UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2023

OR

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

For the transition period from ______ to ______

File Number: 001-41121

HashiCorp, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**32-0410665**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

101 Second Street, Suite 700
San Francisco, CA 94105

(Address of principal executives offices, including zip code)

(415) 301-3250

(Registrant's telephone number including area code)

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

(Title of each class)	Trading Symbol(s)	(Name of each exchange on which registered)
Class A Common Stock, par value $0.000015 per share	HCP	The Nasdaq Global Select Market

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

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

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

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

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

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

As of August 25, 2023, the number of registrant’s issued and outstanding shares of Class A common stock and Class B common stock was 109,376,687 and 84,511,053, respectively.

HashiCorp, Inc.

Form 10-Q

For the Quarterly Period Ended July 31, 2023

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HASHICORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	As of	
	July 31, 2023	**January 31, 2023**
Assets		
Current assets:		
Cash and cash equivalents	$ 830,018	$ 1,286,134
Short-term investments	414,094	—
Accounts receivable, net of allowance	122,385	162,369
Deferred contract acquisition costs	45,329	42,812
Prepaid expenses and other current assets	28,526	17,683
Total current assets	1,440,352	1,508,998
Deferred contract acquisition costs, non-current	82,921	81,286
Acquisition-related intangible assets, net	13,028	—
Goodwill	12,265	—
Other assets, non-current	42,037	38,056
Total assets	$ 1,590,603	$ 1,628,340
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,693	$ 12,450
Accrued expenses and other current liabilities	10,376	10,163
Accrued compensation and benefits	53,505	58,628
Deferred revenue	264,639	272,909
Customer deposits	25,564	26,699
Total current liabilities	361,777	380,849
Deferred revenue, non-current	28,802	29,335
Other liabilities, non-current	15,112	12,806
Total liabilities	405,691	422,990
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Class A common stock, par value of $0.000015 per share; 1,000,000 and 1,000,000 shares authorized as of July 31, 2023 and January 31, 2023, respectively; 109,085 and 88,823 shares issued and outstanding as of July 31, 2023 and January 31, 2023, respectively	1	1
Class B common stock, par value of $0.000015 per share; 200,000 and 200,000 shares authorized as of July 31, 2023 and January 31, 2023, respectively; 84,561 and 101,145 shares issued and outstanding as of July 31, 2023 and January 31, 2023, respectively	2	2
Additional paid-in capital	2,085,910	1,985,747
Accumulated other comprehensive loss	(1,028)	—
Accumulated deficit	(899,973)	(780,400)
Total stockholders' equity	1,184,912	1,205,350
Total liabilities and stockholders' equity	$ 1,590,603	$ 1,628,340

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

HASHICORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Revenue:				
License	$ 16,724	$ 15,338	$ 31,882	$ 25,682
Support	103,997	84,257	205,910	163,465
Cloud-hosted services	18,372	10,637	34,916	19,469
Total subscription revenue	139,093	110,232	272,708	208,616
Professional services and other	4,153	3,631	8,521	6,144
Total revenue	143,246	113,863	281,229	214,760
Cost of revenue:				
Cost of license	498	360	1,083	753
Cost of support	16,304	12,272	31,147	23,110
Cost of cloud-hosted services	7,619	5,699	14,647	10,529
Total cost of subscription revenue	24,421	18,331	46,877	34,392
Cost of professional services and other	4,913	3,209	9,245	6,537
Total cost of revenue	29,334	21,540	56,122	40,929
Gross profit	113,912	92,323	225,107	173,831
Operating expenses:				
Sales and marketing	101,134	87,674	191,698	167,926
Research and development	59,962	47,885	114,155	95,060
General and administrative	35,412	35,383	69,660	67,906
Total operating expenses	196,508	170,942	375,513	330,892
Loss from operations	(82,596)	(78,619)	(150,406)	(157,061)
Interest income	16,300	3,926	31,280	4,542
Other income (expense), net	(105)	66	(225)	(40)
Loss before income taxes	(66,401)	(74,627)	(119,351)	(152,559)
Provision (benefit) for income taxes	(86)	137	222	422
Net loss	$ (66,315)	$ (74,764)	$ (119,573)	$ (152,981)
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	$ (0.34)	$ (0.40)	$ (0.62)	$ (0.83)
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders, basic and diluted	192,610	185,212	191,723	184,114

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

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Net loss	$ (66,315)	$ (74,764)	$ (119,573)	$ (152,981)
Other comprehensive loss, net of tax:				
Available-for-sale investments:				
Unrealized losses on available-for-sale investments	(867)	—	(933)	—
Foreign currency forward contracts:				
Unrealized losses on foreign currency forward contracts	(95)	—	(95)	—
Other comprehensive loss, net of tax	(962)	—	(1,028)	—
Total comprehensive loss	$ (67,277)	$ (74,764)	$ (120,601)	$ (152,981)

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

HASHICORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 31, 2023	189,968	$ 3	$ 1,985,747	$ —	$ (780,400)	$ 1,205,350
Issuance of common stock upon exercise of stock options	513	—	1,013	—	—	1,013
Issuance of common stock upon settlement of restricted stock units	1,071	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	—	—	(9)	—	—	(9)
Stock-based compensation	—	—	41,266	—	—	41,266
Other comprehensive loss	—	—	—	(66)	—	(66)
Net loss	—	—	—	—	(53,258)	(53,258)
Balance as of April 30, 2023	191,552	$ 3	$ 2,028,017	$ (66)	$ (833,658)	$ 1,194,296
Issuance of common stock upon exercise of stock options	366	—	442	—	—	442
Issuance of common stock upon settlement of restricted stock units	1,307	—	—	—	—	—
Tax withholdings on settlement of restricted stock units	(5)	—	(215)	—	—	(215)
Issuance of common stock under employee stock purchase plan	426	—	10,195	—	—	10,195
Stock-based compensation	—	—	47,471	—	—	47,471
Other comprehensive loss	—	—	—	(962)	—	(962)
Net loss	—	—	—	—	(66,315)	(66,315)
Balance as of July 31, 2023	193,646	$ 3	$ 2,085,910	$ (1,028)	$ (899,973)	$ 1,184,912

	Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of January 31, 2022	182,167	$ 3	$ 1,788,390	$ (506,102)	$ 1,282,291
Issuance of common stock upon exercise of stock options	839	—	521	—	521
Vesting of early exercised stock options	—	—	3	—	3
Issuance of common stock for restricted stock awards	710	—	—	—	—
Tax withholdings on settlement of restricted stock units	(8)	—	(125)	—	(125)
Stock-based compensation	—	—	47,141	—	47,141
Net loss	—	—	—	(78,217)	(78,217)
Balance as of April 30, 2022	183,708	$ 3	$ 1,835,930	$ (584,319)	$ 1,251,614
Issuance of common stock upon exercise of stock options	786	—	1,645		1,645
Vesting of early exercised stock options	—	—	2	—	2
Issuance of common stock upon settlement of restricted stock units	1,477	—	—	—	—
Tax withholdings on settlement of restricted stock units	(2)	—	(77)	—	(77)
Issuance of common stock under employee stock purchase plan	351	—	8,501	—	8,501
Stock-based compensation	—	—	43,309	—	43,309
Net loss		—	—	(74,764)	(74,764)
Balance as of Balance as of July 31, 2022	186,320	$ 3	$ 1,889,310	$ (659,083)	$ 1,230,230

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

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

	Six Months Ended July 31,	
	2023	**2022**
Cash flows from operating activities		
Net loss	$ (119,573)	$ (152,981)
Adjustments to reconcile net loss to cash from operating activities:		
Stock-based compensation expense, net of amounts capitalized	86,282	88,662
Depreciation and amortization expense	3,876	1,947
Non-cash operating lease cost	1,474	1,416
Accretion of discounts on marketable securities	(4,196)	—
Deferred income taxes	(482)	—
Other	68	(19)
Changes in operating assets and liabilities:		
Accounts receivable	39,914	15,227
Deferred contract acquisition costs	(4,152)	(19,688)
Prepaid expenses and other assets	(11,161)	(1,175)
Accounts payable	(5,007)	(3,044)
Accrued expenses and other liabilities	(1,776)	(1,741)
Accrued compensation and benefits	(5,123)	(1,961)
Deferred revenue	(8,803)	3,523
Customer deposits	(1,135)	(1,035)
Net cash used in operating activities	(29,794)	(70,869)
Cash flows from investing activities		
Business combination, net of cash acquired	(20,859)	—
Purchases of property and equipment	(417)	(72)
Capitalized internal-use software	(5,669)	(3,516)
Purchases of short-term investments	(469,704)	—
Proceeds from sales of short-term investments	26,372	—
Proceeds from maturities of short-term investments	32,529	—
Net cash used in investing activities	(437,748)	(3,588)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(224)	(202)
Proceeds from issuance of common stock upon exercise of stock options	1,455	2,166
Proceeds from issuance of common stock under employee stock purchase plan	10,195	8,501
Net cash provided by financing activities	11,426	10,465
Net decrease in cash and cash equivalents, and restricted cash	(456,116)	(63,992)
Cash and cash equivalents, and restricted cash beginning of period	1,286,134	1,357,613
Cash and cash equivalents, and restricted cash end of period	$ 830,018	$ 1,293,621
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net of refunds received	$ 784	$ 408
Cash paid for operating lease liabilities	$ 1,930	$ 1,874
Supplemental disclosure of noncash investing and financing activities		
Capitalized stock-based compensation expense	$ 2,455	$ 1,788
Acquisition holdback	$ 4,200	$ —

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

HASHICORP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Description of Business

Description of Business

HashiCorp, Inc., (“HashiCorp” or the “Company”) was incorporated in Delaware in May 2013. The Company is headquartered in San Francisco, California and has wholly owned subsidiaries around the world. The Company’s foundational technologies solve the core infrastructure challenges of cloud adoption by enabling an operating model that unlocks the full potential of modern public and private clouds. The Company’s cloud operating model provides consistent workflows and a standardized approach to automating the critical processes involved in delivering applications in the cloud: infrastructure provisioning, security, networking, and application deployment. The Company’s primary commercial products are HashiCorp Terraform, Vault, Consul, and Nomad. The Company’s software is predominantly self-managed by users and customers who deploy it across public, private, and hybrid cloud environments. The Company also offers a fully-managed cloud platform for multiple products that further accelerates enterprise cloud migration by addressing resource and skills gaps, improving operational efficiency, and speeding up deployment time for customers. Additionally, the Company provides premium support and services.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP") and include the accounts of the Company and its wholly owned subsidiaries. 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 (the "SEC"). The condensed balance sheet data as of January 31, 2023 was derived from the Company’s audited financial statements included in its Annual Report on Form 10-K for the fiscal year ended January 31, 2023 (the “2023 Form 10-K”), but does not include all disclosures required by U.S. GAAP. Therefore, these interim 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, 2023 (the “fiscal 2023 Form 10-K”).

The accompanying condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of the Company’s financial position, results of operations, cash flows, and stockholders’ equity for the interim periods presented. The results of operations for the three and six months ended July 31, 2023 shown in this report are not necessarily indicative of the results to be expected for the full year ending January 31, 2024 or any other period.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expense during the reporting period. Such management estimates include, but are not limited to, the determination of standalone selling prices of the Company’s performance obligations, the estimated period of benefit of deferred contract acquisition costs, the fair value of share-based awards, software development costs, discount rates used for operating leases, goodwill and acquisition-related intangible assets, and the valuation allowance on deferred tax assets and uncertain tax positions. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from those estimates.

Accumulated Other Comprehensive Loss

As of July 31, 2023, accumulated other comprehensive loss was comprised of unrealized losses from available-for-sale investments and unrealized losses related to the effective portion of changes in the fair value of foreign currency forward contracts designated as cash flow hedges.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, acquired intangible assets, and capitalized software development costs subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by the asset to its carrying value. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. For the fiscal years presented, there were no impairment losses recognized for any long-lived assets.

Significant Accounting Policies

Other than the business combinations, goodwill, short-term investments and derivative instruments and hedging policies described below, there have been no changes to the Company's significant accounting policies described in the fiscal 2023 Form 10-K that have had a material impact on these condensed consolidated financial statements and related notes.

Business Combinations

The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations. There has been no such adjustment as of July 31, 2023.

Goodwill

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

As of July 31, 2023, the Company has not had any goodwill impairments.

Short-term Investments

The Company's short-term investments consist of U.S. treasury securities, corporate notes and bonds, U.S. agency obligations, commercial paper, and certificates of deposit. The Company determines the appropriate classification of its short-term investments at the time of purchase and reevaluates such determination at each balance sheet date. The Company has classified and accounted for its short-term investments as available-for-sale securities. The Company may sell these securities at any time for use in its current operations or for other purposes, even prior to maturity. As a result, the Company classifies its short-term investments, including those with maturities beyond twelve months, as current assets in the consolidated balance sheets.

Available-for-sale securities are recorded at fair value each reporting period, and are adjusted for amortization of premiums and accretion of discounts to maturity and such amortization and accretion are included in interest income in the condensed consolidated statements of operations. Realized gains and losses are determined based on the specific identification method and are reported in other income (expense), net in the condensed consolidated statements of operations. Unrealized gains are reported as a separate component of accumulated other comprehensive loss on the condensed consolidated balance sheets until realized.

For available-for-sale securities in an unrealized loss position, the Company first assesses whether it intends to sell the security or it is more likely than not that the Company will be required to sell the security before the recovery of its entire amortized cost basis. If either of these criteria is met, the security's amortized cost basis is written down to fair value through other income (expense), net in the condensed consolidated statements of operations. If neither of these criteria is met, the Company evaluates whether the decline in fair value below amortized cost is due to credit or non-credit related factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and any adverse conditions specifically related to the security, among other factors. Credit related unrealized losses are recognized as an allowance for expected credit losses of available-for-sale debt securities on the condensed consolidated balance sheets with a corresponding charge in other income (expense), net in the condensed consolidated statements of operations. Non-credit related unrealized losses are included in accumulated other comprehensive loss.

