquisitions. A portion of the increased personnel costs was from higher payroll taxes associated with employee stock option exercises and restricted stock unit vesting as a result of our higher average stock price as compared to the prior-year period. Also included in research and development expenses are \$3.8 million from the amortization of the founder holdback associated with our acquisition of mLab and \$3.4 million from the amortization of our acquired developed technology intangible assets.

General and Administrative

(unaudited, in thousands)	Six Months Ended July 31,		Change	
	2019	2018	\$	%
General and administrative	\$ 30,979	\$ 23,481	\$ 7,498	32%

The increase in general and administrative expense was primarily due to a 47% increase in general and administrative personnel headcount resulting in an increase of \$5.3 million from higher personnel costs and stock-based compensation. A portion of the increased personnel costs was from higher payroll taxes associated with employee stock option exercises and restricted stock unit vesting as a result of our higher average stock price as compared to the prior-year period. In addition, professional services expense, particularly for legal and public company compliance costs, increased \$1.7 million. These higher general and administrative expenses were driven, in part, by the increased compliance requirements of being a publicly traded company that no longer qualified as an emerging growth company as of January 31, 2019. General and administrative expense also included \$0.6 million of costs associated with our acquisition of Realm, which closed on May 7, 2019.

Other Income (Expense), net

(unaudited, in thousands)	Six Months Ended July 31,		Change	
	2019	2018	\$	%
Other income (expense), net	\$ (5,806)	\$ 159	\$ (5,965)	(3,752)%

The decrease in other income, net was primarily due to interest expense related to the outstanding 0.75% convertible senior notes due 2024 (the “Notes”), as well as interest expense associated with our financing lease for our New York City office, which expense had previously been capitalized as a build-to-suit asset during the construction phase for most of 2018. These expenses were partially offset by an increase in interest income derived from our larger average cash equivalents and short-term investments balance during the six months ended July 31, 2019 as compared to prior-year period.

Provision (Benefit) for Income Taxes

(unaudited, in thousands)	Six Months Ended July 31,		Change	
	2019	2018	\$	%
Provision (Benefit) for income taxes	\$ (3,479)	\$ 713	\$ (4,192)	(588)%

The benefit for income taxes for the six months ended July 31, 2019 was primarily due to a non-recurring tax benefit associated with the acquisition of Realm intangible assets, which reduced our deferred tax asset and the related valuation allowance. Refer to Note 12, *Income Taxes*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details. This benefit was partially offset by a provision for income taxes due to an increase in stock option exercises, which generated excess tax deductions in the United Kingdom and was recorded as an income tax benefit in the six months ended July 31, 2019.

Liquidity and Capital Resources

As of July 31, 2019, we had cash, cash equivalents, short-term investments and restricted cash totaling \$436.6 million. Our cash and cash equivalents primarily consist of bank deposits and money market funds. Our short-term investments consist of U.S. government treasury securities and our restricted cash represents collateral for our available credit on corporate credit cards.

We believe our existing cash and cash equivalents and short-term investments will be sufficient to fund our operating and capital needs for at least the next 12 months.

We have generated significant operating losses and negative cash flows from operations as reflected in our accumulated deficit and condensed consolidated statements of cash flows. As of July 31, 2019, we had an accumulated deficit of \$563.3 million. We expect to continue to incur operating losses and negative cash flows from operations in the future and may require additional capital resources to execute strategic initiatives to grow our business. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing and international operation activities, the timing of new subscription introductions, and the continuing market acceptance of our subscriptions and services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

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

	Six Months Ended July 31,	
	2019	2018
Net cash used in operating activities	\$ (9,379)	\$ (24,901)
Net cash provided by (used in) investing activities	30,750	(184,028)
Net cash provided by financing activities	\$ 17,713	\$ 269,874

Non-GAAP Free Cash Flow

To supplement our interim unaudited condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States (“GAAP”), we provide investors with the amount of free cash flow, which is a non-GAAP financial measure. Free cash flow represents net cash used in operating activities less capital expenditures and capitalized software development costs, if any. During the six months ended July 31, 2019 and 2018, we did not capitalize any software development costs. Free cash flow is a measure used by management to understand and evaluate our liquidity and to generate future operating plans. The exclusion of capital expenditures and amounts capitalized for software development facilitates comparisons of our liquidity on a period-to-period basis and excludes items that we do not consider to be indicative of our liquidity. We believe that free cash flow is a measure of liquidity that provides useful information to our management, investors and others in understanding and evaluating the strength of our liquidity and future ability to generate cash that can be used for strategic opportunities or investing in our business in the same manner as our management and board of directors. Nevertheless, our use of free cash flow has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Further, our definition of free cash flow may differ from the definitions used by other companies and therefore comparability may be limited. You should consider free cash flow alongside our other GAAP-based financial performance measures, such as net cash used in operating activities, and our other GAAP financial results.

The following table presents a reconciliation of free cash flow to net cash used in operating activities, the most directly comparable GAAP measure, for each of the periods indicated (unaudited, in thousands):

	Six Months Ended July 31,	
	2019	2018
Net cash used in operating activities	\$ (9,379)	\$ (24,901)
Capital expenditures	(1,596)	(1,561)
Capitalized software	—	—
Free cash flow	<u>\$ (10,975)</u>	<u>\$ (26,462)</u>

Operating Activities

Cash used in operating activities during the six months ended July 31, 2019 was \$9.4 million primarily driven by our net loss of \$70.6 million and was partially offset by non-cash charges of \$31.7 million for stock-based compensation, \$6.5 million for the amortization of our debt discount and issuance costs, \$6.0 million for depreciation and amortization and \$3.8 million for lease-related non-cash charges. In addition, our cash collections decreased our accounts receivable by \$6.2 million and increased our deferred revenue by \$12.3 million, reflecting the overall growth of our sales and our expanding customer base. Also, our accrued liabilities increased \$8.3 million, primarily from commissions and bonuses accrued as of July 31, 2019. Partially offsetting these benefits to our operating cash flow were an increase of \$7.0 million in deferred commissions and non-cash benefits of \$4.2 million from the non-recurring tax benefit associated with the acquisition of Realm intangible assets and \$2.8 million from the non-cash benefit associated with the discount on our short-term investments.

Cash used in operating activities during the six months ended July 31, 2018 was \$24.9 million primarily driven by our net loss of \$54.3 million and was partially offset by non-cash charges of \$16.6 million for stock-based compensation and \$1.6 million for depreciation and amortization. In addition, our deferred revenue increased \$6.4 million resulting from the overall growth of our sales and our expanding customer base and our accounts receivable decreased \$6.5 million due to cash collections. Our accrued liabilities increased \$2.0 million, primarily from commissions accrued as of July 31, 2018. The cash inflows from our deferred revenue, accounts receivable and accrued liabilities were partially offset by an increase of \$3.4 million in deferred commissions and an increase of \$0.8 million in prepaid expenses.

Investing Activities

Cash provided by investing activities during the six months ended July 31, 2019 of \$30.8 million resulted from the maturities of marketable securities partially offset by purchases of marketable securities and property and equipment. In addition, we used \$38.6 million of net cash to acquire Realm.

Cash used in investing activities during the six months ended July 31, 2018 of \$184.0 million resulted primarily from the purchases of marketable securities, net of maturities.

Financing Activities

Cash provided by financing activities during the six months ended July 31, 2019 was \$17.7 million primarily due to the proceeds from the exercise of stock options, as well as proceeds from the exercise of stock options and issuance of common stock under the Employee Stock Purchase Plan.

Cash provided by financing activities during the six months ended July 31, 2018 was \$269.9 million primarily due to the issuance of the Notes, net of the Capped Calls and issuance costs, as well as proceeds from the exercise of stock options and issuance of common stock under the Employee Stock Purchase Plan.

Seasonality

We have in the past and expect in the future to experience seasonal fluctuations in our revenue and results from time to time. In addition, as a result of the recent adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, we may experience greater variability and reduced comparability of our quarterly revenue and results with respect to the timing and nature of certain of our contracts, particularly multi-year contracts that contain a term license.

Off Balance Sheet Arrangements

As of July 31, 2019, we did not have any relationships with any entities or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other purposes.

Contractual Obligations and Commitments

During the six months ended July 31, 2019, there have been no material changes outside the ordinary course of business to our contractual obligations and commitments from those disclosed in our 2019 Form 10-K. Refer to Note 7, *Leases*, and Note 8, *Commitments and Contingencies*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no material changes in our critical accounting policies from those disclosed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the 2019 Form 10-K.

Recent Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of recent accounting pronouncements, including our adoption of the new lease standard under Accounting Standards Codification 842.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We have operations both within the United States and internationally, and we are exposed to market risk in the ordinary course of business.

Interest Rate Risk

Our cash and cash equivalents primarily consist of bank deposits and money market funds, and our short-term investments consist of U.S. government treasury securities. As of July 31, 2019, we had cash, cash equivalents, restricted cash and short-term investments of \$436.6 million. The carrying amount of our cash equivalents reasonably approximates fair value, due to the short maturities of these instruments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. The effect of a hypothetical 10% increase or decrease in interest rates would not have had a material impact on the fair market value of our investments as of July 31, 2019.

In June 2018, we issued \$250.0 million aggregate principal amount of the Notes in a private placement and, in July 2018, we issued an additional \$50.0 million aggregate principal amount of the Notes pursuant to the exercise in full of the initial purchasers’ option to purchase additional Notes. The fair value of the Notes is subject to interest rate risk, market risk and other factors due to the conversion feature. The fair value of the Notes will generally increase as our Class A common stock price increases and will generally decrease as our Class A common stock price declines. The interest and market value changes affect the fair value of the Notes, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the Notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

Foreign Currency Risk

Our sales contracts are primarily denominated in U.S. dollars, British pounds (“GBP”) or Euros (“EUR”). A portion of our operating expenses are incurred outside the United States and denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the GBP and EUR. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical consolidated financial statements for the three and six months ended July 31, 2019 and 2018. Given the impact of foreign currency exchange rates has not been material to our historical operating results, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency should become more significant. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of July 31, 2019. Based on the evaluation of our disclosure controls and procedures as of July 31, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business.

For example, on March 12, 2019, Realtime Data (“Realtime”) filed a lawsuit against us in the United States District Court for the District of Delaware alleging that we are infringing three U.S. patents that it holds: U.S. Patent No. 9,116,908 (the “908 Patent”), U.S. Patent No. 9,667,751 (the “751 Patent”) and U.S. Patent No. 8,933,825 (the “825 Patent”). The patent infringement allegations in the lawsuit relate to data compression, decompression, storage and retrieval. Realtime seeks monetary damages and injunctive relief. In August 2019, the District Court approved the Company and Realtime’s stipulation to stay Realtime’s lawsuit against the Company pending the outcome of Realtime’s appeal of the District Court’s decision to invalidate two of the asserted patents in a separate action.

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.

Our operations and financial results are subject to various risks and uncertainties including those described below. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Form 10-Q, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks or others not specified below materialize, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our Class A common stock could decline.

Risks Related to Our Business and Industry

We have a limited operating history, which makes it difficult to predict our future results of operations.

We were incorporated in 2007 and introduced MongoDB Community Server in 2009, MongoDB Enterprise Advanced in 2013 and MongoDB Atlas in 2016. As a result of our limited operating history, our ability to forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to accurately predict future growth. Our historical revenue growth has been inconsistent and should not be considered indicative of our future performance. Further, in future periods, our revenue growth could slow or our revenue could decline for a number of reasons, including slowing adoption of MongoDB or demand for our subscription offerings and related services, reduced conversion of users of our free offerings to paying customers, increasing competition, changes to technology or our intellectual property or our failure, for any reason, to continue to capitalize on growth opportunities. We have also encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties and our future revenue growth are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

We have a history of losses, and as our costs increase, we may not be able to generate sufficient revenue to achieve or sustain profitability.

We have incurred net losses in each period since our inception, including net losses of \$99.0 million, \$84.0 million and \$70.1 million for the fiscal years ended January 31, 2019, 2018 and 2017, respectively. We had an accumulated deficit of \$488.6 million as of January 31, 2019. We expect our operating expenses to increase significantly as we increase our sales and marketing efforts, continue to invest in research and development and expand our operations and infrastructure, both domestically and internationally. In particular, we have entered into non-cancelable multi-year capacity commitments with respect to cloud infrastructure services with certain third-party cloud providers, which require us to pay for such capacity irrespective of actual usage. In addition, we have incurred and expect to continue to incur significant additional legal, accounting and other expenses related to being a public company. While our revenue has grown in recent years, if our revenue declines or fails to grow at a rate faster than these increases in our operating expenses, we will not be able to achieve

and maintain profitability in future periods. As a result, we expect to continue to generate losses. We cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will be able to sustain profitability.

Because we derive substantially all of our revenue from our database platform, failure of this platform to satisfy customer demands could adversely affect our business, results of operations, financial condition and growth prospects.

We derive and expect to continue to derive substantially all of our revenue from our database platform. As such, market adoption of our database platform is critical to our continued success. Demand for our platform is affected by a number of factors, many of which are beyond our control, including continued market acceptance by developers, the availability of our Community Server offering, the continued volume, variety and velocity of data that is generated, timing of development and release of new offerings by our competitors, technological change and the rate of growth in our market. If we are unable to continue to meet the demands of our customers and the developer community, our business operations, financial results and growth prospects will be materially and adversely affected.

We currently face significant competition and expect that intense competition will continue.

The database software market, for both relational and non-relational database products, is highly competitive, rapidly evolving and others may put out competing databases or sell services in connection with existing open source or source available databases, including ours. The principal competitive factors in our market include: mindshare with software developers and IT executives; product capabilities, including flexibility, scalability, performance, security and reliability; flexible deployment options, including fully managed as a service or self-managed in the cloud, on-premise or in a hybrid environment, and ease of deployment; breadth of use cases supported; ease of integration with existing IT infrastructure; robustness of professional services and customer support; price and total cost of ownership; adherence to industry standards and certifications; size of customer base and level of user adoption; strength of sales and marketing efforts; and brand awareness and reputation. If we fail to compete effectively with respect to any of these competitive factors, we may fail to attract new customers or lose or fail to renew existing customers, which would cause our business and results of operations to suffer.

We primarily compete with established legacy database software providers such as IBM, Microsoft, Oracle and other similar companies. We also compete with public cloud providers such as Amazon Web Services (“AWS”), Google Cloud Platform (“GCP”) and Microsoft Azure that offer database functionality and non-relational database software providers. In addition, other large software and internet companies may seek to enter our market.

Some of our actual and potential competitors, in particular the legacy relational database providers and large cloud providers, have advantages over us, such as longer operating histories, more established relationships with current or potential customers and commercial partners, significantly greater financial, technical, marketing or other resources, stronger brand recognition, larger intellectual property portfolios and broader global distribution and presence. Such competitors may make their products available at a low cost or no cost basis in order to enhance their overall relationships with current or potential customers. Our competitors may also be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies and new market entrants, we expect competition to intensify in the future. In addition, some of our larger competitors have substantially broader offerings and can bundle competing products with hardware or other software offerings, including their cloud computing and customer relationship management platforms. As a result, customers may choose a bundled offering from our competitors, even if individual products have more limited functionality compared to our software. These larger competitors are also often in a better position to withstand any significant reduction in technology spending, and will therefore not be as susceptible to competition or economic downturns. In addition, some competitors may offer products or services that address one or a limited number of functions at lower prices, with greater depth than our products or in geographies where we do not operate.

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

If we do not effectively expand our sales and marketing organization, we may be unable to add new customers or increase sales to our existing customers.

Increasing our customer base and achieving broader market acceptance of our subscription offerings and related services will depend, to a significant extent, on our ability to effectively expand our sales and marketing operations and activities. We are substantially dependent on our direct sales force and our marketing efforts to obtain new customers. We plan to continue to expand our sales and marketing organization both domestically and internationally. We believe that there is significant competition for experienced sales professionals with the sales skills and technical knowledge that we require, particularly as we continue to target larger enterprises. Our ability to achieve significant revenue growth in the future will depend, in part, on our success in recruiting, training and retaining a sufficient number of experienced sales professionals, especially in large markets like New York, the San Francisco Bay Area and London, England. New hires require significant training and time before they achieve full productivity, particularly in new or developing sales territories. We recently promoted Cedric Pech to Chief Revenue Officer. Our recent hires and planned hires, including our newly promoted Chief Revenue Officer, may not become as productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. Because of our limited operating history, we cannot predict whether, or to what extent, our sales will increase as we expand our sales and marketing organization or how long it will take for sales personnel to become productive. Our business and results of operations could be harmed if the expansion of our sales and marketing organization does not generate a significant increase in revenue.

Our adoption strategies include offering Community Server and a free tier of MongoDB Atlas, and we may not be able to realize the intended benefits of these strategies.

To encourage developer usage, familiarity and adoption of our platform, we offer Community Server as a “freemium” offering. Community Server is a free-to-download version of our database that does not include all of the features of our commercial platform. We also offer a free tier of MongoDB Atlas in order to accelerate adoption, promote usage and drive brand and product awareness. We do not know if we will be able to convert these users to paying customers of our platform. Our marketing strategy also depends in part on persuading users who use one of these free versions to convince others within their organization to purchase and deploy our platform. To the extent that users of Community Server or our free tier of MongoDB Atlas do not become, or lead others to become, paying customers, we will not realize the intended benefits of these strategies, and our ability to grow our business or achieve profitability may be harmed.

Our decision to offer Community Server under a new license, the Server Side Public License, may harm adoption of Community Server.

On October 16, 2018, we announced that we were changing the license for Community Server from the GNU Affero General Public License Version 3 (the “AGPL”) to a new software license, the Server Side Public License (the “SSPL”). The SSPL builds on the spirit of the AGPL, but includes an explicit condition that any organization attempting to exploit MongoDB as a service must open source the software that it uses to offer such service. Since the SSPL is a new license and has not been interpreted by any court, developers and the companies they work for may be hesitant to adopt Community Server because of uncertainty around the provisions of the SSPL and how it will be interpreted and enforced. In addition, the SSPL has not been approved by the Open Source Initiative, nor has it been included in the Free Software Foundation’s list of free software licenses. This may negatively impact adoption of Community Server, which in turn could lead to reduced brand and product awareness, ultimately leading to a decline in paying customers, and our ability to grow our business or achieve profitability may be harmed.

We have invested significantly in our MongoDB Atlas offering and if it fails to achieve market adoption our business, results of operations and financial condition could be harmed.

We introduced MongoDB Atlas in June 2016. We have limited experience marketing, determining pricing for and selling MongoDB Atlas, and we are continuing to refine our approach to selling, marketing, pricing and supporting adoption of this offering. We have directed, and intend to continue to direct, a significant portion of our financial and operating resources to develop and grow MongoDB Atlas, including offering a free tier of MongoDB Atlas to generate developer usage and awareness. Although MongoDB Atlas has seen rapid adoption since its commercial launch, we cannot guarantee that rate of adoption will continue at the same pace or at all. If we are unsuccessful in our efforts to drive customer adoption of MongoDB Atlas, or if we do so in a way that is not profitable or fails to compete successfully against our current or future competitors, our business, results of operations and financial condition could be harmed.