As of July 31, 2023, the Company did not identify any credit losses on short-term investments. Realized gains and losses on the sale of short-term investments are determined on a specific identification method and are recorded in other income (expense), net in the consolidated statements of operations. For the three and six months ended, the realized gains or losses on the sale of short-term investments were not material.

Derivative Instruments and Hedging

The Company enters into foreign currency forward contracts with certain financial institutions to mitigate the impact of foreign currency fluctuations on future cash flows and earnings. All of the Company's foreign currency forward contracts are designated as cash flow hedges. The foreign currency forward contracts generally have maturities of 12 months or less.

The Company recognizes all forward contracts as either assets or liabilities on the consolidated balance sheets at fair value. Gains and losses on each forward contract are initially reported as a component of accumulated other comprehensive income (loss) ("AOCI"), and subsequently reclassified into cost of revenue or operating expense in the same period, or periods, during which the hedged transaction affects earnings. The Company evaluates the effectiveness of its cash flow hedges on a quarterly basis and does not exclude any component of the changes in fair value of the derivative instruments for effectiveness testing purposes. The Company classifies cash flows related to its cash flow hedges as operating activities in its consolidated statements of cash flows.

The Company does not have collateral requirements with any of its counterparties. The Company does not use derivative instruments for trading or speculative purposes.

3. Business Combinations

On June 2, 2023 (the "Closing"), the Company acquired all outstanding share capital of BluBracket, Inc. ("BluBracket acquisition"). BluBracket is a Palo Alto-based security startup that has developed a code security solution that identifies, prevents, and resolves potential risks in source code, development environments, and pipelines. The Company expects that BluBracket will enable its customers to have full visibility into their entire secrets inventory, complementing Vault's core secrets management solution. The aggregate purchase price was $25.1 million settled in cash (the "Purchase Price") of which the Company is holding back approximately $4.0 million for 14 months after the Closing and $0.2 million within one year following the Closing to satisfy indemnification obligations of BluBracket (the "Holdback"). The Holdback has been accrued as a long-term liability. The purchase price excludes retention agreements entered into with certain employees of BluBracket, pursuant to which the Company will pay up to an aggregate of $5.0 million in cash (the "Retention Payments"). The vesting and payout of the Retention Payments is subject to continued employment and achievement of certain semi-annual milestones over two years following the Closing. The Retention Payment is recorded as post-combination compensation expense within research and development in the condensed consolidated statements of operations over the requisite service period. During the three and six months ended July 31, 2023, the Company recognized compensation expense of $0.4 million related to the Retention Payment agreements.

The acquisition was accounted for as a business combination. A portion of the Purchase Price was allocated to the fair value of the developed technology and customer relationship acquired, net liabilities assumed and a deferred tax liability related to developed technology, as set forth below. The useful lives for these acquired developed technology and the customer relationship were estimated to be five and three years, respectively. The remainder of the Purchase Price was recorded as goodwill, as set forth below. Goodwill generated from the acquisition was attributable to expected synergies from future growth and was not deductible for tax purposes. See "Note 4. Goodwill and Acquisition-related Intangible Assets, Net" for additional information.

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

	As of July, 31, 2023
Net liabilities	$ (224)
Developed technology	12,500
Customer relationship	1,000
Deferred tax liabilities	(482)
Goodwill	12,265
Total purchase consideration	$ 25,059

The estimated fair value of developed technology and customer relationship acquired of $12.5 million and $1.0 million were determined using a replacement cost approach methodology, which is based on the cost that a market participant would incur to reconstruct a substitute asset of comparable utility and generate the acquired portfolio of customers, respectively. The financial results of BluBracket are included in the Company's consolidated financial statements from the date of acquisition. The business combination did not have a material impact on the consolidated financial statements and therefore historical and pro forma disclosures have not been presented.

The direct transaction costs of the acquisition were accounted for separately from the business combination and expensed as incurred. During the three and six months ended July 31, 2023, the Company incurred $0.5 million in acquisition-related costs which were recorded in general and administrative expense in the condensed consolidated statements of operations.

4. Goodwill and Acquisition-related Intangible Assets, Net

On June 2, 2023, the Company completed the acquisition of BluBracket, Inc. As of the closing of the acquisition, the estimated fair value of the acquired developed technology, customer relationship, and goodwill was $12.5 million, $1.0 million, and $12.3 million, respectively.

Goodwill

Goodwill as of July 31, 2023 was $12.3 million. No goodwill was recorded as of January 31, 2023. During the six months ended July 31, 2023, changes in goodwill consisted of the following (in thousands):

Balance as of January 31, 2023	$ —
BluBracket, Inc. (Note 3)	12,265
Balance as of July 31, 2023	$ 12,265

Acquisition-related Intangible Assets, Net

Acquisition-related intangible assets, net consisted of the following as of July 31, 2023 (in thousands except for useful life):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (in years)
Developed technology	$ 12,500	$ 417	$ 12,083	4.8
Customer relationship	$ 1,000	$ 55	$ 945	2.8

Acquired intangible assets are recorded at cost, net of accumulated amortization, and are amortized on a straight-line basis over their estimated useful lives. Amortization expense of acquired developed technology was included in cost of cloud-hosted services in the condensed consolidated statements of operations and was $0.5 million for the three and six months ended July 31, 2023. Amortization expense of customer relationship was included in sales and marketing in the condensed consolidated statements of operations, and was not significant for the three and six months ended July 31, 2023.

Estimated future amortization expense as of July 31, 2023 is as follows (in thousands):

Year ending January 31,	Amount
2024 (remaining six months)	$ 1,417
2025	2,833
2026	2,833
2027	2,612
2028	2,500
2029 and thereafter	833
Total	$ 13,028

5. Revenue and Performance Obligations

Disaggregation of revenue

The following table presents revenue by category (in thousands, except percentages):

	Three Months Ended July 31,				Six Months Ended July 31,			
	2023		2022		2023		2022	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
License	$ 16,724	12 %	$ 15,338	13 %	$ 31,882	11 %	$ 25,682	12 %
Support	103,997	72	84,257	75	$ 205,910	74	163,465	76
Cloud-hosted services	18,372	13	10,637	9	$ 34,916	12	19,469	9
Total subscription revenue	139,093	97	110,232	97	272,708	97	208,616	97
Professional services and other	4,153	3	3,631	3	8,521	3	6,144	3
Total revenue	$ 143,246	100 %	$ 113,863	100 %	$ 281,229	100 %	$ 214,760	100 %

The following table summarizes the revenue by region based on the billing address of customers who have contracted to use the Company's products and services (in thousands, except percentages):

	Three Months Ended July 31,				Six Months Ended July 31,			
	2023		2022		2023		2022	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
United States	$ 100,057	70 %	$ 83,402	73 %	$ 198,614	71 %	$ 156,192	73 %
Rest of the world	43,189	30	30,461	27	82,615	29	58,568	27
Total	$ 143,246	100 %	$ 113,863	100 %	$ 281,229	100 %	$ 214,760	100 %

No other country, outside of the United States, exceeded 10% of total revenue during the periods presented.

Contract Balances

Changes in deferred revenue and unbilled accounts receivable were as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Balance, beginning of period	$ 276,414	$ 219,928	$ 302,244	$ 223,289
Deferred revenue billings including reclassification to deferred revenue from customer deposits	160,210	121,434	273,256	219,528
Recognition of revenue, net of change in unbilled accounts receivable*	(143,183)	(114,550)	(282,059)	(216,005)
Balance, end of period	$ 293,441	$ 226,812	$ 293,441	$ 226,812
** Reconciliation to revenue reported per consolidated statements of operations:*				
Revenue billed as of the end of the period	$ 143,183	$ 114,550	$ 282,059	$ 216,005
Increase (decrease) in total unbilled accounts receivable	63	(687)	(830)	(1,245)
Revenue reported per consolidated statements of operations	$ 143,246	$ 113,863	$ 281,229	$ 214,760

Unbilled accounts receivable represents revenue recognized on contracts for which billings have not yet been presented to customers because the amounts were earned but not contractually billable as of the balance sheet date. The unbilled accounts receivable balance is due within one year. As of July 31, 2023 and January 31, 2023, unbilled accounts receivable of approximately $4.1 million and $4.9 million, respectively, were included in accounts receivable on the Company’s condensed consolidated balance sheets.

Remaining Performance Obligations (RPOs)

The typical stated customer contract term is one year but can range up to three years. RPOs include both deferred revenue and non-cancelable contracted amounts that will be invoiced and recognized as revenue in future periods. As of July 31, 2023 and January 31, 2023, the Company had $682.5 million and $647.1 million, respectively, of remaining performance obligations, which is comprised of product and services revenue not yet delivered. As of July 31, 2023 and January 31, 2023, the Company expected to recognize approximately 58% and 58%, respectively, of its remaining performance obligations as revenue over the next 12 months and the remainder thereafter.

RPOs exclude customer deposits, which are refundable pre-paid amounts that are expected to be recognized as revenue in future periods. These balances are included in customer deposits in the condensed consolidated balance sheets and are classified as current because contractually customers can cancel these obligations with 30 days written notice. The customer deposit balance is amortized to revenue over the term of the underlying contract as the customer’s right to cancel expires. If no contracts with customers are cancelled, the existing customer deposit balance will be recognized to revenue over the remaining stated term of the underlying contract which may be over the next 12 months or longer as follows (in thousands):

	As of	
	July 31, 2023	January 31, 2023
Within the next 12 months	$ 21,412	$ 22,657
After the next 12 months	4,152	4,042
Total	$ 25,564	$ 26,699

6. Short-term Investments

The following tables summarize the fair values of the Company's short-term investments (in thousands):

	As of July 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. treasury securities	$ 224,375	$ —	$ (566)	$ 223,809
U.S. agency obligations	65,065	—	(144)	64,921
Corporate notes and bonds	64,892	13	(236)	64,669
Commercial paper	47,866	—	—	47,866
Certificates of deposit	12,829	—	—	12,829
Total short-term investments	$ 415,027	$ 13	$ (946)	$ 414,094

The Company does not hold any marketable securities that have been in a continuous unrealized loss position for over 12 months. For short-term investments with an unrealized loss at July 31, 2023, the unrealized losses were not due to credit-related factors, the Company does not intend to sell these short-term investments and it is more likely than not that the Company will hold these short-term investments until maturity or a recovery of the cost basis. Therefore no allowance for expected credit losses was recorded as of July 31, 2023. Realized gains (losses) were not material for the three and six months ended July 31, 2023.

The following table summarizes the contractual maturities of the Company's short-term investments (in thousands):

	As of July 31, 2023	
	Amortized Cost	Fair Value
Due within one year	$ 377,007	$ 376,257
Due after one year through three years	38,020	37,837
Total	$ 415,027	$ 414,094

7. Fair Value Measurements

The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy on a recurring basis and indicates the fair value hierarchy of the valuation inputs used to determine such fair value (in thousands):

	Fair Value Measurement As of July 31, 2023				
	Fair Value Level	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Assets:					
Cash and Cash equivalents:					
Cash		$ 807,068	$ —	$ —	$ 807,068
Money market funds	Level 1	19,157	—	—	19,157
U.S. treasury securities	Level 2	499	—	—	499
Corporate notes and bonds	Level 2	200	—	—	200
Commercial paper	Level 2	3,094	—	—	3,094
Total cash and cash equivalents		$ 830,018	$ —	$ —	$ 830,018
Short-term Investments:					
U.S. treasury securities	Level 2	$ 224,375	$ —	$ (566)	$ 223,809
U.S. agency obligations	Level 2	65,065	—	(144)	64,921
Corporate notes and bonds	Level 2	64,892	13	(236)	64,669
Commercial paper	Level 2	47,866	—	—	47,866
Certificates of deposit	Level 2	12,829	—	—	12,829
Total short-term investments		$ 415,027	$ 13	$ (946)	$ 414,094
Total Assets		$ 1,245,045	$ 13	$ (946)	$ 1,244,112
Liabilities:					
Derivative instruments:					
Foreign currency forward contracts	Level 2	$ —	$ —	$ 95	$ 95
Total derivative instruments		—	—	95	95
Total Liabilities		$ —	$ —	$ 95	$ 95

The following table summarizes the respective fair value and the classification by level within the fair value hierarchy (in thousands):

	Fair Value Measurement As of January 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Money market funds	$ 169,904	$ —	$ —	$ 169,904
Total cash and cash equivalents	169,904	—	—	169,904
Total assets measured at fair value	$ 169,904	$ —	$ —	$ 169,904

The Company classifies its highly liquid money market funds within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its corporate notes and bonds, U.S. treasury securities, U.S. agency obligations, commercial paper, certificate of deposits and foreign currency forward contracts within Level 2 of the fair value hierarchy because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security that may not be actively traded.

As of July 31, 2023, the declines in the market value of the Company's short-term investment portfolio were not driven by credit related factors. During the six months ended July 31, 2023, the Company determined that it does not intend to sell any securities with a decline in market value, and it is more likely than not that the Company will be able to hold these securities until the entire principal has been recovered. Therefore, the Company did not recognize any losses on the short-term investments due to credit related factors. As of July 31, 2023, the total unrealized losses were not material.

There were no transfers between fair value measurement levels during the six months ended July 31, 2023.

8. Derivative Instruments and Hedging

In June 2023, the Company began entering into foreign currency forward contracts to manage its exposure to certain foreign currency exchange risks. The Company's derivative instruments generally have maturities of 12 months or less. The Company does not use derivative instruments for trading or speculative purposes.