We could be negatively impacted if the AGPL, the SSPL and other open source licenses under which some of our software is licensed are not enforceable.

The versions of Community Server released prior to October 16, 2018 are licensed under the AGPL. This license states that any program licensed under it may be copied, modified and distributed provided certain conditions are met. On October 16, 2018, we issued a new software license, the SSPL, for all versions of Community Server released after that date. The SSPL builds on the spirit of the AGPL, but includes an explicit condition that any organization using Community Server to offer MongoDB as a third-party service must open source the software that it uses to offer such service. It is possible that a court would hold the SSPL or AGPL to be unenforceable. If a court held either license or certain aspects of this license to be unenforceable, others may be able to use our software to compete with us in the marketplace in a manner not subject to the restrictions set forth in the SSPL or AGPL.

Our licensing model for Community Server could negatively affect our ability to monetize and protect our intellectual property rights.

We make our Community Server offering available under either the SSPL (for versions released after October 16, 2018) or the AGPL (for versions released prior to October 16, 2018). Community Server is a free-to-download version of our database that includes the core functionality developers need to get started with MongoDB but not all of the features of our commercial platform. Both the SSPL and the AGPL grant licensees broad freedom to view, use, copy, modify and redistribute the source code of Community Server provided certain conditions are met. Some commercial enterprises consider SSPL- or AGPL-licensed software to be unsuitable for commercial use because of the “copyleft” requirements of those licenses. However, some of those same commercial enterprises do not have the same concerns regarding using the software under the SSPL or AGPL for internal purposes. As a result, these commercial enterprises may never convert to paying customers of our platform. Anyone can obtain a free copy of Community Server from the Internet, and we do not know who all of our SSPL or AGPL licensees are. Competitors could develop modifications of our software to compete with us in the marketplace. We do not have visibility into how our software is being used by licensees, so our ability to detect violations of the SSPL or AGPL is extremely limited.

In addition to Community Server, we contribute other source code to open source projects under open source licenses and release internal software projects under open source licenses, and anticipate doing so in the future. Because the source code for Community Server and any other software we contribute to open source projects or distribute under open source licenses is publicly available, our ability to monetize and protect our intellectual property rights with respect to such source code may be limited or, in some cases, lost entirely.

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

Our software includes third-party open source software, and we intend to continue to incorporate third-party open source software in our products in the future. There is a risk that the use of third-party open source software in our software could impose conditions or restrictions on our ability to monetize our software. Although we monitor the incorporation of open source software into our products to avoid such restrictions, we cannot be certain that we have not incorporated open source software in our products or platform in a manner that is inconsistent with our licensing model. Certain open source projects also include other open source software and there is a risk that those dependent open source libraries may be subject to inconsistent licensing terms. This could create further uncertainties as to the governing terms for the open source software we incorporate.

In addition, the terms of certain open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated restrictions or conditions on our use of such software. Additionally, we may from time to time face claims from third parties claiming ownership of, or demanding release of, the software or derivative works that we developed using such open source software, which could include proprietary portions of our source code, or otherwise seeking to enforce the terms of the open source licenses. These claims could result in litigation and could require us to make those proprietary portions of our source code freely available, purchase a costly license or cease offering the implicated software or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully.

In addition to risks related to license requirements, use of third-party open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties. In addition, licensors of open source software included in our offerings may, from time to time, modify the terms of their license

agreements in such a manner that those license terms may become incompatible with our licensing model, and thus could, among other consequences, prevent us from incorporating the software subject to the modified license.

Any of these risks could be difficult to eliminate or manage, and if not addressed, could have a negative effect on our business, results of operations and financial condition.

If we are not able to introduce new features or services successfully and to make enhancements to our software or services, our business and results of operations could be adversely affected.

Our ability to attract new customers and increase revenue from existing customers depends in part on our ability to enhance and improve our software and to introduce new features and services. To grow our business and remain competitive, we must continue to enhance our software and develop features that reflect the constantly evolving nature of technology and our customers' needs. The success of new products, enhancements and developments depends on several factors: our anticipation of market changes and demands for product features, including timely product introduction and conclusion, sufficient customer demand, cost effectiveness in our product development efforts and the proliferation of new technologies that are able to deliver competitive products and services at lower prices, more efficiently, more conveniently or more securely. In addition, because our software is designed to operate with a variety of systems, applications, data and devices, we will need to continuously modify and enhance our software to keep pace with changes in such systems. We may not be successful in developing these modifications and enhancements. Furthermore, the addition of features and solutions to our software will increase our research and development expenses. Any new features that we develop may not be introduced in a timely or cost-effective manner or may not achieve the market acceptance necessary to generate sufficient revenue to justify the related expenses. It is difficult to predict customer adoption of new features. Such uncertainty limits our ability to forecast our future results of operations and subjects us to a number of challenges, including our ability to plan for and model future growth. If we cannot address such uncertainties and successfully develop new features, enhance our software or otherwise overcome technological challenges and competing technologies, our business and results of operations could be adversely affected.

We also offer professional services including consulting and training and must continually adapt to assist our customers in deploying our software in accordance with their specific IT strategies. If we cannot introduce new services or enhance our existing services to keep pace with changes in our customers' deployment strategies, we may not be able to attract new customers, retain existing customers and expand their use of our software or secure renewal contracts, which are important for the future of our business.

Our success is highly dependent on our ability to penetrate the existing market for database products, as well as the growth and expansion of the market for database products.

Our future success will depend in large part on our ability to service existing demand, as well as the continued growth and expansion of the database market. It is difficult to predict demand for our offerings, the conversion from one to the other and related services and the size, growth rate and expansion of these markets, the entry of competitive products or the success of existing competitive products. Our ability to penetrate the existing database market and any expansion of the market depends on a number of factors, including cost, performance and perceived value associated with our subscription offerings, as well as our customers' willingness to adopt an alternative approach to relational and other database products available in the market. Furthermore, many of our potential customers have made significant investments in relational databases, such as offerings from Oracle, and may be unwilling to invest in new products. If the market for databases fails to grow at the rate that we anticipate or decreases in size or we are not successful in penetrating the existing market, our business would be harmed.

Our future quarterly results may fluctuate significantly, and if we fail to meet the expectations of analysts or investors, our stock price could decline substantially.

Our results of operations, including our revenue, operating expenses and cash flows may vary significantly in the future as a result of a variety of factors, many of which are outside of our control, may be difficult to predict and may or may not fully reflect the underlying performance of our business and period-to-period comparisons of our operating results may not be meaningful. Some of the factors that may cause our results of operations to fluctuate from quarter to quarter include:

- changes in actual and anticipated growth rates of our revenue, customers and other key operating metrics;
- new product announcements, pricing changes and other actions by competitors;

- the mix of revenue and associated costs attributable to subscriptions for our MongoDB Enterprise Advanced and MongoDB Atlas offerings (such as our non-cancelable multi-year cloud infrastructure capacity commitments, which require us to pay for such capacity irrespective of actual usage) and professional services, as such relative mix may impact our gross margins and operating income;
- the mix of revenue and associated costs attributable to sales where subscriptions are bundled with services versus sold on a standalone basis and sales by us and our partners;
- our ability to attract new customers;
- our ability to retain customers and expand their usage of our software, particularly for our largest customers;
- our inability to enforce the AGPL or SSPL;
- delays in closing sales, including the timing of renewals, which may result in revenue being pushed into the next quarter, particularly because a large portion of our sales occur toward the end of each quarter;
- the timing of revenue recognition;
- the mix of revenue attributable to larger transactions as opposed to smaller transactions;
- changes in customers' budgets and in the timing of their budgeting cycles and purchasing decisions;
- customers and potential customers opting for alternative products, including developing their own in-house solutions, or opting to use only the free version of our products;
- fluctuations in currency exchange rates;
- our ability to control costs, including our operating expenses;
- the timing and success of new products, features and services offered by us and our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers or strategic partners;
- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our software;
- our failure to maintain the level of service uptime and performance required by our customers;
- the collectability of receivables from customers and resellers, which may be hindered or delayed if these customers or resellers experience financial distress;
- general economic conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers participate;
- sales tax and other tax determinations by authorities in the jurisdictions in which we conduct business;
- the impact of new accounting pronouncements; and
- fluctuations in stock-based compensation expense.

The occurrence of one or more of the foregoing and other factors may cause our results of operations to vary significantly. 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 expect to incur significant additional expenses due to the increased costs of operating as a public company. Accordingly, historical patterns and our results of operations in any one quarter may not be meaningful and should not be relied upon as indicative of future performance. Additionally, if our quarterly results of operations fall below the expectations of investors or securities analysts who follow our stock, the price of our Class A common stock could decline substantially, and we could face costly lawsuits, including securities class action suits.

We have experienced rapid growth in recent periods. If we fail to continue to grow and to manage our growth effectively, we may be unable to execute our business plan, increase our revenue, improve our results of operations, maintain high levels of service, or adequately address competitive challenges.

We have recently experienced a period of rapid growth in our business, operations and employee headcount. For fiscal years 2019, 2018 and 2017, our total revenue was \$267.0 million, \$166.0 million and \$114.8 million, respectively, representing a 61% and 45% growth rate, respectively. We have also significantly increased the size of our customer base from over 1,100 customers as of January 31, 2015 to over 13,400 customers as of January 31, 2019, and we grew from 383 employees as of January 31, 2015 to 1,212 employees as of January 31, 2019. We expect to continue to expand our operations and employee headcount in the near term. Our success will depend in part on our ability to continue to grow and to manage this growth, domestically and internationally, effectively.