As of July 31, 2023, the Company's foreign currency forward contracts had an aggregate notional amount of $7.8 million. The Company does not have collateral requirements with any of its counterparties. The following table summarizes the fair value of the Company's derivative instruments on the condensed consolidated balance sheets (in thousands):

	Balance Sheet Location	Fair Value at July 31, 2023
Derivative Liabilities:		
Foreign currency forward contracts designated as hedging instruments	Accrued expenses and other liabilities	$ 95
Total derivative liabilities		$ 95

The following table presents the activity of foreign currency forward contracts designated as hedging instruments and the impact of these derivatives on AOCI (in thousands):

	Six Months Ended July 31, 2023
Beginning balance	$ —
Net losses recognized in other comprehensive income	(108)
Net losses reclassified from AOCI to earnings	13
Ending balance	$ (95)

As of July 31, 2023, net unrealized loss included in the balance of accumulated other comprehensive loss related to foreign currency forward contracts designated as hedging instruments was $0.1 million, all of which the Company expects to reclassify from accumulated other comprehensive loss into earnings over the next 12 months. The effect of foreign currency forward contracts were immaterial on the condensed consolidated financials for the three and six months ended July 31, 2023.

9. Balance Sheet Components

Other Assets, Non-Current

Other assets, non-current are comprised of the following (in thousands):

	As of	
	July 31, 2023	January 31, 2023
Property and equipment, net	$ 29,784	$ 24,594
Operating lease right-of-use assets	11,086	12,560
Other	1,167	902
Total other assets, non-current	$ 42,037	$ 38,056

Property and Equipment, Net

Property and equipment, net are included in other assets, non-current in the condensed consolidated balance sheets and are comprised of the following (in thousands):

	Estimated Useful life	As of	
		July 31, 2023	January 31, 2023
Furniture and fixtures	5 years	$ 1,329	$ 1,292
Computers, equipment and software	3 years	580	581
Capitalized internal-use software development costs	5 years	33,942	25,817
Leasehold improvements	Shorter of useful life or lease term	5,510	5,138
Construction in progress		54	47
Total property and equipment		41,415	32,875
Less: accumulated depreciation and amortization		(11,631)	(8,281)
Property and equipment, net		$ 29,784	$ 24,594

Total depreciation and amortization expense for property and equipment for the three months ended July 31, 2023 and 2022 was $1.8 million and $1.0 million, respectively. Total depreciation and amortization expense for property and equipment for the six months ended July 31, 2023 and 2022 was $3.4 million and $1.9 million, respectively.

The Company capitalized $4.3 million and $2.8 million in internal-use software development costs for the three months ended July 31, 2023 and 2022, and $8.1 million and $5.3 million for the six months ended July 31, 2023 and 2022, respectively. Amortization expense associated with internal-use software development costs totaled $1.5 million and $0.8 million for three months ended July 31, 2023 and 2022, respectively, and $2.8 million and $1.4 million for the six months ended July 31, 2023 and 2022.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are comprised of the following (in thousands):

	As of	
	July 31, 2023	January 31, 2023
Accrued expenses	$ 3,940	$ 4,222
Operating lease liabilities	3,590	3,380
Sales tax payable	1,771	1,480
Accrued income taxes payable	980	1,081
Hedging liabilities	95	—
Total accrued expenses and other current liabilities	$ 10,376	$ 10,163

Accrued Compensation and Benefits

Accrued compensation and benefits are comprised of the following (in thousands):

	As of	
	July 31, 2023	January 31, 2023
Accrued commissions	$ 13,853	$ 16,932
Accrued vacation	21,969	20,614
Accrued payroll and withholding taxes	7,451	11,574
ESPP employee contributions	3,903	4,247
Accrued bonus	3,570	3,220
Other	2,759	2,041
Total accrued compensation and benefits	$ 53,505	$ 58,628

Deferred Contract Acquisition Costs

The following table summarizes the activity of deferred contract acquisition costs (in thousands):

	Six Months Ended July 31,	
	2023	2022
Beginning balance	$ 124,098	$ 89,331
Capitalization of contract acquisition costs	30,541	39,668
Amortization of deferred contract acquisition costs	(26,390)	(19,980)
Ending balance	$ 128,250	$ 109,019
Deferred contract acquisition costs, current	$ 45,329	$ 36,219
Deferred contract acquisition costs, non-current	82,921	72,800
Total deferred contract acquisition costs	$ 128,250	$ 109,019

There were no impairment losses recognized for deferred contract acquisition costs during the three and six months ended July 31, 2023 and 2022.

Other Liabilities, Non-Current

The following table summarizes the activity of other liabilities, non-current (in thousands):

	As of	
	July 31, 2023	January 31, 2023
Operating lease liabilities, non-current	$ 10,245	$ 12,093
Acquisition holdback, non-current	4,046	—
Accrued commissions, non-current	821	713
Total other liabilities, non-current	$ 15,112	$ 12,806

10. Leases

The Company leases office spaces under noncancelable operating lease agreements, which expire at various dates through 2027. The Company is required to pay property taxes, insurance, and normal maintenance costs for certain of these facilities. Operating lease cost for these leases is recognized on a straight-line basis over the lease term, with variable lease costs recognized in the period incurred. These lease agreements do not contain residual value guarantees or restrictive covenants.

Lease costs

Lease costs were as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Short-term lease costs	$ 184	$ 46	$ 340	$ 145
Operating lease costs	878	878	1,756	1,756
Total lease costs	$ 1,062	$ 924	$ 2,096	$ 1,901

Variable lease cost was not significant for the three and six months ended July 31, 2023 and 2022. There were no other lease components for the periods presented.

Lease term and discount rate information are summarized as follows:

	As of July 31, 2023
Weighted average remaining lease terms (in years)	3.7
Weighted average discount rate	3.8 %

Future lease payments under noncancelable operating leases on an undiscounted cash flow basis as of July 31, 2023 are as follows (in thousands):

Years Ending January 31,	Amount
2024 (remaining six months)	$ 1,994
2025	4,150
2026	3,734
2027	3,737
2028	1,277
Total minimum lease payments	14,892
Less imputed interest	(1,057)
Present value of future minimum lease payments	13,835
Less current lease liabilities	(3,590)
Operating lease liabilities, non-current	$ 10,245

Operating lease liabilities are included in accrued expenses and other current liabilities, and non-current lease liabilities are included in other liabilities, non-current, in the condensed consolidated balance sheets. There were no lease related operating right-of-use asset impairment losses in the three and six months ended July 31, 2023 and 2022.

11. Commitments and Contingencies

Letter of credit

The Company has a total of $1.8 million in letters of credit outstanding as security deposits for the Company’s leased office spaces as of July 31, 2023 and January 31, 2023.

Litigation

From time to time, the Company may become involved in various legal proceedings in the ordinary course of its business and may be subject to third-party infringement claims.

In the normal course of business, the Company may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that the Company's products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the Company's limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim.

Although the results of litigation and claims are inherently unpredictable, the Company believes that there was not a reasonable possibility that the Company had incurred a material loss with respect to such loss contingencies as of July 31, 2023.

12. Common Stock and Stockholders' Equity

Common Stock Reserved for Future Issuance

The Company reserved shares of common stock for future issuance as follows (in thousands):

	As of	
	July 31, 2023	January 31, 2023
Options outstanding	8,424	9,315
Restricted stock units outstanding	14,702	11,588
Remaining shares available for future issuance under the 2021 Equity Incentive Plan ("2021 Plans")	25,490	21,466
2021 Employee Stock Purchase Plan ("ESPP")	4,481	3,008
Total	53,097	45,377

Stock Options

The following table summarizes stock option activity for the 2021 Plan (shares and aggregate intrinsic value in thousands):

	Options Outstanding			
	Number of Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Balance as of January 31, 2023	9,315	$ 1.92	4.6	$ 281,837
Stock options exercised	(879)	1.66		24,920
Stock options cancelled/forfeited/expired	(12)	22.39		
Balance as of July 31, 2023	8,424	1.92	4.2	233,235
Exercisable as of July 31, 2023	8,371	$ 1.84	4.2	$ 232,479

The total grant-date fair value of stock options vested was $0.8 million and $2.8 million during the six months ended July 31, 2023 and 2022.

The total intrinsic value of options exercised during the six months ended July 31, 2023 and 2022 were $24.9 million and $59.5 million, respectively.

Restricted Stock Units

The Company's summary of restricted stock units ("RSUs") activity under the 2021 Plan is as follows (in thousands):

	Number of Awards	Weighted-Average Grant Date Fair Value
Outstanding and unvested at January 31, 2023	11,588	$ 42.48
RSUs granted	6,830	$ 28.93
RSUs released	(2,378)	$ 35.58
RSUs cancelled	(1,338)	$ 38.32
Outstanding and unvested at July 31, 2023	14,702	$ 37.67

The total grant-date fair value of RSUs vested was $84.6 million and $64.9 million during the six months ended July 31, 2023 and 2022.

Employee Stock Purchase Plan

A total of 4,480,939 shares of Class A common stock are available for future issuance under the ESPP as of July 31, 2023. For the six months ended July 31, 2023 and 2022, the Company recognized $6.5 million and $7.3 million of stock-based compensation expense related to the ESPP, respectively. As of July 31, 2023, unrecognized stock-based compensation expense related to the ESPP was approximately $15.9 million, which is expected to be recognized over a weighted-average period of approximately 1.4 years. The Company's current offering period began December 15, 2022 and is expected to end December 15, 2024.

During the six months ended July 31, 2023, employees purchased 426,193 shares of common stock under the ESPP at a purchase price of $23.97 per share, resulting in total cash proceeds of $10.2 million.

ESPP employee payroll contributions accrued as of July 31, 2023 were $3.9 million and are reported within accrued compensation and benefits in the consolidated balance sheets. Payroll contributions accrued as of July 31, 2023 will be used to purchase shares at the end of the current purchase period ending on December 15, 2023. Payroll contributions ultimately used to purchase shares will be reclassified as stockholders' equity on the purchase date.

Stock-Based Compensation Expense

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Cost of support	$ 2,844	$ 2,221	$ 5,100	$ 4,180
Cost of cloud-hosted services	557	686	1,166	1,326
Cost of professional services and other	647	652	1,213	1,380
Sales and marketing	15,483	14,421	27,442	28,814
Research and development	12,942	10,507	24,673	25,245
General and administrative	13,646	13,916	26,688	27,717
Stock-based compensation expense, net of amounts capitalized	$ 46,119	$ 42,403	$ 86,282	$ 88,662
Capitalized stock-based compensation	1,352	906	2,455	1,788
Total stock-based compensation expense	$ 47,471	$ 43,309	$ 88,737	$ 90,450

As of July 31, 2023 and 2022, total unrecognized stock-based compensation expense related to RSUs was approximately $418.4 million and $390.6 million, respectively, which are expected to be recognized over a weighted-average period of approximately 3.1 years and 2.4 years, respectively.

As of July 31, 2023, and 2022, total unrecognized stock-based compensation expense related to unvested stock options was approximately $0.5 million and $2.9 million, respectively, which are expected to be recognized over a weighted-average period of approximately 1.2 years and 1.4 years, respectively.

13. Net Loss Per Share Attributable to Common Stockholders

For periods in which there were Class A and Class B shares outstanding, the rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock were identical, except with respect to voting, converting, and transfer rights. Class B common stock has ten votes per share, and Class A common stock has one vote per share. As the liquidation and dividend rights were identical for Class A and Class B common stock, the undistributed earnings would be allocated on a proportionate basis and the resulting net loss per share would, 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 attributable to common stockholders (in thousands, except per share data):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Numerator:				
Net loss	$ (66,315)	$ (74,764)	$ (119,573)	$ (152,981)
Denominator:				
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders, basic and diluted	192,610	185,212	191,723	184,114
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	$ (0.34)	$ (0.40)	$ (0.62)	$ (0.83)

The following outstanding potentially dilutive shares of common stock were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because the impact of including them would have been antidilutive (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Outstanding stock options and restricted stock units	23,126	22,569	23,126	22,569
Share purchase rights under the ESPP	1,188	1,760	1,182	1,373
Class A and Class B common stock subject to repurchase	—	1	—	1
Total	24,314	24,330	24,309	23,943

14. Reduction In Workforce and Related Charges

On June 7, 2023 the Company announced a workforce reduction plan impacting approximately 8% of the Company's workforce. The workforce reduction plan was intended to increase operational efficiency, decrease costs and increase profitability. As of July 31, 2023, the Company has substantially completed the reduction plan.

During the three and six months ended July 31, 2023, the Company incurred $7.2 million of charges, consisting of $5.9 million of employee severance, $0.4 million in payroll taxes, and $0.9 million in other plan-related charges. These charges were recorded within the condensed consolidated statements of operations, of which, $4.3 million was recorded in sales and marketing, $1.7 million in research and development, $0.7 million in general and administrative and the remaining $0.5 million was recorded in cost of revenue for the three and six months ended July 31, 2023. The $7.2 million of cash charges described above were offset by a $2.1 million benefit in stock-based compensation expense, primarily due to reversal of stock-based compensation for amounts that were not vested under the terms and conditions of the original award. As of July 31, 2023, the reduction in workforce liability accrued but not paid totaled $1.0 million, and is included within accrued compensation and benefits in the condensed consolidated balance sheets. Any remaining charges related to the plan are expected to be immaterial to the consolidated financial statements.

The following table presents the activity of the reduction in workforce liability for the six months ended July 31, 2023 (in thousands):

	Workforce Reduction Liability	
Balance as of January 31, 2023	$	—
Charges, excluding stock-based compensation expense		7,185
Payments		(6,143)
Balance as of July 31, 2023	$	1,042

15. Income Taxes

The Company determines its income tax provision for interim periods using an estimate of its annual effective tax rate adjusted for discrete items occurring during the periods presented. The primary difference between the effective tax rate and the federal statutory rate is related to nonrecognition of tax benefits due to valuation allowance established for US federal and state deferred tax assets. The Company recorded an income tax expense of $0.2 million and income tax expense of $0.4 million for the six months ended July 31, 2023 and 2022, respectively. The tax expense for the six months ended July 31, 2023 included a partial release of valuation allowance, of which $0.5 million tax benefit was directly related to the day one impact from the acquisition of BluBracket, Inc. In connection with the BluBracket acquisition, the Company recorded a net deferred tax liability which provides an additional source of taxable income to support the realization of the pre-existing deferred tax assets and, accordingly, during the six months ended July 31, 2023, the Company released a total of $0.5 million of its U.S. valuation allowance. The Company continues to maintain a valuation allowance for its U.S. Federal and state net deferred tax assets. The tax expense for the six months ended July 31, 2023 was primarily due to foreign and US state income tax expense.

The Company is subject to income tax in the United States, certain states, and various foreign countries. Due to the history of net operating losses, the Company is subject to United States federal, state, and local examinations by tax authorities for all years since incorporation.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties, some of which cannot be predicted or quantified. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “hope,” “intend,” “may,” “might,” “objective,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” or “would” or the negative of these words or other similar terms or expressions. In particular, information appearing under the sections titled “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other portions of this Quarterly Report on Form 10-Q include forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- our future operating and financial performance, ability to generate positive cash flow and ability to achieve and sustain profitability;
- our ability to attract and retain customers to use our products;
- our ability to successfully anticipate and satisfy customer demands, including through the introduction of new features, products or services and the provision of professional services;
- our ability to increase usage of our platform and sell additional products to existing customers;
- future investments in our business, our anticipated capital expenditures, and our estimates regarding our capital requirements;
- the costs and success of our sales and marketing efforts, and our ability to promote our brand;
- the estimated addressable market opportunity for our products and growth rate of those markets;
- our reliance on key personnel and our ability to identify, recruit, and retain skilled personnel;
- our ability to continue to build and maintain credibility with the developer community;
- our ability to form new and expand existing strategic partnerships;
- our ability to maintain the security of our software and adequately address privacy concerns;
- our ability to accurately forecast our sales cycle and make changes to our pricing model;
- our ability to effectively manage our growth, including any international expansion;
- our ability to protect our intellectual property rights and any costs associated therewith;
- the future trading prices of shares of our Class A common stock;
- the effects of health epidemics;
- the effects of disruptions due to heightened risk of cybersecurity attacks, malware, ransomware, hacking, or similar breaches;
- our ability to compete effectively with existing competitors and new market entrants;
- market risks relevant to our operations in the United States and internationally;

- the future of our industry;
- the rate at which significant changes occur in our industry;
- the effects of any existing or future claims or litigation;
- the effects of inflation, including the volatility in the rate of inflation; and
- our ability to comply with modified or new laws and regulations applying to our business.

Actual events or results may differ from those expressed in forward-looking statements. Consequently, you should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, strategy, and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions, and other factors described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a highly competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

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

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q, or to reflect new information, actual results, revised expectations, or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such difference include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included in Part I, Item IA of our Annual Report on Form 10-K filed with the SEC on March 27, 2023 and elsewhere in this Quarterly Report on Form 10-Q. You should carefully review the risks described in our Annual Report filed with the SEC on March 27, 2023, in this Quarterly Report on Form 10-Q, and in other documents we file from time to time with the SEC. You should review the risk factors for a more complete understanding of the risks associated with an investment in our securities. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Our fiscal year end is January 31, and our fiscal quarters end on April 30, July 31, October 31, and January 31. Our fiscal year ended January 31, 2023 is referred to as fiscal 2023, and our fiscal year ending January 31, 2024 is referred to as fiscal 2024.

Overview

Our foundational technologies solve the core infrastructure challenges of cloud adoption by enabling an operating model that unlocks the full potential of modern public and private clouds. Our cloud operating model provides consistent workflows and a standardized approach to automating the critical processes involved in delivering applications in the cloud: infrastructure provisioning, security, networking, and application deployment. With our solutions, companies of all sizes and in all industries can accelerate their time to market, reduce their cost of operations, and improve their security and governance of complex infrastructure deployments.

Organizations today are undergoing a digital transformation across every business function, driven by competition and ever-increasing consumer expectations. Underlying this digital transformation is a re-platforming of static on-premises infrastructure to dynamic and distributed cloud infrastructure. In this dynamic world, existing procedures are too inefficient to scale with distributed, multi-cloud infrastructure. Inconsistent, fragmented technologies and processes are time consuming and resource intensive to manage, exacerbated by inefficient, linear ticket-driven workflows that cannot facilitate scaled, real-time operations. This digital transformation demands a new cloud operating model for enterprise IT requiring automation to provision, secure, connect, and run infrastructure at scale and in real time. At HashiCorp, we build industry-leading products that enable this cloud operating model and accelerate cloud adoption. Our primary commercial products are Terraform, Vault, Consul, and Nomad.

Our products can be adopted individually and are also designed to work together as a stack in order to solve larger, more complex challenges. For instance, deploying Vault and Consul is the basis for a complete Zero Trust security architecture with identity-driven controls, offering a full range of authentication, authorization, and access management for human users or machines, like servers or applications. We continue to innovate and deliver additional emerging products to supplement these core capabilities and provide adjacent solutions.

Our Business Model

Our primary products are based on a combination of our free, source available community products and our proprietary software. We are committed to a model in which we maintain free community offerings while developing proprietary features for paid tiers of our software. These proprietary features include collaboration modules, governance and policy modules, enterprise use cases, and premium support and services. We provide our software under a licensing model that protects our intellectual property, grows our adoption, and supports our business.

We generate revenue primarily from sales of subscriptions to our software. We offer an enterprise-ready, self-managed software offering that can be deployed in our customers' public cloud, private cloud, and on-premises environments. HashiCorp Cloud Platform, or HCP, is our fully-managed cloud platform. These two core offerings can be leveraged independently or together, spanning the various public cloud, private cloud, and on-premises environments in which our customers operate.

For our self-managed offerings, we offer various tiers that provide different levels of access to our proprietary products, modules, and support. Our licenses for self-managed deployments typically have terms of one to three years. We bill for one-year licenses upfront, and we primarily bill for multi-year term licenses annually in advance, with a multi-year payment schedule. The substantial majority of our revenue is recognized ratably over the subscription term. Each product is sold as a base module, with additional optional modules available that address needs like governance and policy, and a tiered pricing system that scales pricing with increased product usage. The unit of value for product usage varies by product, and generally scales with customer cloud adoption as workloads managed by our products move to cloud-based infrastructure.

HCP customers can use our offering on a consumption-based model, or purchase annual subscription contracts. Customers who are on consumption-based contracts are predominantly billed in advance for committed consumption and revenue from them is recognized based on actual consumption of resources. Customers with annual subscriptions are typically billed annually in advance for their subscriptions and we typically recognize revenue from such subscriptions ratably over the subscription term. Our pricing schedule lists the hourly rate when deploying HCP for our various products, and actual usage is metered and calculated on a per-hour basis for increased accuracy.

We sell to organizations of all sizes across a broad range of industries, with a particular focus on enterprises that are managing and moving an increasing number of business-critical processes, applications, and large volumes of data to the cloud. Ultimately, we believe all enterprises will need to transition to the cloud to reduce operational burden, improve scalability and elasticity, and increase agility. We plan to continue to invest in our direct sales force to grow our large enterprise base domestically and internationally.

Our sales and marketing strategy combines the best of customer self-service with our direct sales approach. Our source available model allows developers and individuals focused on operations, IT, and security, or practitioners, to engage with and evaluate our software in a frictionless manner, which we believe has contributed to our software's popularity. This leadership and the wider ecosystem around us, compels practitioners to adopt and implement our software in the enterprise. As organizations recognize the value of our products, our inside and field sales teams can nurture leads and develop direct relationships with key stakeholders across all segments. HCP has accelerated our self-service approach, as practitioners can now quickly deploy and experiment with our paid offering with a fully-managed cloud solution and no minimum commitments.

As adoption grows, our marketing organization is focused on building our brand reputation and awareness, and engages with prospective customers through our user conferences, email marketing, digital advertising, and other public relations activities. This sales and marketing strategy allows us to not only acquire new customers, but also drive increased usage within existing customers.

We operate an adopt, land, expand, and extend motion. Our source available engagement and self-serve cloud motion help us identify and accelerate initial product adoption and use cases in an account. Our enterprise sales teams land these customers with subscription contracts for our software. Our expansion motion focuses on up-selling additional modules and increasing the footprint of usage of a given product, including across multiple buying centers within our customers' organizations. The multiple capabilities of our deep product portfolio allow us to extend by cross-selling additional integrated products to our customers. For example, a company may initially adopt a free community version use case of Terraform. After initial use of the source available product, we frequently land their first paid use of Terraform to add enterprise functionality and support mission-critical cloud workloads. As customers grow their cloud presence to support additional cloud-based workloads, they frequently expand the amount of Terraform they consume. In addition to this increased Terraform usage, customers also frequently extend into additional products such as Vault or Consul. This combination of adopt, land, expand, and extend affords us considerable growth opportunities within our customer base, and we focus our go-to-market strategy on developing and cultivating long-term customer relationships. The increased use of our platform by our customers is evidenced by our high net dollar retention rate. As of July 31, 2023 and 2022, our last four-quarter average net dollar retention rate was 124% and 134%, respectively.

Factors Affecting Our Performance

We believe that the growth and future success of our business depends on a number of key factors. While each of these factors presents significant opportunities for our business, they also pose important challenges that we must successfully address in order to sustain our growth and improve our results of operations.

Adoption of Our Products and Landing New Customers

We believe there is a substantial opportunity to continue to grow our product adoption and our customer base. We intend to drive product adoption through our source available distribution model and by continuing to cultivate our source available community.

We intend to drive paid customer growth through strategic targeted investments in sales and marketing and to increase brand awareness. HCP has also improved our self-service model, and we expect HCP to continue to support our sales model and drive paid adoption. As of July 31, 2023, we served over 4,200 customers spanning organizations of a broad range of sizes and industries, compared to over 3,300 as of July 31, 2022 (subsequent to the issuance of our Form 10-K for the fiscal year ended January 31, 2023, we identified an immaterial error in the calculation of our total customers count related to our self-service, or "pay as you use," customers, which we have corrected accordingly). We also intend to continue to grow our base of large enterprises around the world.

Our ability to attract new customers will depend on a number of factors, including the effectiveness and pricing of our products, development of new products and features, offerings of our competitors, engagement with the developer community, and effectiveness of our marketing and community-building efforts. As of July 31, 2023, 464 of the Forbes Global 2000 were our customers. We believe this demonstrates our products have been adopted by many of the largest enterprises, and that there is a substantial opportunity to further cultivate these large customers.

Expanding and Extending Within Existing Customer Base

Our large base of customers represents a significant opportunity for further sales growth. Our customers often expand the deployment of our products across larger teams and more broadly within the enterprise as they do more with existing use cases and realize new use cases. At the same time, we often see customers extend to multiple products across our wider product portfolio as they realize the potential of integrating more of our products to better solve use cases. We intend to continue to invest in enhancing awareness of our brand and developing more products, features, and functionality, which we believe are important factors in achieving widespread adoption of our offerings. Our ability to increase sales to existing customers will depend on a number of factors, including our customers’ satisfaction with our products, the technical capabilities and security of our products, our customers’ progress on their cloud journey, competition, pricing, and overall changes in our customers’ spending levels.

Historically, we have experienced significant expansion after initial deployment of our products by our customers, with customers expanding usage as well as extending to additional products. We define ARR as the annualized value of all recurring subscription contracts with active entitlements as of the end of the applicable period, and in the case of our monthly, or consumption-based customers the annual value of their last month’s spend. A further indication of the propensity of customer relationships to expand over time is our dollar-based net retention rate, which compares ARR from the same set of customers in one period relative to the prior year period. We define dollar-based net retention rate as the ARR at the end of a period for a base set of customers from which we generated ARR in the year prior to the date of calculation, divided by the ARR one year prior to the date of the calculation for that same set of customers. As of July 31, 2023 and 2022, our last four-quarter average net dollar retention rate was 124% and 134% respectively. We believe this demonstrates the stickiness of our products, and our offerings as a whole.

Increasing Adoption of HashiCorp Cloud Platform

We believe HCP represents a significant growth opportunity for our business. Since launching HCP in fiscal 2021, usage and sales of HCP have grown rapidly and have allowed us to better address the needs of potential customers looking for a fully-managed offering. We believe that as organizations increasingly look for a fully-managed cloud infrastructure platform, they will continue to adopt HCP. We expect HCP to continue to grow and represent an increasing percentage of our total revenue over time. For the three months ended July 31, 2023 and 2022, HCP subscription revenue was $18.4 million and $10.6 million, respectively. For the six months ended July 31, 2023 and 2022, HCP subscription revenue was $34.9 million and $19.5 million.

Accelerating Technology Leadership and Product Expansion

Our success depends on our ability to sustain innovation and technology leadership and maintain our competitive advantage. We have built highly differentiated products that we believe can adapt and evolve with the support of our engineering expertise, our approach to innovation, our developer community, and our ecosystem of partners. HashiCorp is a critical part of the daily operations of practitioners and our free products make HashiCorp frictionless to adopt. We have proven initial success of our modular approach with multiple innovations and product launches, including the launch of HCP in fiscal 2021, launch of Boundary and Waypoint in September 2020, launch of HCP Boundary in June, 2022, launch of HCP Consul in October, 2022, and launch of HCP Vault in June 2023. We see continued adoption from our customers in our new products and innovations and, as of July 31, 2023, 45% of our customers with $100,000 or greater ARR were licensing more than one product.

We intend to continue to invest in building additional products, features, and functionality to expand our products to new use cases. Our future success is dependent on our ability to successfully develop, market, and sell existing and new products to new and existing customers.

Expanding Internationally

We believe there is a significant opportunity to expand usage of our products outside of the United States as enterprises globally look to take advantage of cloud computing and look to adopt a cloud operating model across multiple clouds. For the three months ended July 31, 2023 and 2022, 30% and 27% of our revenue, respectively, was generated by customers outside of the United States. For the six months ended July 31, 2023 and 2022, 29% and 27% of our revenue, respectively, was generated by customers outside of the United States. In addition, we have made and plan to continue to make investments in geographic expansion in Europe, the Middle East, Africa, and the Asia-Pacific region.