Our recent growth has placed, and future growth will continue to place, a significant strain on our management, administrative, operational and financial infrastructure. We will need to continue to improve our operational, financial, and management processes and controls, and our reporting systems and procedures to manage the expected growth of our operations and personnel, which will require significant expenditures and allocation of valuable management and employee resources. If we fail to implement these infrastructure improvements effectively, our ability to ensure uninterrupted operation of key business systems and comply with the rules and regulations that are applicable to public reporting companies will be impaired. Further, if we do not effectively manage the growth of our business and operations, the quality of our products and services could suffer, the preservation of our culture, values and entrepreneurial environment may change and we may not be able to adequately address competitive challenges. This could impair our ability to attract new customers, retain existing customers and expand their use of our products and services, all of which would adversely affect our brand, overall business, results of operations and financial condition.

If our security measures, or those of our service providers, are breached or unauthorized access to private or proprietary data is otherwise obtained, our software may be perceived as not being secure, customers may reduce or terminate their use of our software, and we may incur significant liabilities.

Because our software, which can be deployed in the cloud, on-premise or in a hybrid environment and can be hosted by our customers or can be hosted by us as a service, allows customers to store and transmit data, there exists an inherent risk of a security breach or other security incident, which may result in the loss of, or unauthorized access to, this data. For example, since January 2017, industry publications have reported ransomware attacks on over 80,000 MongoDB instances. Almost all of these instances were launched by users with our Community Server offering rather than users of MongoDB Enterprise Advanced. We believe these attacks were due to the users' failure to properly turn on the recommended security settings when running MongoDB.

We, or our service providers, may also suffer a security breach or other security incident affecting the systems or networks used to operate our business, or otherwise impacting the data that is stored or processed in the conduct of our business. Any such security breach or other security incident could lead to litigation, indemnity obligations, regulatory investigations and enforcement actions, and other liabilities. If our security measures, or those of our services providers, are breached or are believed to have been breached, whether as a result of third-party action, employee, vendor, or contractor error, malfeasance, phishing attacks, social engineering or otherwise, unauthorized access to or loss of data may result. If any of these events occur, our reputation could be damaged, our business may suffer and we may face regulatory investigations and actions, litigation, indemnity obligations, damages for contract breach and fines and penalties for violations of applicable laws or regulations. Security breaches could also result in significant costs for remediation that may include liability for stolen assets or information and repair of system damage that may have been caused, incentives offered to customers or other business partners in an effort to maintain business relationships after a breach and other liabilities. Similarly, if a cyber incident (including any accidental or intentional computer or network issues such as phishing attacks, viruses, denial of service ("DoS"), attacks, malware installation, server malfunction, software or hardware failures, loss of data or other computer assets, adware, or other similar issues) impairs the integrity or availability of our systems, or those of our service providers, by affecting our data or the data of our customers, or reducing access to or shutting down one or more of our or our service providers' computing systems or IT network, or if any such impairment is perceived to have occurred, we may be subject to negative treatment by our customers, our business partners, the press and the public at large. We may also experience security breaches that may remain undetected for an extended period. Techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, and cybersecurity threats continue to evolve and are difficult to predict due to advances in computer capabilities, new discoveries in the field of cryptography and new and sophisticated methods used by criminals, including phishing, social engineering or other illicit acts. We may be unable to anticipate these techniques or to implement adequate preventative measures. Any or all

of these issues could harm our reputation and negatively impact our ability to attract new customers and increase engagement by existing customers, cause existing customers to elect not to renew their subscriptions, or subject us to third-party lawsuits, regulatory fines, actions and investigations, or other actions or liability, thereby adversely affecting our financial results.

While we maintain general liability insurance coverage and coverage for errors or omissions, we cannot assure you that such coverage will be adequate or otherwise protect us from liabilities or damages with respect to claims alleging compromises of personal or other confidential data or otherwise relating to privacy or data security matters or that such coverage will continue to be available to us on commercially reasonable terms or at all.

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

The timing of our sales and related revenue recognition is difficult to predict because of the length and unpredictability of the sales cycle for our offerings. We are often required to spend significant time and resources to better educate and familiarize potential customers with the value proposition of paying for our products and services. The length of our sales cycle, from initial evaluation to payment for our offerings is generally three to nine months, but can vary substantially from customer to customer or from application to application within a given customer. As the purchase and deployment of our products can be dependent upon customer initiatives, our sales cycle can extend to more than a year for some customers. Customers often view a subscription to our products and services as a strategic decision and significant investment and, as a result, frequently require considerable time to evaluate, test and qualify our product offering prior to entering into or expanding a subscription. During the sales cycle, we expend significant time and money on sales and marketing and contract negotiation activities, which may not result in a sale. Additional factors that may influence the length and variability of our sales cycle include:

- the effectiveness of our sales force, in particular new sales people as we increase the size of our sales force;
- the discretionary nature of purchasing and budget cycles and decisions;
- the obstacles placed by a customer's procurement process;
- our ability to convert users of our free offerings to paying customers;
- economic conditions and other factors impacting customer budgets;
- customer evaluation of competing products during the purchasing process; and
- evolving customer demands.

Given these factors, it is difficult to predict whether and when a sale will be completed, and when revenue from a sale will be recognized, particularly the timing of revenue recognition related to the term license portion of our subscription revenue. This could impact the variability and comparability of our quarterly revenue results and may have an adverse effect on our business, results of operations and financial condition.

We have a limited history with our subscription offerings and pricing model and if, in the future, we are forced to reduce prices for our subscription offerings, our revenue and results of operations will be harmed.

We have limited experience with respect to determining the optimal prices for our subscription offerings. As the market for databases evolves, or as new competitors introduce new products or services that compete with ours, we may be unable to attract new customers or convert users of our free offerings to paying customers on terms or based on pricing models that we have used historically. In the past, we have been able to increase our prices for our subscriptions offerings, but we may choose not to introduce or be unsuccessful in implementing future price increases. As a result of these and other factors, in the future we may be required to reduce our prices or be unable to increase our prices, or it may be necessary for us to increase our services or product offerings without additional revenue to remain competitive, all of which could harm our results of operations and financial condition.

If we are unable to attract new customers in a manner that is cost-effective and assures customer success, we will not be able to grow our business, which would adversely affect our results of operations and financial condition.

In order to grow our business, we must continue to attract new customers in a cost-effective manner and enable these customers to realize the benefits associated with our products and services. We may not be able to attract new customers for a variety of reasons, including as a result of their use of traditional relational and/or other database products, and their internal timing, budget or other constraints that hinder their ability to migrate to or adopt our products or services.

Even if we do attract new customers, the cost of new customer acquisition, product implementation and ongoing customer support may prove so high as to prevent us from achieving or sustaining profitability. For example, in fiscal years 2019, 2018 and 2017, total sales and marketing expense represented 56%, 66% and 66% of revenue, respectively. We intend to continue to hire additional sales personnel, increase our marketing activities to help educate the market about the benefits of our platform and services, grow our domestic and international operations and build brand awareness. We also intend to continue to cultivate our relationships with developers through continued investment and growth of our MongoDB World, MongoDB Advocacy Hub, User Groups, MongoDB University and our partner ecosystem of global system integrators, value-added resellers and independent software vendors. If the costs of these sales and marketing efforts increase dramatically, if we do not experience a substantial increase in leverage from our partner ecosystem, or if our sales and marketing efforts do not result in substantial increases in revenue, our business, results of operations and financial condition may be adversely affected. In addition, while we expect to continue to invest in our professional services organization to accelerate our customers' ability to adopt our products and ultimately create and expand their use of our products over time, we cannot assure you that any of these investments will lead to the cost-effective acquisition of additional customers.

Our business and results of operations depend substantially on our customers renewing their subscriptions with us and expanding their use of software and related services. Any decline in our customer renewals or failure to convince our customers to broaden their use of subscription offerings and related services would harm our business, results of operations and financial condition.

Our subscription offerings are term-based and a majority of our subscription contracts were one year in duration in fiscal year 2019. In order for us to maintain or improve our results of operations, it is important that our customers renew their subscriptions with us when the existing subscription term expires, and renew on the same or more favorable quantity and terms. Our customers have no obligation to renew their subscriptions, and we may not be able to accurately predict customer renewal rates. In addition, the growth of our business depends in part on our customers expanding their use of subscription offerings and related services. Historically, some of our customers have elected not to renew their subscriptions with us for a variety of reasons, including as a result of changes in their strategic IT priorities, budgets, costs and, in some instances, due to competing solutions. Our retention rate may also decline or fluctuate as a result of a number of other factors, including our customers' satisfaction or dissatisfaction with our software, the increase in the contract value of subscription and support contracts from new customers, the effectiveness of our customer support services, our pricing, the prices of competing products or services, mergers and acquisitions affecting our customer base, global economic conditions, and the other risk factors described herein. As a result, we cannot assure you that customers will renew subscriptions or increase their usage of our software and related services. If our customers do not renew their subscriptions or renew on less favorable terms, or if we are unable to expand our customers' use of our software, our business, results of operations and financial condition may be adversely affected.

If we fail to offer high quality support, our business and reputation could suffer.

Our customers rely on our personnel for support of our software and services included in our subscription packages. High-quality support is important for the renewal and expansion of our agreements with existing customers. The importance of high-quality support will increase as we expand our business and pursue new customers. If we do not help our customers quickly resolve issues and provide effective ongoing support, our ability to sell new software to existing and new customers could suffer and our reputation and relationships with existing or potential customers could be harmed.

Real or perceived errors, failures or bugs in our software could adversely affect our business, results of operations, financial condition and growth prospects.