Key Business Metrics

We review a number of operating and financial metrics, including the following key metrics, to measure our performance, identify trends, formulate business plans, and make strategic decisions. The calculation of the key metrics discussed below may differ from other similarly titled metrics used by other companies, securities analysts, or investors.

	As of			
	July 31, 2023		January 31, 2023	
	(dollars in millions)			
Total customers		4,217 [3]		3,870 [3]
Total customers with $100,000 or greater ARR		851		798
Subscription revenue from HCP (and its predecessor cloud offerings)	$	34.9 [1]	$	46.9 [1]
GAAP Remaining Performance Obligations (RPOs)	$	682.5	$	647.1
Non-GAAP RPOs[2]	$	708.0 [2]	$	673.8

(1) Represents subscription revenue for the six months ended July 31, 2023 and for the twelve months ended January 31, 2023

(2) Non-GAAP RPOs is a non-GAAP financial measure. For more information regarding our use of this measure and a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP, see the subsection titled "Non-GAAP Remaining Performance Obligations" elsewhere in this section.

(3) Subsequent to the issuance of our Form 10-K for the fiscal year ended January 31, 2023, we identified an immaterial error in the calculation of our total customers count related to our self-service, or "pay as you use," customers, which we have corrected accordingly.

Total Customers

We define total customers as the number of customers we have at the end of each fiscal quarter. We define the number of customers we have at the end of each fiscal quarter as the number of accounts with a unique account identifier for which we have an active contract at the end of the period indicated. Users of our free products are not included in the total customers. A single organization with multiple divisions, segments, or subsidiaries is generally counted as a single customer, however, in some cases we may count separate divisions, segments, or subsidiaries as multiple customers in cases where they have separate billing terms. Our customer count may also fluctuate due to acquisitions, consolidations, spin-offs, and other market activity.

Total Customers with $100,000 or Greater ARR

We define ARR as the annualized value of all recurring subscription contracts with active entitlements as of the end of the applicable period, and in the case of our monthly, or consumption-based customers, the annual value of their last month's spend. Relationships with large enterprise customers lead to scale and operating leverage in our business model, as large enterprise customers present a greater opportunity for us to sell additional usage and modules because they have larger budgets, a wider range of potential use cases, and greater potential for expanding to other products in our offering. As such, we count the number of customers contributing $100,000 or greater ARR as a measure of our ability to scale with our customers and attract large enterprise customers to our product offerings. For each applicable financial reporting period, we calculate revenue from customers with $100,000 or greater ARR by aggregating the quarterly revenue attributable to such customers within such period. Customers with $100,000 or greater ARR represented 89% and 88% of revenue for the three months ended July 31, 2023 and 2022, respectively. Customers with $100,000 or greater ARR represented 89% and 88% of revenue for the six months ended July 31, 2023 and 2022, respectively.

Quarterly Revenue from HCP

We believe that HCP represents an important growth opportunity for our business. As organizations continue their transition to the cloud, many will begin seeking fully-managed platforms and will begin to adopt HCP. We will continue to track the revenue generated by HCP (and its predecessor cloud offerings) as a way of measuring the adoption of our platform.

Non-GAAP Remaining Performance Obligations

Remaining performance obligations ("RPOs"), represent the amount of contracted future revenue that has not yet been recognized, including both deferred revenue and non-cancelable contracted amounts that will be invoiced and recognized as revenue in future periods. RPOs exclude customer deposits, which are refundable amounts that are expected to be recognized as revenue in future periods. As of July 31, 2023 and January 31, 2023, our RPOs were $682.5 million, and $647.1 million, respectively. As of July 31, 2023, we expect to recognize approximately 58% of RPOs as revenue over the next 12 months, and the remainder thereafter. The portion of RPOs that is expected to be recognized as revenue over the next 12 months represents an estimated minimum level of revenue for the applicable period and is not necessarily indicative of future product revenue growth because it does not account for revenue from customer renewals or new customer contracts. Moreover, RPOs are influenced by a number of factors, including the timing of renewals, average contract terms, seasonality, and dollar amounts of customer contracts. Due to these factors, it is important to review RPOs in conjunction with revenue and other financial metrics disclosed elsewhere herein. For a further discussion of RPOs, see Note 5 to our condensed consolidated financial statements included elsewhere in Quarterly Report on Form 10-Q.

We calculate non-GAAP RPOs as RPOs plus customer deposits, which are refundable pre-paid amounts, based on the timing of when these customer deposits are expected to be recognized as revenue in future periods. As of July 31, 2023 and January 31, 2023, non-GAAP RPOs were $708.0 million and $673.8 million, respectively. As of July 31, 2023, we expect to recognize 59% of our non-GAAP RPOs as revenue over the next 12 months, and the remainder thereafter.

We use non-GAAP RPOs in conjunction with RPOs as part of our overall assessment of our performance, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our business and financial performance. Our management believes that presenting non-GAAP RPOs is useful to investors because the portion of non-GAAP RPOs that is expected to be recognized as revenue over the next 12 months represents an estimated minimum level of revenue for the applicable period, including customer deposits that are expected to be recognized as revenue in future periods but are not included in GAAP RPOs. Our definitions of non-GAAP RPOs may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Non-GAAP RPOs should be considered in addition to, not as substitutes for, or in isolation from, RPOs prepared in accordance with GAAP. We compensate for the limitations in the use of non-GAAP RPOs by providing a reconciliation of non-GAAP RPOs to RPOs. We encourage investors and others to review our results of operations and financial information in its entirety, not to rely on any single financial measure, and to view non-GAAP RPOs with RPOs and revenue.

The following table presents a reconciliation of our GAAP RPOs to our non-GAAP RPOs for the periods presented (in thousands):

	As of	
	July 31, 2023	January 31, 2023
GAAP RPOs		
GAAP short-term RPOs	$ 398,915	$ 375,072
GAAP long-term RPOs	283,537	271,992
Total GAAP RPOs	$ 682,452	$ 647,064
Add:		
Customer deposits		
Customer deposits expected to be recognized within the next 12 months	$ 21,412	$ 22,657
Customer deposits expected to be recognized after the next 12 months	4,152	4,042
Total customer deposits	$ 25,564	$ 26,699
Non-GAAP RPOs		
Non-GAAP short-term RPOs	$ 420,327	$ 397,729
Non-GAAP long-term RPOs	287,689	276,034
Total Non-GAAP RPOs	$ 708,016	$ 673,763

Free Cash Flow and Free Cash Flow Margin

Free cash flow is a non-GAAP financial measure that we define as net cash provided by (used in) operating activities less purchases of property and equipment and capitalized internal-use software costs. Free cash flow margin is calculated as free cash flow divided by total revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our core operations that, after the purchases of property and equipment, can be used for strategic initiatives, including investing in our business and selectively pursuing acquisitions and strategic investments. We further believe that historical and future trends in free cash flow and free cash flow margin, even if negative, provide useful information about the amount of net cash provided by (used in) operating activities that is available (or not available) to be used for strategic initiatives. For example, if free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. One limitation of free cash flow and free cash flow margin is that they do not reflect our future contractual commitments. Additionally, free cash flow does not represent the total increase or decrease in our cash balance for a given period.

The following table presents our cash flow for the periods presented and a reconciliation of free cash flow and free cash flow margin to net cash provided by (used in) operating activities, the most directly comparable financial measure calculated in accordance with GAAP (in thousands):

	Six Months Ended July 31,	
	2023	2022
GAAP net cash used in operating activities	$ (29,794)	$ (70,869)
Add: purchases of property and equipment	(417)	(72)
Add: capitalized internal-use software	(5,669)	(3,516)
Free cash flow outflow	$ (35,880)	$ (74,457)
GAAP net cash used in operating activities as a percentage of revenue	(11)%	(33)%
Free cash flow as a % of revenue	(13)%	(35)%

Key Components of Results of Operations

Revenue

We generate revenue primarily from software subscriptions and, to a lesser extent, professional services and other revenue. Our software subscriptions are currently predominantly self-managed by users and customers who deploy it across public, private, and hybrid cloud environments. We also offer the HCP, our fully-managed cloud platform for multiple products.

Subscription revenue. We generate revenue primarily from subscriptions which include licenses of proprietary features, support and maintenance revenue, and cloud-hosted services.

Our contracts for self-managed software consist of term licenses that provide the customer with a right to use the software for a fixed term commencing upon delivery to the customer, bundled with support and maintenance for the term of the license period. Support and maintenance (collectively referred to as Support Revenue in the consolidated statements of operations) are not sold on a stand-alone basis. Our self-managed Subscription Revenue is disaggregated into License Revenue and Support Revenue in the consolidated statement of operations. The Company does not have observable standalone sales to determine the Standalone Selling Price ("SSP"), for its licenses or its support as they are not sold separately. HashiCorp developed a model to estimate relative SSP for each performance obligation using an “expected cost-plus margin” approach. This model uses observable data points to develop the main assumptions including the estimated useful life of the intellectual property and appropriate margins.

Cloud-hosted services are provided on a subscription basis and give customers access to our cloud solutions, which include related customer support.

Subscription revenue on self-managed software includes both upfront revenue recognized when the license is delivered as well as revenue recognized ratably over the contract period for support and maintenance. The substantial majority of our revenue is recognized ratably over the subscription term. Revenue on committed cloud-hosted services is recognized ratably when we satisfy the performance obligation over the contract period, whereas revenue from non-committed, pay-as-you-go cloud-hosted services are recognized when usage occurs.

We generate subscription revenue from contracts with typical durations ranging from one to three years. We typically invoice our customers annually in advance and, to a lesser extent, multi-year in advance. Amounts that have been invoiced and are nonrefundable are recorded in deferred revenue, or they are recorded in revenue if the revenue recognition criteria have been met. Our current and non-current deferred revenue represents contracts that are invoiced annually in advance or multi-year in advance. Customer payments that are contractually refundable are recorded as customer deposits.

Professional services and other revenue. Professional services and other revenue consist of revenue from professional services, training services, which are predominantly sold on a fixed-fee basis and any other services provided to our customers. Revenue for professional services, training services, and other is recognized as these services are delivered. Professional services are services utilized by some of our self-managed customers to accelerate the deployment of our products.

Support and maintenance revenue and cloud-hosted services make up the majority of our revenue and are typically recognized ratably over the terms of our subscription contracts. Therefore, a substantial portion of the revenue that we report in each period is attributable to the recognition of deferred revenue relating to agreements that we entered into during previous periods. Consequently, increases or decreases in new sales or renewals in any one period may not be immediately reflected as revenue for that period. Any downturn in sales, however, may negatively affect our revenue in future periods. Accordingly, the effect of downturns in sales and market acceptance of our products, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods.

Cost of Revenue

Cost of Subscription Revenue. Cost of subscription revenue primarily includes personnel-related costs, such as salaries, bonuses and benefits, and stock-based compensation for employees associated with customer support and maintenance, third-party cloud infrastructure costs, amortization of internal-use software, amortization of acquired developed technology, and allocated overhead. We expect our cost of subscription revenue to increase as our subscription revenue increases.

Cost of Professional Services and other revenue. Cost of professional services and other revenue primarily includes personnel-related costs, such as salaries, bonuses and benefits, and stock-based compensation for employees associated with our professional services, costs of third-party contractors, and allocated overhead. We expect our cost of professional services and other revenue to increase as our professional services and other revenue increases.

Gross Profit and Margin

Gross profit is revenue less cost of revenue.

Gross margin is gross profit expressed as a percentage of revenue. Our gross margin has been, and will continue to be affected by, a number of factors, including the average sales price of our subscriptions and professional services and other, changes in our revenue mix, the timing and extent of our investments in our global customer support personnel, hosting-related costs, and the amortization of internal-use software. We expect our gross margin to fluctuate over time depending on the factors described above. We expect our revenue from cloud-hosted services to increase as a percentage of total revenue, which we expect to lead to an increase in associated hosting and managing costs, which, in turn, would be expected to adversely impact our gross margin.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs, which consist of salaries, bonuses, benefits, stock-based compensation and, with regard to sales and marketing expenses, sales commissions, are the most significant component of our operating expenses. We also incur other non-personnel costs such as software and subscription services and an allocation of our general overhead costs for facilities, IT, and depreciation expenses.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel-related costs, such as salaries, sales commissions that are recognized as expenses over the period of benefit, bonuses, benefits, stock-based compensation, costs related to marketing programs, travel-related costs, software and subscription services, and allocated overhead. Marketing programs consist of advertising, events, corporate communications, brand-building, and developer-community activities. We expect our sales and marketing expenses will increase over time and continue to be our largest operating expense for the foreseeable future as we expand our sales force, increase our marketing efforts, and expand into new markets. While we expect our sales and marketing expenses to decrease as a percentage of revenue over the long term due to business growth, our sales and marketing expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

Research and Development. Research and development expenses consist primarily of personnel-related costs, such as salaries, bonuses, benefits, and stock-based compensation, net of capitalized amounts, contractor and professional services fees, software and subscription services dedicated for use by our research and development organization and allocated overhead. We continue to focus our research and development efforts on the addition of new features and products and enhancing the functionality and ease of use of our existing products. We expect our research and development expenses will continue to increase as our business grows and we continue to invest in our offering. While we expect our research and development expenses to decrease as a percentage of revenue over the long term due to this business growth, our research and development expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

General and Administrative. General and administrative expenses for administrative functions including finance, legal, and human resources, consist primarily of personnel-related costs, such as salaries, bonuses, benefits, and stock-based compensation, as well as software and subscription services, and legal and other professional fees. We incur additional general and administrative expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations, and increased expenses for investor relations and professional services. We expect that our general and administrative expenses will increase as our business grows. However, we expect our general and administrative expenses to decrease as a percentage of revenue over the long term due to this business growth, our general and administrative expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

Interest Income

Interest income consists of interest earned on our cash and cash equivalents and short-term investments, and amortization of premiums and accretion of discounts on short-term investments.

Other income (expense), net

Other income (expense), net, consists primarily of gains and losses from foreign currency transactions, and realized gains and losses on short-term investments.

Provision for Income Taxes

Provision for (benefit from) income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business, as well as state income taxes in the United States. We have recorded deferred tax assets and we provide a full valuation allowance on our U.S., Canada, and United Kingdom deferred tax assets, which includes net operating loss carryforwards and tax credits. We expect to maintain this full valuation allowance on our U.S. deferred tax assets for the foreseeable future as it is more likely than not that some or all of those deferred tax assets may not be realized based on our history of losses.

Results of Operations

The following tables summarize our consolidated statements of operations data for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods (in thousands).

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Revenue:				
License	$ 16,724	$ 15,338	$ 31,882	$ 25,682
Support	103,997	84,257	205,910	163,465
Cloud-hosted services	18,372	10,637	34,916	19,469
Total subscription revenue	139,093	110,232	272,708	208,616
Professional services and other	4,153	3,631	8,521	6,144
Total revenue	143,246	113,863	281,229	214,760
Cost of revenue:				
Cost of license	498	360	1,083	753
Cost of support	16,304	12,272	31,147	23,110
Cost of cloud-hosted services	7,619	5,699	14,647	10,529
Total cost of subscription revenue	24,421	18,331	46,877	34,392
Cost of professional services and other	4,913	3,209	9,245	6,537
Total cost of revenue	29,334	21,540	56,122	40,929
Gross profit	113,912	92,323	225,107	173,831
Operating expenses:				
Sales and marketing	101,134	87,674	191,698	167,926
Research and development	59,962	47,885	114,155	95,060
General and administrative	35,412	35,383	69,660	67,906
Total operating expenses	196,508	170,942	375,513	330,892
Loss from operations	(82,596)	(78,619)	(150,406)	(157,061)
Interest income	16,300	3,926	31,280	4,542
Other income (expense), net	(105)	66	(225)	(40)
Loss before income taxes	(66,401)	(74,627)	(119,351)	(152,559)
Provision (benefit) for income taxes	(86)	137	222	422
Net loss	$ (66,315)	$ (74,764)	$ (119,573)	$ (152,981)

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Cost of revenue:				
Cost of support	$ 2,844	$ 2,221	$ 5,100	$ 4,180
Cost of cloud-hosted services	557	686	1,166	1,326
Total cost of subscription revenue	3,401	2,907	6,266	5,506
Cost of professional services and other	647	652	1,213	1,380
Total cost of revenue	4,048	3,559	7,479	6,886
Sales and marketing	15,483	14,421	27,442	28,814
Research and development	12,942	10,507	24,673	25,245
General and administrative	13,646	13,916	26,688	27,717
Total stock-based compensation expense, net of amounts capitalized	$ 46,119	$ 42,403	$ 86,282	$ 88,662

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2023	2022	2023	2022
Revenue:				
License	12 %	13 %	11 %	12 %
Support	72	75	74	76
Cloud-hosted services	13	9	12	9
Total subscription revenue	97	97	97	97
Professional services	3	3	3	3
Total revenue	100	100	100	100
Cost of revenue:				
Cost of support	12	11	12	11
Cost of cloud-hosted services	5	5	5	5
Total cost of subscription revenue	17	16	17	16
Cost of professional services	3	3	3	3
Total cost of revenue	20	19	20	19
Gross profit	80	81	80	81
Operating expenses:				
Sales and marketing	71	77	68	78
Research and development	42	42	41	44
General and administrative	25	31	25	32
Total operating expenses	138	150	134	154
Loss from operations	(58)	(69)	(54)	(73)
Interest income	12	3	11	2
Other expenses, net	-	-	-	-
Loss before income taxes	(46)	(66)	(43)	(71)
Provision for income taxes	—	—	—	—
Net loss	(46)%	(66)%	(43)%	(71)%

Comparison of Three Months Ended July 31, 2023 and 2022

Revenue

The following table presents revenue by type (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
Revenue:				
License	$ 16,724	$ 15,338	$ 1,386	9 %
Support	103,997	84,257	19,740	23 %
Cloud-hosted services	18,372	10,637	7,735	73 %
Total subscription revenue	139,093	110,232	28,861	26 %
Professional services and other	4,153	3,631	522	14 %
Total revenue	$ 143,246	$ 113,863	$ 29,383	26 %

Subscription revenue increased by $28.9 million, or 26%, for the three months ended July 31, 2023 compared to the same period of the prior year. This increase is attributable to the addition of new customers, which contributed $11.9 million for the three months ended July 31, 2023, as we increased our customer base by 25% from July 31, 2022, to July 31, 2023. The remaining $17.0 million of this increase in revenue is attributable to expanded product adoption among existing customers, as reflected by our average net dollar retention rate of 124% for the trailing four quarters ended July 31, 2023.

Professional services revenue increased by $0.5 million, or 14%, for the three months ended July 31, 2023 compared to the same period of the prior year. The increase is attributable to a $2.0 million increase in revenue due to increased delivery of professional services and the completion of certain professional services projects, which is offset by a $1.5 million decrease related to a revenue recognized from a resale contract commitment for the three months ended July 31, 2022.

Cost of Revenue and Gross Margin

The following tables presents cost of revenue and gross margin (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
Cost of revenue:				
Cost of license	$ 498	$ 360	$ 138	38 %
Cost of support	16,304	12,272	4,032	33 %
Cost of cloud-hosted services	7,619	5,699	1,920	34 %
Total cost of subscription revenue	24,421	18,331	6,090	33 %
Cost of professional services and other	4,913	3,209	1,704	53 %
Total cost of revenue	$ 29,334	$ 21,540	$ 7,794	36 %

	Three Months Ended July 31,	
	2023	2022
Gross margin		
License	97 %	98 %
Support	84 %	85 %
Cloud-hosted services	59 %	46 %
Total subscription margin	82 %	83 %
Professional services and other	(18)%	12 %
Total gross margin	80 %	81 %

Cost of subscription revenue increased by $6.1 million, or 33%, for the three months ended July 31, 2023 compared to the same period of the prior year. The increase in cost of subscription revenue was driven by an increase in employee-related expenses of $4.8 million due to increases in headcount in our customer support organization. These employee-related expenses include a $0.5 million increase related to stock-based compensation expense. The increase in cost of subscription revenue was also attributable to a $0.7 million increase in amortization of internal-use software, a $0.4 million increase in amortization of acquired developed technology.

Cost of professional services increased by $1.7 million, or 53%, for the three months ended July 31, 2023 compared to the same period of the prior year. The increase in cost of professional services was mainly driven by a $1.6 million increase in employee-related expenses due to higher headcount.

Gross margin was 80% and 81% for the three months ended July 31, 2023 and 2022, respectively.

Operating Expenses

Sales and Marketing

The following table presents sales and marketing expenses (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
Sales and marketing	$ 101,134	$ 87,674	13,460	15 %

Sales and marketing expenses increased by $13.5 million, or 15%, for the three months ended July 31, 2023 compared to the same period of the prior year. The increase was primarily driven by a $10.8 million net increase in employee-related costs. The increase in these employee-related costs included a $1.1 million increase in stock-based compensation expense. The increase in employee-related costs also includes a $4.0 million net increase in amortization of deferred contract acquisition costs driven by our increase in revenue, a $1.0 million increase in payroll, and a $4.0 million increase in severance. The remainder of increase was attributable to a $0.8 million increase in professional services and a $1.7 million increase in company events due to more in-person meetings as COVID restrictions lifted.

Research and Development

The following table presents research and development expenses (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
Research and development	$ 59,962	$ 47,885	12,077	25 %

Research and development expenses increased by $12.1 million, or 25% for the three months ended July 31, 2023 compared to the same period of the prior year, as we continued to develop and enhance the functionality of our existing products and release new products. This increase was primarily driven by a $10.4 million net increase in employee-related costs due to a 15% increase in research and development headcount from July 31, 2022 to July 31, 2023. This increase in these employee-related costs includes a $5.6 million increase in payroll, a $2.4 million increase in stock-based compensation expense net of amounts capitalized to internal-use software, and a $1.5 million increase in severance. The remaining increase is attributable to a $2.1 million increase in allocated expense due to increases in headcount, offset by a $0.4 million decrease in software expense.

General and Administrative

The following table presents general and administrative expenses (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
General and administrative	$ 35,412	$ 35,383	29	— %

General and administrative expenses stayed consistent for the three months ended July 31, 2023 compared to the same period of the prior year. Employee-related costs decreased by $0.8 million which includes a $0.3 million decrease in stock-based compensation. The remaining increase includes a $0.2 million increase in office and administrative expense, a $0.3 million increase in IT expenses, and a $0.3 million increase in software expenses.

Interest Income

The following table presents interest income (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
Interest income	$ 16,300	$ 3,926	12,374	315

Interest income increased by $12.4 million, for the three months ended July 31, 2023 compared to the same period of the prior year. The increase was primarily attributable to the interest income earned from cash equivalents and available-for-sale investments, and increases in the yields resulting from the Federal Reserve's interest rate increases.

Other Income (Expense), Net

The following table presents other income (expense), net (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
Other income (expense), net	$ (105)	$ 66	(171)	*

* The fluctuation is not meaningful.

Other income (expense), net, changed by $0.2 million for the three months ended July 31, 2023 compared to the same period of the prior year. The changes were primarily due to changes in foreign currency gains and losses on our cash balances in foreign jurisdictions due to changes in the US dollar against other currencies.

Provision (Benefit) for Income Taxes

The following table presents provision for income taxes (in thousands, except percentages):

	Three Months Ended July 31,		Change	
	2023	2022	$	%
Provision (benefit) for income taxes	$ (86)	$ 137	(223)	(163)%

Provision for income taxes decreased by $0.2 million, or (163)%, for the three months ended July 31, 2023 compared to the same period of the prior year, primarily due to partial release of valuation allowance, of which $0.5 million income tax benefit was directly related to the day one impact from the acquisition of BluBracket Inc. We maintain a full valuation allowance on our U.S. deferred tax assets, and the significant components of the tax expense recorded are current cash tax expenses in various jurisdictions. Current cash tax expenses are impacted by each jurisdiction's individual tax rates, laws on the timing of recognition of income and deductions, and availability of net operating losses and tax credits. Our effective tax rate may fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

Comparison of Six Months Ended July 31, 2023 and 2022

Revenue

The following table presents revenue by type (in thousands, except percentages):

	Six Months Ended July 31,		Change	
	2023	2022	$	%
Revenue:				
License	$ 31,882	$ 25,682	$ 6,200	24 %
Support	205,910	163,465	42,445	26 %
Cloud-hosted services	34,916	19,469	15,447	79 %
Total subscription revenue	272,708	208,616	64,092	31 %
Professional services and other	8,521	6,144	2,377	39 %
Total revenue	$ 281,229	$ 214,760	$ 66,469	31 %

Subscription revenue increased by $64.1 million, or 31%, for the six months ended July 31, 2023 compared to the same period of the prior year. This increase is attributable to the addition of new customers, which contributed $25.1 million for the six months ended July 31, 2023, as we increased our customer base by 25% from July 31, 2022, to July 31, 2023. The remaining $39.0 million of this increase in revenue is attributable to expanded product adoption among existing customers, as reflected by our average net dollar retention rate of 124% for the trailing four quarters ended July 31, 2023.

Professional services revenue increased by $2.4 million, or 39%, for the six months ended July 31, 2023 compared to the same period of the prior year. This was primarily attributable to a $3.9 million increase in professional service revenue due to increased delivery of professional services and the completion of certain professional services projects. The increase is offset by a $1.5 million decrease related to a revenue recognized from a resale contract commitment for the six months ended July 31, 2022.

Cost of Revenue and Gross Margin

The following tables presents cost of revenue and gross margin (in thousands, except percentages):

	Six Months Ended July 31,		Change	
	2023	2022	$	%
Cost of revenue:				
Cost of license	$ 1,083	$ 753	$ 330	44 %
Cost of support	31,147	23,110	8,037	35 %
Cost of cloud-hosted services	14,647	10,529	4,118	39 %
Total cost of subscription revenue	46,877	34,392	12,485	36 %
Cost of professional services and other	9,245	6,537	2,708	41 %
Total cost of revenue	$ 56,122	$ 40,929	$ 15,193	37 %

	Six Months Ended July 31,	
	2023	2022
Gross margin		
License	97 %	97 %
Support	85 %	86 %
Cloud-hosted services	58 %	46 %
Total subscription margin	83 %	84 %
Professional services and other	(8)%	(6)%
Total gross margin	80 %	81 %

Cost of subscription revenue increased by $12.5 million, or 36%, for the six months ended July 31, 2023 compared to the same period of the prior year. The increase in cost of subscription revenue was driven by an increase in employee-related expenses of $10.5 million due to increase in headcount in our customer support organization. These employee-related expenses include a $0.8 million increase related to stock-based compensation expense. The increase in cost of subscription revenue was also attributable to a $0.2 million increase in spending on software and external services, a $1.4 million increase in amortization of internal-use software, and a $0.4 million increase in amortization of acquired developed technology. We launched cloud-hosted versions of our products during fiscal 2020 and 2021.

Cost of professional services increased by $2.7 million, or 41%, for the six months ended July 31, 2023 compared to the same period of the prior year. The increase in cost of professional services was driven by a $2.6 million increase in employee-related expenses due to higher headcount.

Gross margin was 80% and 81% for the six months ended July 31, 2023 and 2022, respectively.