Our software is complex, and therefore, undetected errors, failures or bugs have occurred in the past and may occur in the future. Our software is used in IT environments with different operating systems, system management software, applications, devices, databases, servers, storage, middleware, custom and third-party applications and equipment and networking configurations, which may cause errors or failures in the IT environment into which our software is deployed. This diversity increases the likelihood of errors or failures in those IT environments. Despite testing by us, real or perceived errors, failures or bugs may not be found until our customers use our software. Real or perceived errors, failures or bugs in our products could result in negative publicity, loss of or delay in market acceptance of our software, regulatory investigations and enforcement actions, harm to our brand, weakening of our competitive position, or claims by customers for losses sustained by them or failure to meet the stated service level commitments in our customer agreements. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend significant additional resources in order to help correct the problem. Any errors, failures or bugs in our software could also impair our ability to attract new

customers, retain existing customers or expand their use of our software, which would adversely affect our business, results of operations and financial condition.

Because our software and services could be used to collect and store personal information, domestic and international privacy concerns could result in additional costs and liabilities to us or inhibit sales of our software.

Personal privacy has become a significant issue in the United States, Europe and in many other countries where we offer our software and services. The regulatory framework for privacy issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws, rules and regulations regarding the collection, use, storage and disclosure of personal information and breach notification procedures. Interpretation of these laws, rules and regulations and their application to our software and professional services in the United States and foreign jurisdictions is ongoing and cannot be fully determined at this time.

In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act, the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), the Gramm Leach Bliley Act and state laws relating to privacy and data security, including the California Consumer Privacy Act, which is scheduled to go into effect in January 2020. Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we, or our customers, must comply. There may be substantial amounts of personally identifiable information or other sensitive information uploaded to our services and managed using our software.

The collection, use, disclosure, transfer, or other processing of personal data regarding individuals in the European Union (“EU”) is subject to the General Data Protection Regulation (the “GDPR”), which came into effect in May 2018. EU data protection authorities have the power to impose administrative fines for violations of the GDPR of up to a maximum of €20 million or 4% of the data controller’s or data processor’s total worldwide global turnover for the preceding financial year, whichever is higher, and violations of the GDPR may also lead to damages claims by data controllers and data subjects. Since we act as a data processor for our MongoDB Atlas customers, we have taken steps to cause our processes to be compliant with applicable portions of the GDPR, but we cannot assure you that such steps are effective.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that may apply to us. Because the interpretation and application of privacy and data protection laws, regulations, rules and other standards are still uncertain, it is possible that these laws, rules, regulations and other actual or alleged legal obligations, such as contractual or self-regulatory obligations, may be interpreted and applied in a manner that is inconsistent with our data management practices or the features of our software. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our software, which we may be unable to do in a commercially reasonable manner or at all, and which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and other actual or alleged obligations, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our software. Privacy concerns, whether valid or not valid, may inhibit market adoption of our software particularly in certain industries and foreign countries.

The estimates of market opportunity and forecasts of market growth included in this Quarterly Report on Form 10-Q may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts included in this Quarterly Report on Form 10-Q are subject to significant uncertainty and are based on third-party assumptions and estimates that may not prove to be accurate. The market in which we compete may not meet the size estimates and may not achieve the growth forecast referenced in this Quarterly Report on Form 10-Q. Even if the market in which we compete meets the size estimates and the growth forecast referenced in this Quarterly Report on Form 10-Q, our business could fail to grow at similar rates, if at all, for a variety of reasons, which would adversely affect our results of operations.

We could incur substantial costs in protecting or defending our intellectual property rights, and any failure to protect our intellectual property rights could reduce the value of our software and brand.

Our success and ability to compete depend in part upon our intellectual property rights. As of January 31, 2019, we had fifteen issued patents and 45 pending patent applications in the United States, which may not result in issued patents. Even if a patent issues, we cannot assure you that such patent will be adequate to protect our business. We primarily rely on copyright, trademark laws, trade secret protection and confidentiality or other contractual arrangements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may not be adequate. In order to protect our intellectual property rights, we may be required to spend significant resources to establish, monitor and enforce such rights. Litigation brought to enforce our intellectual property rights could be costly, time-consuming and distracting to management and could be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights, which may result in the impairment or loss of portions of our intellectual property. The laws of some foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States, and effective intellectual property protection and mechanisms may not be available in those jurisdictions. We may need to expend additional resources to defend our intellectual property in these countries, and our inability to do so could impair our business or adversely affect our international expansion. Even if we are able to secure our intellectual property rights, there can be no assurances that such rights will provide us with competitive advantages or distinguish our products and services from those of our competitors or that our competitors will not independently develop similar technology.

In addition, we regularly contribute source code under open source licenses and have made some of our own software available under open source or source available licenses, and we include third-party open source software in our products. Because the source code for any software we contribute to open source projects or distribute under open source or source available licenses is publicly available, our ability to protect our intellectual property rights with respect to such source code may be limited or lost entirely. In addition, from time to time, we may face claims from third parties claiming ownership of, or demanding release of, the software or derivative works that we have developed using third-party open source software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open-source license.

We have been, and may in the future be, subject to intellectual property rights claims by third parties, which may be costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have in the past and may in the future be subject to claims that we have misappropriated, misused or infringed the intellectual property rights of our competitors, non-practicing entities or other third parties. This risk is exacerbated by the fact that our software incorporates third-party open source software. For example, Realtime Data (“Realtime”) filed a lawsuit against us in the United States District Court for the District of Delaware in March 2019 alleging that we are infringing three U.S. patents that it holds: the 908 Patent, the 751 Patent and the 825 Patent. The patent infringement allegations in the lawsuit relate to data compression, decompression, storage and retrieval. This action is currently stayed. See the section titled “Item 3. Legal Proceedings.”

Any intellectual property claims, with or without merit, could be very time-consuming and expensive and could divert our management’s attention and other resources. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. These claims could also result in our having to stop using technology found to be in violation of a third party’s rights, some of which we have invested considerable effort and time to bring to market. We might be required to seek a license for the intellectual property, which may not be available on reasonable terms or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any aspect of our business that may ultimately be determined to infringe on the intellectual property rights of another party, we could be forced to limit or stop sales of subscriptions to our software and may be unable to compete effectively. Any of these results would adversely affect our business, results of operations and financial condition.

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

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers. The revenue growth and potential profitability of our business depend on demand for database software and

services generally and for our subscription offering and related services in particular. Current or future economic uncertainties or downturns could adversely affect our business and results of operations. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, political turmoil, natural catastrophes, warfare and terrorist attacks on the United States, Europe, the Asia Pacific region or elsewhere, could cause a decrease in business investments, including spending on information technology, and negatively affect the growth of our business. To the extent our database software is perceived by customers and potential customers as costly, or too difficult to deploy or migrate to, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, competitors, many of whom are larger and more established than we are, may respond to market conditions by lowering prices and attempting to lure away our customers. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our subscription offerings and related services. We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry. If the economic conditions of the general economy or markets in which we operate worsen from present levels, our business, results of operations and financial condition could be adversely affected.

If we are unable to maintain successful relationships with our partners, our business, results of operations and financial condition could be harmed.

In addition to our direct sales force and our website, we use strategic partners, such as global system integrators, value-added resellers and independent software vendors to sell our subscription offerings and related services. Our agreements with our partners are generally nonexclusive, meaning our partners may offer their customers products and services of several different companies, including products and services that compete with ours, or may themselves be or become competitors. If our partners do not effectively market and sell our subscription offerings and related services, choose to use greater efforts to market and sell their own products and services or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our subscription offerings and related services may be harmed. Our partners may cease marketing our subscription offerings or related services with limited or no notice and with little or no penalty. The loss of a substantial number of our partners, our possible inability to replace them, or the failure to recruit additional partners could harm our growth objectives and results of operations.

We rely upon third-party cloud providers to host our cloud offering; any disruption of or interference with our use of third-party cloud providers would adversely affect our business, results of operations and financial condition.

We outsource substantially all of the infrastructure relating to MongoDB Atlas across AWS, Microsoft Azure and GCP to host our cloud offering. Customers of MongoDB Atlas need to be able to access our platform at any time, without interruption or degradation of performance, and we provide them with service level commitments with respect to uptime. Third-party cloud providers run their own platforms that we access, and we are, therefore, vulnerable to their service interruptions. We may experience interruptions, delays and outages in service and availability from time to time as a result of problems with our third-party cloud providers' infrastructure. Lack of availability of this infrastructure could be due to a number of potential causes including technical failures, natural disasters, fraud or security attacks that we cannot predict or prevent. Such outages could lead to the triggering of our service level agreements and the issuance of credits to our cloud offering customers, which may impact our business, results of operations and financial condition. In addition, if our security, or that of any of these third-party cloud providers, is compromised, our software is unavailable or our customers are unable to use our software within a reasonable amount of time or at all, then our business, results of operations and financial condition could be adversely affected. In some instances, we may not be able to identify the cause or causes of these performance problems within a period of time acceptable to our customers. It is possible that our customers and potential customers would hold us accountable for any breach of security affecting a third-party cloud provider's infrastructure and we may incur significant liability from those customers and from third parties with respect to any breach affecting these systems. We may not be able to recover a material portion of our liabilities to our customers and third parties from a third-party cloud provider. It may also become increasingly difficult to maintain and improve our performance, especially during peak usage times, as our software becomes more complex and the usage of our software increases. Any of the above circumstances or events may harm our business, results of operations and financial condition.

Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business, results of operations and financial condition.

Our continued growth depends in part on the ability of our existing customers and new customers to access our software at any time and within an acceptable amount of time. We may experience service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes or failures, human or software errors,

malicious acts, terrorism or capacity constraints. Capacity constraints could be due to a number of potential causes, including technical failures, natural disasters, fraud or security attacks. In some instances, we may not be able to identify and/or remedy the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our performance as our software offerings and customer implementations become more complex. If our software is unavailable or if our customers are unable to access features of our software within a reasonable amount of time or at all, or if other performance problems occur, our business, results of operations and financial conditions may be adversely affected.