Operating Expenses

Sales and Marketing

The following table presents sales and marketing expenses (in thousands, except percentages):

	Six Months Ended July 31,		Change	
	2023	2022	$	%
Sales and marketing	$ 191,698	$ 167,926	23,772	14 %

Sales and marketing expenses increased by $23.8 million, or 14%, for the six months ended July 31, 2023 compared to the same period of the prior year. The increase was primarily driven by a $18.9 million net increase in employee-related costs. The increase in these employee-related costs include a $6.9 million net increase in amortization of deferred contract acquisition costs driven by our increase in revenue, a $4.4 million increase in severance expense, a $6.9 million increase in payroll expense due to higher headcount before we executed our reduction in workforce, offset by a $0.6 million decrease in PEO payroll. The remaining increase is attributable to a $2.6 million increase in marketing expenses and a $1.1 million increase in travel expenses which was driven primarily by increases in advertising, sponsorships, and external conference costs, a $0.5 million increase in software expenses, a $1.1 million increase in professional services and a $0.4 million increase in company events due to more in-person meetings as COVID restrictions lifted.

Research and Development

The following table presents research and development expenses (in thousands, except percentages):

	Six Months Ended July 31,		Change	
	2023	2022	$	%
Research and development	$ 114,155	$ 95,060	19,095	20 %

Research and development expenses increased by $19.1 million, or 20% for the six months ended July 31, 2023 compared to the same period of the prior year, as we continued to develop and enhance the functionality of our existing products and release new products. This increase was primarily driven by a $16.0 million net increase in employee-related costs. This increase is mainly attributable to a $13.9 million increase in payroll expenses, a $1.4 million increase in benefits which is due to a 15% increase in headcount from July 31, 2022 to July 31, 2023, and a $1.4 million increase in severance expense. The remaining increase is attributable to a $3.7 million increase in allocated expenses, due to increases in headcount, offset by a $0.7 million decrease in software expense.

General and Administrative

The following table presents general and administrative expenses (in thousands, except percentages):

	Six Months Ended July 31,		Change	
	2023	2022	$	%
General and administrative	$ 69,660	$ 67,906	1,754	3 %

General and administrative expenses increased by $1.8 million, or 3%, for the six months ended July 31, 2023 compared to the same period of the prior year. The increase was primarily driven by a $0.5 million net increase in employee-related costs due to increase in general and administrative headcount from July 31, 2022 to July 31, 2023 prior to the reduction in workforce. The remainder of the increase was attributable to a $0.5 million net increase in office and administrative expense due to increased headcount, and a $0.8 million increase in software expense.

Interest Income

The following table presents interest income (in thousands, except percentages):

	Six Months Ended July 31, 2023		Change	
	2023	2022	$	%
Interest income	$ 31,280	$ 4,542	26,738	589

Interest income increased by $26.7 million, or 589% for the six months ended July 31, 2023 compared to the same period of the prior year. The increase was primarily attributable to the interest income earned from cash equivalents and available-for-sale investments, and increases in the yields resulting from the Federal Reserve's interest rate increases.

Other Income (Expense), Net

The following table presents other income (expense), net (in thousands, except percentages):

	Six Months Ended July 31,		Change	
	2023	2022	$	%
Other income (expense), net	$ (225)	$ (40)	(185)	*

* The fluctuation is not meaningful.

Other income (expense), net, increased by $0.2 million for the six months ended July 31, 2023 compared to the same period of the prior year. The changes were primarily due to foreign currency losses on our cash balances in foreign jurisdictions due to movements of the US dollar against other currencies.

Provision for Income Taxes

The following table presents provision for income taxes (in thousands, except percentages):

	Six Months Ended July 31,		Change	
	2023	2022	$	%
Provision for income taxes	$ 222	$ 422	(200)	(47)%

Provision for income taxes decreased by $0.2 million, or (47)%, for the six months ended July 31, 2023 compared to the same period of the prior year. The changes were primarily due to a partial release of valuation allowance, of which $0.5 million tax benefit was directly related to the day one impact from the acquisition of BluBracket, Inc. In connection with the BluBracket acquisition, we recorded a net deferred tax liability which provides an additional source of taxable income to support the realization of the pre-existing deferred tax assets and, accordingly, during the six months ended July 31, 2023, we released a total of $0.5 million of its U.S. valuation allowance. We continue to maintain a full valuation allowance on our U.S. deferred tax assets, and the significant components of the tax expense recorded are current cash tax expenses in various jurisdictions. Current cash tax expenses are impacted by each jurisdiction’s individual tax rates, laws on the timing of recognition of income and deductions, and availability of net operating losses and tax credits. Our effective tax rate may fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

Liquidity and Capital Resources

As of July 31, 2023, we had cash and cash equivalents of $830.0 million. Our cash and cash equivalents primarily consist of cash on hand, highly liquid investments in money market funds, and available-for-sale investments with an original maturity date of three months or less. We have generated significant operating losses from our operations as reflected in our accumulated deficit of $900.0 million as of July 31, 2023. We expect to incur operating losses and may generate negative cash flows from operations for the foreseeable future due to the investments we intend to make as described above, and as a result we may require additional capital resources to execute strategic initiatives to grow our business.

We believe that our existing cash and cash equivalents will be sufficient to fund our operating and capital needs for at least the next 12 months. Our assessment of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties. Our future capital requirements, both near-term and long-term, will depend on many factors, including our growth rate, the timing and extent of spending to support our research and development efforts, the expansion of sales and marketing and international operating activities, the timing of new introductions of solutions or features, and the continuing market acceptance of our services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. 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, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, operating results, and financial condition would be adversely affected.

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

	Six Months Ended July 31,	
	2023	2022
Net cash used in operating activities	$ (29,794)	$ (70,869)
Net cash used in investing activities	$ (437,748)	$ (3,588)
Net cash provided by financing activities	$ 11,426	$ 10,465

Operating Activities

We typically invoice our customers annually in advance and to a lesser extent, multi-years in advance. Therefore, a substantial source of our cash is from such prepayments, which are included on our consolidated balance sheets in deferred revenue and customer deposits. We generally experience seasonality in terms of when we enter into agreements with our customers, particularly in our fourth fiscal quarter due to increased buying patterns of our enterprise customers and in our second fiscal quarter due to the summer vacation slowdown that impacts many of our customers. Given the seasonality in our business as discussed above, the operating cash flow benefit from increased collections from our customers generally occurs in the subsequent one to two quarters after billing. We expect seasonality, timing of billings, and collections from our customers to have a material impact on our cash flow from operating activities from period to period. Our primary uses of cash from operating activities are for personnel-related expenses, software and subscription expenses, sales and marketing expenses, third-party cloud infrastructure costs, professional services expenses, and overhead expenses.

Net cash used in operating activities during the six months ended July 31, 2023 was $29.8 million, which resulted from a net loss of $119.6 million, adjusted for non-cash charges of $87.0 million and net cash inflow of $2.8 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $86.3 million for stock-based compensation expense, $3.9 million for depreciation and amortization expense, and $1.5 million for non-cash operating lease costs, offset by $4.2 million for accretion of discount and amortization of premiums on investments and $0.5 million for deferred income taxes. The net cash inflow from changes in operating assets and liabilities was primarily the result of a $39.9 million decrease in accounts receivable due to lower billings and timing of collections from our customers. The cash inflow was offset by a $4.2 million increase in deferred contract acquisition costs, and a $5.0 million decrease in accounts payable due to timing of payments to our vendors, a $8.8 million decrease in deferred revenue due to higher recognition of revenue, a $11.2 million increase in prepaid expenses and other assets due to more spending in software subscriptions and insurance and the interest receivable from investments, a $5.1 million decrease in accrued compensation and benefits primarily due to payment of accrued payroll taxes and lower accrued sales commissions, a $1.1 million decrease in customer deposits, and a $1.8 million decrease in accrued expenses and other liabilities due to payment of accrued liabilities and franchise tax.

Net cash used in operating activities during the six months ended July 31, 2022 was $70.9 million, which resulted from a net loss of $153.0 million, adjusted for non-cash charges of $92.0 million and net cash inflow of $9.9 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $88.7 million for stock-based compensation expense, $1.9 million for depreciation and amortization expense, and $1.4 million for non-cash operating lease costs. The net cash outflow from changes in operating assets and liabilities was primarily the result of a $19.7 million increase in deferred contract acquisition costs as our sales commission payments increased due to addition of new customers and expansion of our existing customer subscriptions, a $3.0 million decrease in accounts payable due to the payment of costs related to our initial public offering and timing of payments to vendors, a $2.0 million decrease in accrued compensation and benefits primarily due to payment of accrued payroll taxes and accrued sales commissions, and decrease in accrued employee stock participation plan contributions due to the purchase made in June 2022, a $1.2 million increase in prepaid expenses and other assets, a $1.0 million decrease in customer deposits from advance invoicing in accordance with our subscription contracts, and a $1.7 million decrease in accrued expenses and other liabilities. The cash outflow was partially offset by a $15.2 million decrease in accounts receivable due to timing of billings and collections from our customers, and a $3.5 million increase in deferred revenue due to increased billings.

Investing Activities

Net cash used in investing activities during the six months ended July 31, 2023 of $437.7 million was resulted from an increase in purchases of investments, acquired assets from business combination, and capitalized internal-use software for our cloud platform, offset by proceeds from sales and maturities of investments.

Net cash used in investing activities during the six months ended July 31, 2022 of $3.6 million was primarily comprise of $3.5 million capitalized internal-use software for our cloud platform.

Financing Activities

Net cash provided by financing activities of $11.4 million during the six months ended July 31, 2023 was due to $10.2 million proceeds from stocks purchased by employees under the employee stock purchase plan, and $1.5 million proceeds from the exercise of stock options, offset by $0.2 million outflow for payment of tax related to net share settlement.

Net cash provided by financing activities of $10.5 million during the six months ended July 31, 2022 was due to $8.5 million proceeds from stocks purchased by employees under the employee stock purchase plan, and $2.2 million proceeds from the exercise of stock options, offset by $0.2 million outflow for payment of tax related to net share settlement.

Critical Accounting Estimates

Critical accounting estimates are those estimates that are both most important to the portrayal of our net assets and results of operations and require the most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates are developed based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Critical accounting estimates are accounting estimates where the nature of the estimates is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and the impact of the estimates on financial condition or operating performance is material.

There have been no material changes to our critical accounting estimates as compared to the critical accounting estimates described in our Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in our fiscal 2023 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have operations in the United States and internationally, and we are exposed to market risk in the ordinary course of our business. There have been no material changes in our market risk exposures for the six months ended July 31, 2023 as compared to those discussed in our fiscal 2023 Form 10-K.

Interest Rate Risk

Our cash equivalents and short-term investments are subject to market risk, primarily interest rate and credit risk. Our investments are managed by outside professional managers within investment guidelines set by management and approved by the Audit Committee of the Board of Directors. Such guidelines include security type, credit quality, and maturity and are intended to limit market risk by restricting our investments to high quality debt instruments with relatively short-term maturities. Based on our investment positions as of July 31, 2023, we do not believe a hypothetical 10% relative increase or decrease in interest rates would have resulted a material impact to our operating results.

Any losses resulting from such interest rate changes would only be realized if we sold the investments prior to maturity. We do not use derivative financial instruments in our investment portfolio.

Foreign Currency Risk

All of our sales contracts are denominated in U.S. dollars. A portion of our operating expenses are incurred outside of the United States, denominated in foreign currencies, and subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound, Euro, Canadian Dollar, and Australian Dollar. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our consolidated statements of operations. If the U.S. dollar weakened by 10%, our operating expense could increase by approximately 2%.

During the second quarter of fiscal 2024, we implemented a foreign currency risk management program and entered into foreign currency forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses. These foreign currency derivative contracts have a maturity up to 12 months or less and are designated as cash flow hedges to protect our earnings subjected to foreign currency risk. We also use foreign currency forward contracts to mitigate variability in gains and losses generated from the remeasurement of certain monetary assets and liabilities denominated in foreign currencies. We expect that the effect of a hypothetical 10% relative change in foreign exchange rates, after considering our hedging program, would not have a material impact on our financial condition, results of operations, or cash flows for the periods presented. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign exchange rates.

Inflation Risk

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

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 of 1934 (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, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the

Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of July 31, 2023, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was (a) reported within the same periods specified by SEC rules and regulations and (b) communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding any required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are 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

The information called for by this Item is incorporated herein by reference to Part II, Item 8, "Financial Statements and Supplementary Data" of the 2023 Form 10-K and Note 11. Commitments and Contingencies in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

RISK FACTORS

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

Risk Factors Summary

This risk factors summary contains a high-level summary of risks associated with our business. It does not contain all the information that may be important to you, and you should read this risk factors summary together with the more detailed discussion of risks and uncertainties set forth following this summary. A summary of our risks includes, but is not limited to, the following:

- Our business and operations have experienced rapid growth, and if we do not appropriately manage future growth, if any, or are unable to improve our systems and processes, our business, financial condition, results of operations, and prospects will be adversely affected.
- We have a history of net losses and may not be able to achieve or sustain profitability or positive cash flows in the future. If we cannot achieve or sustain profitability or positive cash flows, our business, financial condition, and results of operations may suffer.
- Our limited operating history makes it difficult to evaluate our current business and prospects, and may increase the risk that we will not be successful.
- Our future quarterly results of operations may fluctuate significantly, and our recent results of operations may not be a good indication of our future performance.
- We rely significantly on revenue from subscriptions and, because we recognize a significant portion of the revenue from subscriptions over the term of the relevant subscription period, downturns or upturns in sales are not immediately reflected in full in our results of operations.
- Because of the permissive rights accorded to third parties under our source available licenses, there are limited technological barriers to entry into the markets in which we compete and it is, and may continue to be, relatively easy for competitors, including public cloud operators, to enter our markets and compete with us.
- We expect our revenue mix to vary over time, which could harm our gross margin and operating results.
- If we are unable to increase sales of subscriptions to our products to new customers, sell additional subscriptions to our products to our existing customers, or expand the value of our existing customers' subscriptions to our products, our future revenue and results of operations will be harmed.
- If our existing customers stop using our products and renewing their subscriptions, our business and results of operations could suffer materially.
- Our ability to increase sales of our products is highly dependent on the quality of our customer support, and our failure to offer high-quality support would have an adverse effect on our business, reputation, and results of operations.
- If we do not effectively focus our product development efforts, our business, results of operations, and financial condition could be adversely affected.
- We have limited experience with respect to determining the optimal prices for our products.