Incorrect or improper implementation or use of our software could result in customer dissatisfaction and harm our business, results of operations, financial condition and growth prospects.

Our database software and related services are designed to be deployed in a wide variety of technology environments, including in large-scale, complex technology environments, and we believe our future success will depend at least, in part, on our ability to support such deployments. Implementations of our software may be technically complicated, and it may not be easy to maximize the value of our software without proper implementation and training. For example, since January 2017, industry publications have reported ransomware attacks on over 80,000 MongoDB instances. Almost all of these instances were launched by users with our Community Server offering rather than users of MongoDB Enterprise Advanced. We believe these attacks were due to the users' failure to properly turn on the recommended security settings when running MongoDB. If our customers are unable to implement our software successfully, or in a timely manner, customer perceptions of our company and our software may be impaired, our reputation and brand may suffer and customers may choose not to renew their subscriptions or increase their purchases of our related services.

Our customers and partners need regular training in the proper use of and the variety of benefits that can be derived from our software to maximize its potential. We often work with our customers to achieve successful implementations, particularly for large, complex deployments. Our failure to train customers on how to efficiently and effectively deploy and use our software, or our failure to provide effective support or professional services to our customers, whether actual or perceived, may result in negative publicity or legal actions against us. Also, as we continue to expand our customer base, any actual or perceived failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our related services.

If we fail to meet our service level commitments, our business, results of operations and financial condition could be adversely affected.

Our agreements with customers typically provide for service level commitments. Our MongoDB Enterprise Advanced customers typically get service level commitments with certain guaranteed response times and comprehensive 24x365 coverage. Our MongoDB Atlas customers typically get monthly uptime service level commitments, where we are required to provide a service credit for any extended periods of downtime. The complexity and quality of our customer's implementation and the performance and availability of cloud services and cloud infrastructure are outside our control and, therefore, we are not in full control of whether we can meet these service level commitments. Our business, results of operations and financial condition could be adversely affected if we fail to meet our service level commitments for any reason. Any extended service outages could adversely affect our business, reputation and brand.

We rely on the performance of highly skilled personnel, including senior management and our engineering, professional services, sales and technology professionals; if we are unable to retain or motivate key personnel or hire, retain and motivate qualified personnel, our business would be harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of our senior management team, particularly our Chief Executive Officer and Chief Technology Officer, and our highly skilled team members, including our sales personnel, client services personnel and software engineers. We do not maintain key man insurance on any of our executive officers or key employees. From time to time, there may be changes in our senior management team resulting from the termination or departure of our executive officers and key employees. The majority of our senior management and key employees are employed on an at-will basis, which means that they could terminate their employment with us at any time. The loss of any of our senior management or key employees could adversely affect our ability to build on the efforts they have undertaken and to execute our business plan, and we may not be able to find adequate replacements. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees.

Our ability to successfully pursue our growth strategy also depends on our ability to attract, motivate and retain our personnel. Competition for well-qualified employees in all aspects of our business, including sales personnel, client services personnel and software engineers, is intense. Our recruiting efforts focus on elite organizations and our primary recruiting

competition are well-known, high-paying technology companies. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business would be adversely affected.

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

We believe that developing and maintaining widespread awareness of our brand, especially with developers, in a cost-effective manner is critical to achieving widespread acceptance of our software and attracting new customers. Brand promotion activities may not generate customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. For instance, our continued focus and investment in MongoDB World, MongoDB University and similar investments in our brand and customer engagement and education may not generate a sufficient financial return. If we fail to successfully promote and maintain our brand, or continue to incur substantial expenses, we may fail to attract or retain customers necessary to realize a sufficient return on our brand-building efforts, or to achieve the widespread brand awareness that is critical for broad customer adoption of our platform.

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

We believe that our culture has been and will continue to be a key contributor to our success. From January 31, 2017 to January 31, 2019, we increased the size of our workforce by 499 employees, and we expect to continue to hire aggressively as we expand, especially research and development and sales and marketing personnel. If we do not continue to maintain our corporate culture as we grow, we may be unable to foster the innovation, creativity and entrepreneurial spirit we believe we need to support our growth. Our substantial anticipated headcount growth may result in a change to our corporate culture, which could harm our business.

We depend and rely upon SaaS technologies from third parties to operate our business, and interruptions or performance problems with these technologies may adversely affect our business and results of operations.

We rely on hosted SaaS applications from third parties in order to operate critical functions of our business, including enterprise resource planning, order management, contract management billing, project management and accounting and other operational activities. If these services become unavailable due to extended outages, interruptions or because they are no longer available on commercially reasonable terms, our expenses could increase, our ability to manage finances could be interrupted and our processes for managing sales of our platform and supporting our customers could be impaired until equivalent services, if available, are identified, obtained and implemented, all of which could adversely affect our business.

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

Our agreements with customers and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, data breach, or other liabilities relating to or arising from our software, services or other contractual obligations. Large indemnity payments could harm our business, results of operations and financial condition. Although we normally contractually limit our liability with respect to such indemnity obligations, we may still incur substantial liability related to them. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other existing customers and new customers and harm our business and results of operations.

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

A component of our growth strategy involves the further expansion of our operations and customer base internationally. In the fiscal years ended January 31, 2019, 2018 and 2017, total revenue generated from customers outside the United States was 39%, 37% and 34%, respectively, of our total revenue. We currently have international offices outside of North America throughout Europe, the Middle East and Africa (“EMEA”) and the Asia-Pacific region, focusing primarily on selling our products and services in those regions. In the future, we plan to expand to other international locations. Our current international operations and future initiatives involve a variety of risks, including:

- changes in a specific country’s or region’s political or economic conditions;

- the need to adapt and localize our products for specific countries;
- greater difficulty collecting accounts receivable and longer payment cycles;
- unexpected changes in laws, regulatory requirements, taxes or trade laws;
- more stringent regulations relating to privacy and data security and the unauthorized use of, or access to, commercial and personal information, particularly in EMEA;
- differing labor regulations, especially in EMEA, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;
- increased travel, real estate, infrastructure and legal compliance costs associated with international operations;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- laws and business practices favoring local competitors or general preferences for local vendors;
- limited or insufficient intellectual property protection or difficulties enforcing our intellectual property;
- political instability or terrorist activities;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act, U.K. Bribery Act and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

Our limited experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and results of operations will suffer.

Changes in government trade policies, including the imposition of tariffs and other trade barriers, could limit our ability to sell our products to certain customers and certain markets, which could adversely affect our business, financial condition and results of operations.

The United States or foreign governments may take administrative, legislative or regulatory action that could materially interfere with our ability to sell our offerings in certain countries. For instance, there is currently significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, tariffs and taxes. If tariffs or other trade barriers are placed on offerings such as ours, this could have a direct or indirect adverse effect on our business. Even in the absence of tariffs or other trade barriers, the related uncertainty and the market's fears relating to international trade might result in lower demand for our offerings, which could adversely affect our business, financial condition and results of operations.

Legal, political and economic uncertainty surrounding the planned exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, adversely affect our operations in the United Kingdom and pose additional risks to our business, revenue, financial condition and results of operations.

On March 29, 2017, the United Kingdom (“U.K.”) formally notified the European Council of its intention to leave the European Union (“E.U.”). Although the withdrawal of the U.K. from the E.U. (commonly referred to as “Brexit”) was scheduled to take effect on March 29, 2019, the withdrawal agreement was extended until April 12, 2019, and further

extended until October 31, 2019, although Brexit may become effective before such date under certain specified circumstances. Negotiations remain ongoing between the U.K. and E.U. member states to determine the future terms of the U.K.'s relationship with the E.U.

Lack of clarity about future U.K. laws and regulations as the U.K. determines which E.U. rules and regulations to replace or replicate in the event of a withdrawal, including financial laws and regulations, tax and free trade agreements, intellectual property rights, supply chain logistics, environmental, health and safety laws and regulations, immigration laws and employment laws, could decrease foreign direct investment in the U.K., increase costs, depress economic activity and restrict access to capital. In addition, depending on the terms of the United Kingdom's withdrawal from the E.U., the U.K. could lose the benefits of global trade agreements negotiated by the E.U. on behalf of its members. The long-term effects of Brexit will depend on any agreements (or lack thereof) between the U.K. and the E.U. and, in particular, any arrangements for the U.K. to retain access to E.U. markets either during a transitional period or more permanently.

Such a withdrawal from the E.U. is unprecedented, and it is unclear how the U.K.'s access to the European single market for goods, capital, services and labor within the E.U., or the European single market, and the wider commercial, legal and regulatory environment, will impact our U.K. operations and our customers located in the U.K. We may also face new regulatory costs and challenges that could have an adverse effect on our operations. The announcement of Brexit has already created economic uncertainty, and its consequences could adversely impact our financial position and results of operations.

If currency exchange rates fluctuate substantially in the future, our financial results, which are reported in U.S. dollars, could be adversely affected.

As we continue to expand our international operations, we become more exposed to the effects of fluctuations in currency exchange rates. Often, contracts executed by our foreign operations are denominated in the currency of that country or region and a portion of our revenue is therefore subject to foreign currency risks. However, a strengthening of the U.S. dollar could increase the real cost of our subscription offerings and related services to our customers outside of the United States, adversely affecting our business, results of operations and financial condition. We incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in the dollar equivalent of such expenses being higher. This could have a negative impact on our reported results of operations. To date, we have not engaged in any hedging strategies, and any such strategies, such as forward contracts, options and foreign exchange swaps related to transaction exposures that we may implement in the future to mitigate this risk may not eliminate our exposure to foreign exchange fluctuations. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

Changes in laws and regulations related to the internet or changes in the internet infrastructure itself may diminish the demand for our software, and could have a negative impact on our business.

The future success of our business, and particularly our cloud offerings, such as MongoDB Atlas, depends upon the continued use of the internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. Changes in these laws or regulations could require us to modify our software in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, resulting in reductions in the demand for internet-based solutions such as ours.

In addition, the use of the internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease of use, accessibility and quality of service. The performance of the internet and its acceptance as a business tool have been adversely affected by "ransomware," "viruses," "worms," "malware," "phishing attacks," "data breaches" and similar malicious programs, behavior and events, and the internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the internet is adversely affected by these issues, demand for our subscription offerings and related services could suffer.

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

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

We may acquire or invest in companies, which may divert our management's attention and result in additional dilution to our stockholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.

Our success will depend, in part, on our ability to grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may choose to do so through the acquisition of businesses and technologies rather than through internal development. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified acquisitions.

On November 1, 2018, we acquired ObjectLabs Corporation (“mLab”), a privately held company, headquartered in San Francisco, California, that offers cloud database services. On May 7, 2019, we acquired Tightdb, Inc. (“Realm”), a privately held mobile database company. The risks we face in connection with these and any future acquisitions include:

- an acquisition may negatively affect our results of operations because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by stockholders and third parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;
- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, personnel or operations of any company that we acquire, particularly if key personnel of the acquired company decide not to work for us;
- we may not be able to realize anticipated synergies;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition may result in a delay or reduction of customer purchases for both us and the company acquired due to customer uncertainty about continuity and effectiveness of service from either company and we may experience increased customer churn with respect to the company acquired;
- we may encounter challenges integrating the employees of the acquired company into our company culture;
- for international transactions, we may face additional challenges related to the integration of operations across different cultures and languages, and the economic, political and regulatory risks associated with specific countries;
- we may be unable to successfully sell any acquired products, increase adoption or usage of acquired products, or increase spend by acquired customers;
- our use of cash to pay for acquisitions would limit other potential uses for our cash;

- if we incur debt to fund any acquisitions, such debt may subject us to material restrictions on our ability to conduct our business, including financial maintenance covenants; and
- if we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease.

The occurrence of any of these risks could have an adverse effect on our business, results of operations and financial condition.

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

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended (the “FCPA”), the U.S. Travel Act, the U.K. Bribery Act (the “Bribery Act”) and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions around the world. The FCPA, Bribery Act and similar applicable laws generally prohibit companies, their officers, directors, employees and third-party intermediaries, business partners and agents from making improper payments or providing other improper things of value to government officials or other persons. 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 other third parties where we may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, resellers and agents, even if we do not explicitly authorize such activities. While we have policies and procedures and internal controls 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. To the extent that we learn that any of our employees, third-party intermediaries, agents, or business partners do not adhere to our policies, procedures, or internal controls, we are committed to taking appropriate remedial action. In the event that we believe or have reason to believe that our directors, officers, employees, third-party intermediaries, agents, or business partners have or may have violated such laws, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances. Detecting, investigating and resolving actual or alleged violations can be extensive and require a significant diversion of time, resources and attention from senior management. Any violation of the FCPA, Bribery Act, 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, fines and penalties or suspension or debarment from U.S. government contracts, all of which may have a material adverse effect on our reputation, business, operating results and prospects and financial condition.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States (“GAAP”), are subject to interpretation by the FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

For example, in May 2014, the FASB issued FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Prior to January 31, 2019, we qualified as an “emerging growth company,” as defined in the Jump-start Our Business Start-ups Act (“JOBS Act”), which allowed us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We elected to use this extended transition period under the JOBS Act with respect to ASU 2014-09, but subsequently lost our “emerging growth company” status effective January 31, 2019. As a result, we adopted the new revenue standard for our fiscal year ending January 31, 2019. The new revenue standard significantly impacted our results for the year ended January 31, 2019 as it changed the way we recognize revenue and the timing of revenue recognition related to the term license portion of our subscription revenue. We expect that the new revenue standard will result in greater variability and reduced comparability in our quarterly revenue results.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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 Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Form 10-Q and in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in Part II, Item 8, *Financial Statements*, of the 2019 Form 10-K. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our Consolidated Financial Statements include those related to revenue recognition, allowances for doubtful accounts, fair value of stock-based awards, fair value of redeemable convertible preferred stock warrants prior to our initial public offering, legal contingencies, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, and accounting for income taxes. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our Class A common stock.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the applicable listing standards of the Nasdaq. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems and resources.

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. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls and 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 also could 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 will eventually be required to include in our periodic reports that will be filed with the SEC. 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 have a negative effect on the trading price of our Class A 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.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Effective January 31, 2019, we are no longer an “emerging growth company,” as defined in the JOBS Act. As a result, we are also required to have our independent registered public accounting firm issue an opinion on the effectiveness of our internal control over financial reporting on an annual basis. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, or if

our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business and results of operations and could cause a decline in the price of our Class A common stock, and we may be subject to investigation or sanctions by the SEC.

We may require additional capital to support our operations or the growth of our business, and we cannot be certain that this capital will be available on reasonable terms when required, or at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or otherwise enhance our database software, improve our operating infrastructure or acquire businesses and technologies. Accordingly, we may need to secure additional capital through equity or debt financings. If we raise additional capital, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A common stock and Class B common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms that are favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms that are 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 impaired, and our business may be harmed.

We are a multinational organization faced with increasingly complex tax issues in many jurisdictions, and we could be obligated to pay additional taxes in various jurisdictions.

As a multinational organization, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and operating results. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could have a material impact on us and the results of our operations.

The enactment of legislation implementing changes in U.S. taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Changes to U.S. tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits and the deferral of certain tax deductions until earnings outside of the United States are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings. Due to expansion of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and adversely affect our financial position and results of operations.

In addition, potential tax reform in the United States may result in significant changes to U.S. federal income taxation law, including changes to the U.S. federal income taxation of corporations (including the Company) and/or changes to the U.S. federal income taxation of stockholders in U.S. corporations, including investors in our Class A common stock. For example, the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) was enacted on December 22, 2017 and significantly reformed the Internal Revenue Code of 1986, as amended (the “Code”). For a discussion of the impact of the Tax Act on our financial statements, see Note 13, *Income Taxes*, included in Part II, Item 8, *Financial Statements and Supplementary Data*, of the 2019 Form 10-K. We are currently unable to predict whether any future changes will occur and, if so, the impact of such changes, including on the U.S. federal income tax considerations relating to the purchase, ownership and disposition of our Class A common stock.

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

As of January 31, 2019, we had NOL carryforwards for federal, state and Irish income tax purposes of approximately \$369.2 million, \$246.3 million and \$189.5 million, respectively, which may be available to offset taxable income in the future, subject to changes made by the Tax Act with respect to federal NOLs as described below and which expire in various years beginning in the year ending January 31, 2028 for federal purposes and the year ending January 31, 2020 for state purposes if not utilized. Ireland allows NOLs to be carried forward indefinitely. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. In general, under Section 382 of the Code, a corporation

that undergoes an “ownership change” (as defined under Section 382 of the Code and applicable Treasury Regulations) is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. We may experience a future ownership change under Section 382 of the Code that could affect our ability to utilize the NOLs to offset our income. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to reduce future income tax liabilities, including for state tax purposes. For example, the Tax Act included changes to the uses and limitations of NOLs. While the Tax Act allows for federal NOLs incurred in tax years beginning prior to December 31, 2017 to be carried forward indefinitely, the Tax Act also imposes an 80% limitation on the use of federal NOLs that are generated in tax years beginning after December 31, 2017.

For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability, which could potentially result in increased future tax liability to us and could adversely affect our results of operations and financial condition.

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

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

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

Our offerings are subject to United States export controls, and we incorporate encryption technology into certain of our offerings. These encryption offerings and the underlying technology may be exported outside of the United States only with the required export authorizations, including by license.

Furthermore, our activities are subject to the U.S. economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations or export to countries, governments and persons targeted by U.S. sanctions. While we take precautions to prevent our offerings from being exported in violation of these laws, including obtaining authorizations for our encryption offerings, implementing IP address blocking and screenings against U.S. Government and international lists of restricted and prohibited persons, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws.

We also note that if our channel partners fail to obtain appropriate import, export or re-export licenses or permits, we may also be adversely affected, through reputational harm as well as other negative consequences including government investigations and penalties. We presently incorporate export control compliance requirements in our channel partner agreements. Complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities.

If we fail to comply with U.S. sanctions and export control laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges, fines, which may be imposed on us and responsible employees or managers and, in extreme cases, the incarceration of responsible employees or managers.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our offerings or could limit our customers’ ability to implement our offerings in those countries. Changes in our offerings or future changes in export and import regulations may create delays in the introduction of our offerings in international markets, prevent our customers with international operations from deploying our offerings globally or, in some cases, prevent the export or import of our offerings to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons or

technologies targeted by such regulations, could result in decreased use of our offerings by, or in our decreased ability to export or sell our offerings to, existing or potential customers with international operations. Any decreased use of our offerings or limitation on our ability to export or sell our offerings would likely adversely affect our business operations and financial results.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or terrorism.

Our corporate headquarters is located in New York City, and we have offices in 40 other locations. A significant natural disaster or man-made problem, such as an earthquake, fire, flood or an act of terrorism, occurring in any of these locations, or where a business partner is located, could adversely affect our business, results of operations and financial condition. Further, if a natural disaster or man-made problem were to affect datacenters used by our cloud infrastructure service providers this could adversely affect the ability of our customers to use our products. In addition, natural disasters and acts of terrorism could cause disruptions in our or our customers' businesses, national economies or the world economy as a whole. In the event of a major disruption caused by a natural disaster or man-made problem, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our development activities, lengthy interruptions in service, breaches of data security and loss of critical data, any of which could adversely affect our business, results of operations and financial condition.

In addition, as computer malware, viruses and computer hacking, fraudulent use attempts and phishing attacks have become more prevalent, we face increased risk from these activities to maintain the performance, reliability, security and availability of our subscription offerings and related services and technical infrastructure to the satisfaction of our customers, which may harm our reputation and our ability to retain existing customers and attract new customers.

Risks Related to Ownership of Our Class A Common Stock

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of our IPO, including our executive officers, employees and directors and their affiliates, which will limit your ability to influence the outcome of important transactions, including a change in control.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As a result, as of July 31, 2019, holders of our Class B common stock represented approximately 67% of the voting power of our outstanding capital stock and our directors, executive officers and each of their affiliated entities, represented approximately 55% of the voting power of our outstanding capital stock. This concentrated control will limit the ability of holders of our Class A common stock to influence corporate matters for the foreseeable future. For example, holders of our Class B common stock will be able to control all matters submitted to our stockholders for approval even when the shares of Class B common stock represent a small minority of all outstanding shares of our Class A common stock and Class B common stock, including amendments of our amended and restated certificate of incorporation or amended and restated bylaws, increases to the number of shares available for issuance under our equity incentive plans or adoption of new equity incentive plans and approval of any merger or sale of assets for the foreseeable future. Holders of our Class B common stock may also have interests that differ from the interests of holders of our Class A common stock and may vote in a way with which holders of our Class A common stock may disagree and which may be adverse to such holders' interests. This concentrated control 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 capital stock as part of a sale of our company and might ultimately affect the market price of our Class A common stock.

Future transfers by holders of our Class B common stock will generally result in those shares converting into shares of our Class A common stock, subject to limited exceptions, such as certain transfers effected for tax or estate planning purposes. The conversion of shares of our Class B common stock into shares of our Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. For example, as of July 31, 2019, Dwight Merriman, Kevin P. Ryan, Eliot Horowitz, and Dev Ittycheria represented approximately 67% of the voting power of our outstanding capital stock, and if they retain a significant portion of their holdings of our Class B common stock for an extended period of time, they could control a significant portion of the voting power of our capital stock for the foreseeable future. As board members and officers, Mr. Horowitz and Mr. Ittycheria owe a fiduciary duty to our stockholders and must act in good faith and in a manner they reasonably believe to be in the best interests of our stockholders. As stockholders, all of these individuals are entitled to vote their shares in their own interests, which may not always be in the interests of our stockholders generally.

We cannot predict the impact our dual class structure may have on our stock price or our business.

We cannot predict whether our dual class structure, combined with the concentrated control of our stockholders who held our capital stock prior to the completion of our IPO, including our executive officers, employees and directors and their affiliates, will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indexes. In July 2017, S&P Dow Jones announced that it will no longer admit companies with multiple-class share structures to certain of its indexes. Because of our dual class structure, we will likely be excluded from these indexes and we cannot assure you that other stock indexes will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

The trading price of our Class A common stock has been and is likely to continue to be volatile, which could cause the value of our Class A common stock to decline.

Technology stocks have historically experienced high levels of volatility. The trading price of our Class A common has been and is likely to continue to be volatile. Factors that could cause fluctuations in the trading price of our Class A common stock include the following:

- announcements of new products or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- changes in how customers perceive the benefits of our product and future product offerings and releases;
- departures of key personnel;
- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in the trading volume of our shares or the size of our public float;
- sales of large blocks of our Class A common stock;
- actual or anticipated changes or fluctuations in our results of operations;
- whether our results of operations meet the expectations of securities analysts or investors;
- changes in actual or future expectations of investors or securities analysts;
- significant data breach involving our software;
- litigation involving us, our industry, or both;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends;
- major catastrophic events in our domestic and foreign markets; and
- “flash crashes,” “freeze flashes” or other glitches that disrupt trading on the securities exchange on which we are listed.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our Class A common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our Class A common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the trading price of a company’s securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management’s attention and resources from our business. This could have an adverse effect on our business, results of operations and financial condition.

If securities analysts or industry analysts were to downgrade our stock, publish negative research or reports or fail to publish reports about our business, our competitive position could suffer, and our stock price and trading volume could decline.

The trading market for our Class A common stock will, to some extent, depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our stock or publish negative research or reports, cease coverage of our company or fail to regularly publish reports about our business, our competitive position could suffer, and our stock price and trading volume could decline.

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

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We expect to grant equity awards to employees, directors and consultants under our equity incentive plans. We may also raise capital through equity financings in the future. As part of our business strategy, we may acquire or make investments in companies, products or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our Class A common stock to decline.

We do not intend to pay dividends on our Class A common stock for the foreseeable future.

We have never declared or paid any dividends on our capital stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any dividends in the foreseeable future. As a result, investors in our Class A common stock may only receive a return if the market price of our Class A common stock increases.

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

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq and other applicable securities rules and regulations. Our management and other personnel devote a substantial amount of time to compliance with these requirements. Moreover, these laws, regulations and standards are subject to varying interpretations, and their application in practice may evolve over time as regulatory and governing bodies issue revisions to, or new interpretations of, these public company requirements. Such changes could result in continuing uncertainty regarding compliance matters and higher legal and financial costs necessitated by ongoing revisions to disclosure and governance practices. We will continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

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

As a result of the disclosures within our filings with the SEC, information about our business and our financial condition is available to competitors and other third parties, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be adversely affected. Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and results of operations.

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

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

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

Our amended and restated certificate of incorporation further provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

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

Delaware law and our corporate charter and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors who are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by our board of directors, the chairperson of our board of directors, our chief executive officer or our president (in the absence of a chief executive officer), which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of a majority of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the management of our business (including our classified board structure) or certain provisions of our amended and restated bylaws, which may inhibit the ability of an acquirer to effect such amendments to facilitate an unsolicited takeover attempt;

- the ability of our board of directors to amend our bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend our bylaws to facilitate an unsolicited takeover attempt;
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us; and
- the authorization of two classes of common stock, as discussed above.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a specified period of time.

Risks Related to the Outstanding Notes

We have a significant amount of debt and may incur additional debt in the future. We may not have sufficient cash flow from our business to pay our substantial debt when due.

In June 2018, we issued \$250.0 million aggregate principal amount of 0.75% convertible senior notes due 2024 (the "Notes") in a private placement and, in July 2018, we issued an additional \$50.0 million aggregate principal amount of such Notes pursuant to the exercise in full of the initial purchasers' option to purchase additional Notes. Our ability to pay our debt when due or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. In addition, any required repurchase of the Notes for cash as a result of a fundamental change (pursuant to the terms of the Notes) would lower our current cash on hand such that we would not have that cash available to fund operations. If we are unable to generate sufficient cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring our debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

In addition, we and our subsidiaries may incur additional debt in the future. We are not restricted under the terms of the indenture governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt, repurchasing our stock, pledging our assets, making investments, paying dividends, guaranteeing debt or taking a number of other actions that are not limited by the terms of the indenture governing the Notes that could have the effect of diminishing our ability to make payments on the Notes when due.

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

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

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

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options ("ASC 470-20"), an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date and the value of the equity component is treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we are required to record a greater amount of non-cash interest expense as a result of the amortization of the

discounted carrying value of the Notes to their face amount over the term of the Notes. We will report larger net losses (or lower net income) in our financial results because ASC 470-20 requires interest to include both the amortization of the debt discount and the instrument’s nonconvertible coupon interest rate, which could adversely affect our reported or future financial results, the trading price of our Class A common stock and the trading price of the Notes. In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of Class A common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable or otherwise elect not to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share could be adversely affected.

The capped call transactions to which we are a party may affect the value of the Notes and our Class A common stock.

In connection with the pricing of the Notes and the exercise by the initial purchasers of their option to purchase additional Notes, we entered into capped call transactions with certain counterparties. The capped call transactions cover, subject to customary adjustments, the number of shares of our Class A common stock initially underlying the Notes. The capped call transactions are expected to offset the potential dilution as a result of conversion of the Notes. In connection with establishing their initial hedge of the capped call transactions, the counterparties or their respective affiliates entered into various derivative transactions with respect to our Class A common stock concurrently with or shortly after the pricing of the Notes, including with certain investors in the Notes. The counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so on each exercise date of the capped call transactions, which are scheduled to occur during the observation period relating to any conversion of the Notes on or after March 15, 2024). We cannot make any prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the Notes or the shares of our Class A common stock. Any of these activities could adversely affect the value of the Notes and our Class A common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

The table below provides information with respect to repurchases of shares of our Class A common stock during the three months ended July 31, 2019:

Period	Total number of shares purchased⁽¹⁾	Average price paid per share
May 1 to May 31, 2019	—	\$ —
June 1 to June 30, 2019	—	—
July 1 to July 31, 2019	209	6.50

(1) Under certain stock option grant agreements between us and our employees, in the event an employee’s service with us terminates, we have the right to repurchase shares of Class A common stock that were acquired by such employee pursuant to the exercise of stock options that have not yet vested as of such employee’s termination date. Pursuant to these agreements, we may repurchase all or any unvested shares at the lower of (1) the fair market value of such shares (as determined under our 2016 Amended and Restated Equity Incentive Plan) on the date of repurchase, or (2) the price equal to the employee’s exercise price for such shares. The shares set forth above were repurchased pursuant to this right of repurchase.

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				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Registrant	8-K	001-38240	3.1	10/25/2017	
3.2	Amended and Restated Bylaws of Registrant	S-1	333-220557	3.4	9/21/2017	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					x
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					x
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					x
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					x
101.INS	Inline XBRL Instance Document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					

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