- We target enterprise customers, and sales to these customers involve risks that differ from risks associated with sales to smaller entities.
- The length of our sales cycles can be unpredictable, and our sales efforts may require considerable time and expense.
- Our revenue growth depends in part on the success of our strategic relationships with our ecosystem of partners and the continued performance of these partners.
- We may not be capable of meeting the demand for professional services necessary to make our customers successful with our products.
- The estimates of market opportunity and forecasts of market growth included in our public disclosures 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.
- The markets for some of our products are new, unproven, and evolving, and our future success depends on the growth and expansion of these markets and our ability to adapt and respond effectively to evolving markets.
- We face competition that we expect to become more intense over time, and which could adversely affect our business, financial condition, and results of operations.
- Problems with our internal systems, networks, or data, including actual or perceived breaches or failures by us or our partners, could cause our products to be perceived as insecure, underperforming, or unreliable, our reputation to be damaged, and our financial results to be negatively impacted.
- If our self-managed offerings do not meet our customers' performance or support expectations or if we fail to meet service-level availability commitments made to our cloud platform customers, we could face subscription terminations, service-level penalty payments, and a reduction in renewals, which could significantly affect our current and future revenue.
- If we are not able to keep pace with technological and competitive developments or fail to integrate our products with a variety of technologies that are developed by others, our products may become less marketable, less competitive, or obsolete, and our results of operations may be adversely affected.
- Failure of our products to satisfy customer demands or to achieve increased market acceptance could adversely affect our business, results of operations, financial condition, and growth prospects.
- Unfavorable conditions in our industry or the global economy or reductions in spending for products like ours could limit our ability to grow our business and negatively affect our results of operations.
- Uncertainty regarding ongoing hostility between Russia and Ukraine, and the related impact on macroeconomic conditions as a result of such conflict, could adversely impact our business.
- If we are unable to maintain and enhance our brand, especially among practitioners, our business and operating results may be adversely affected.
- We depend on cooperating with public cloud operators. Changes to arrangements with such operators may significantly harm our customer retention, new customer acquisition, and product extension or expansion, or require us to change our business strategies, operations, practices, or advertising activities, which could restrict our ability to maintain our platform through these clouds and would adversely impact our business.
- We rely upon public cloud operators to operate our platform and any disruption of or interference with our use of these operators' services would adversely affect our business, results of operations, and financial condition.
- Interruptions or performance problems associated with our technology and infrastructure, and our reliance on technologies from third parties, may adversely affect our business operations and financial results.

Risks Related to Our Business and Operations

Our business and operations have experienced rapid growth, and if we do not appropriately manage future growth, if any, or are unable to improve our systems and processes, our business, financial condition, results of operations, and prospects will be adversely affected.

We have experienced rapid growth and increased demand for our offerings. Our total revenues for the three months ended July 31, 2023 and 2022 were $143.2 million and $113.9 million, respectively, representing an annual growth rate of 26% from second quarter of fiscal 2023 to fiscal 2024. Our total revenues for the six months ended July 31, 2023 and 2022 were $281.2 million and $214.8 million, respectively, representing an annual growth rate of 31% from second quarter of fiscal 2022 to fiscal 2023.You should not rely on the revenue growth of any prior quarterly or annual period or combined periods as an indication of our future performance. Even if our revenue continues to increase, we expect our revenue growth rate to decline in future periods. We expect to continue growing our headcount in the future. The growth and expansion of our business and products place a continuous significant strain on our management, operational, and financial resources. In addition, as customers use more of our products for an increasing number of use cases, we have had to support more complex commercial relationships. We must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems, our relationships with various partners and other third parties, and our ability to manage headcount and processes in an efficient manner to manage any future growth effectively.

We may not be able to sustain the diversity and pace of improvements to our products or implement systems, processes, and controls in an efficient or timely manner or in a manner that does not negatively affect our results of operations. Our failure to improve our systems, processes, and controls, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to forecast our revenue, expenses, and earnings accurately, or to prevent losses.

In addition, our rapid growth and the complexity of our multi-product business may make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. We have encountered in the past, and may encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, our business would be harmed. Moreover, if the assumptions that we use to plan our business are incorrect or change in reaction to changes in our market or business, or we are unable to maintain consistent revenue or revenue growth, our share price could be volatile, and it may be difficult to achieve and maintain profitability.

We have a history of net losses and may not be able to achieve or sustain profitability or positive cash flows in the future, or as quickly as we expect. If we cannot achieve or sustain profitability or positive cash flows, or are slow to do so, our business, financial condition, and results of operations may suffer.

We incurred a net loss of $66.3 million, and $74.8 million for the three months ended July 31, 2023 and 2022, respectively. We incurred a net loss of $119.6 million, and $153.0 million for the six months ended July 31, 2023 and 2022, respectively. We had an accumulated deficit of $900.0 million as of July 31, 2023 and $780.4 million as of January 31, 2023. We anticipate that our operating expenses will increase in the foreseeable future as we continue to enhance our products, grow our relationships with existing customers, broaden our customer base, expand our sales and marketing activities, expand our operations, hire additional employees, and continue to develop our technology. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently, or at all, to offset these higher expenses. Because the markets for our products are rapidly evolving, it is difficult for us to predict our future results of operations. Revenue growth may slow or revenue may decline for a number of possible reasons, including slowing demand for our products or increasing competition. Any failure to increase our revenue as we grow our business could prevent us from achieving consistent profitability or positive cash flow at all, or in the time frame we expect, which could cause our business, financial condition, and results of operations to suffer.

Our limited operating history makes it difficult to evaluate our current business and prospects, and may increase the risk that we will not be successful.

We were incorporated in Delaware in 2013, but only began commercializing our software in 2016. Consequently, much of our growth has occurred in recent years. Our limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by rapidly growing companies in evolving industries. If we do not address these risks successfully, our business and results of operations will be adversely affected.

Further, we operate in a rapidly evolving market. Any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market. We have a limited history with our products and pricing model and if, in the future, we are forced to change our pricing model or reduce prices for our products, our revenue and results of operations may be harmed.

As the market for our products evolves, or as new competitors enter our markets with new products or services, we may be unable to attract new customers or convert open-source users to paying customers on terms or based on pricing models that we have used historically. 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 provide more products without additional revenue to remain competitive, all of which could harm our results of operations and financial condition.

Our future quarterly results of operations may fluctuate significantly, and our recent results of operations may not be a good indication of our future performance.

Our results of operations, including our revenue, cost of revenue, gross margin, operating expenses, cash flow, and deferred revenue have fluctuated from quarter-to-quarter in the past and may continue to vary significantly in the future so that period-to-period comparisons of our results of operations may not be meaningful. Accordingly, our financial results in any one quarter should not be relied upon as indicative of future performance. Our quarterly financial results may fluctuate 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. Factors that may cause fluctuations in our quarterly financial results include:

- our ability to attract new customers;
- the loss of existing customers;
- fluctuations in customer renewal rates;
- our ability to successfully expand our business in the United States and internationally;
- our ability to foster an ecosystem of developers and users to maintain and expand the use cases of our products;
- our ability to gain new partners and retain existing partners;
- fluctuations in our number of customers, including those with $100,000 or greater in ARR;
- fluctuations in the mix of our revenue, which may impact our gross margins and operating income;
- the amount and timing of operating expenses related to the maintenance and expansion of our business and operations, including investments in sales and marketing, research and development, and general and administrative resources;
- network outages or performance degradation of our products;
- breaches of, or failures relating to, security, privacy, or data protection;
- general economic, industry, and market conditions;
- increases or decreases in the number of elements of our subscriptions or pricing changes upon any renewals of customer agreements;
- changes in our pricing policies or those of our competitors;
- the budgeting cycles and purchasing practices of customers;
- decisions by potential customers to purchase alternative solutions;
- decisions by potential customers to develop in-house solutions as alternatives to our products;

- insolvency or credit difficulties confronting our customers, which could adversely affect their ability to purchase or pay for our products;
- our ability to process all of the orders we receive late in our quarters before the quarters expire;
- our ability to collect timely on invoices or receivables;
- the cost and potential outcomes of future litigation or other disputes;
- future accounting pronouncements or changes in our accounting policies;
- short- and long-term interest rates;
- foreign exchange rate fluctuations;
- our overall effective tax rate, including impacts caused by any reorganization in our corporate tax structure and any new legislation or regulatory developments;
- fluctuations in stock-based compensation expense;
- the timing and success of new products introduced by us or our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers, or partners;
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies; and
- other risk factors described in this Quarterly Report on Form 10-Q.

The impact of one or more of the foregoing or other factors may cause our operating results to vary significantly. Such fluctuations could cause us to fail to meet the expectations of investors.

We rely significantly on revenue from subscriptions and, because we recognize a significant portion of the revenue from subscriptions over the term of the relevant subscription period, downturns or upturns in sales are not immediately reflected in full in our results of operations.

Subscription revenue accounts for the substantial majority of our revenue. We recognize a significant portion of our subscription revenue monthly over the term of the relevant time period. As a result, much of the subscription revenue we report each fiscal quarter is the recognition of deferred revenue from subscription contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscriptions in any one fiscal quarter will not be fully or immediately reflected in revenue in that fiscal quarter and will negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of our subscriptions will not be reflected in full in our results of operations until future periods.

Because of the permissive rights accorded to third parties under our historical open-source and source available licenses, there are limited technological barriers to entry into the markets in which we compete. It is, and may continue to be, relatively easy for competitors, including public cloud operators, to enter our markets and compete with us.

One characteristic of source available software is that the governing license terms generally allow liberal modifications and broad distribution of the code. Historically, we have licensed our free community products under the Mozilla Public License, which allows anyone, subject to compliance with the conditions of the applicable license, to redistribute our software and share certain source code components in modified or unmodified form and use it to build products that compete in our markets. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies, due to the rights granted to licensees of open-source and source-available software. It is possible for competitors and new entrants to develop their own software, including software based on open-source or our products, and for public cloud operators to expand their offerings to compete directly with ours, potentially reducing the demand for our products and putting pricing pressure on our subscriptions. For example, a new or existing competitor may dedicate its developers to building competing offerings based on open-source and source-available software provided by us or third parties, and such offerings may reduce the demand for our offerings. In August 2023, we changed the license for future versions of our free community software to the Business Source License, which is a highly permissive source available license that also includes certain restrictions on using the community products to compete with our commercial offerings. However, that change does not prevent others from building competitive products using the versions that were released before the license change, and it does not restrict all forms of competition. We cannot guarantee we will be able to compete successfully against current and future competitors that use the source available nature of our products to compete against us, or that we will be able to effectively enforce licensing restrictions on the competitive use of our source available community versions, or that competitive pressure or the availability of new software will not result in price reductions, reduced operating margins, or loss of market share, any of which would harm our business, financial condition, results of operations, and cash flows.

We expect our revenue mix to vary over time, which could harm our gross margin and operating results.

We expect our revenue mix to vary over time due to several factors, including the mix of our subscriptions for different products and our professional services and other revenue. For example, while Terraform and Vault are our most established products with commercial offerings at scale and make up the majority of our revenues, generating collectively over 85% of our revenues for each of fiscal 2023 and 2022, we believe that our emerging and community products represent a significant growth opportunity. However, we believe that HCP, our fully managed cloud platform, represents a significant growth opportunity for our business, particularly as an increasing number of our customers look for a fully managed offering. Shifts in our business mix from quarter to quarter could produce substantial variation in the revenue we recognize. Further, our gross margins and operating results could be harmed by changes in revenue composition and costs as we shift further to cloud models, together with numerous other factors, including entry into new markets or growth in lower margin markets; entry into markets with different pricing and cost structures; pricing discounts; and increased price competition. Any one of these factors or the cumulative effects of certain of these factors may result in significant fluctuations in our gross margin and operating results. This variability and unpredictability could result in our failure to meet internal expectations or those of investors for a particular period.

If we are unable to increase sales of subscriptions to our products to new customers, sell additional subscriptions to our products to our existing customers, or expand the value of our existing customers' subscriptions to our products, our future revenue and results of operations will be harmed.

We offer certain features of our products as free community versions of our software with no payment required. Customers purchase subscriptions to our products in order to gain access to additional functionality and support. Our future success depends on our ability to sell our subscriptions to new customers and to extend the deployment of our products with existing customers by selling paid subscriptions to our existing users and expanding the value and number of existing customers' subscriptions. Our ability to sell new subscriptions depends on a number of factors, including the prices of our products, prices offered by our competitors, and the budgets of our customers, as well as their desire and ability to create new features and perform their own support relying on our public source available software products. We also face competition from public cloud operators, who may use our source available software products to provide and support hosted offerings that compete with our own. We rely in large part on our customers to identify new use cases for our products and new products to meet a broader set of their needs in order to expand such deployments and grow our business. If our customers do not recognize the potential of our products, our business would be materially and adversely affected. If our efforts to sell subscriptions to new customers and to expand deployments at existing customers are not successful, our total revenue and revenue growth rate may decline and our business will suffer.

If our existing customers do not continue using our products and renewing their subscriptions, our business and results of operations will suffer.

We expect to derive a significant portion of our revenue from renewals of existing subscriptions for our products. As a result, achieving a high renewal rate of our subscriptions will be critical to our business. Our customers have no contractual obligation to renew their subscriptions after the completion of their subscription term. Terms of our subscriptions typically range from one to three years.

Our customers' usage of our products and renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction with our products and our customer support, our products' ability to integrate with new and changing technologies, the frequency and severity of product outages, our product uptime or latency, the pricing of our products and that of our competitors, and our customers' own budget priorities and fluctuations in spending. Even if our customers renew their subscriptions, they may renew for shorter subscription terms or on other terms that are less economically beneficial to us. We have limited historical data with respect to rates of customer renewals, so we may not accurately predict future renewal trends. If our customers do not renew their subscriptions, or renew on less favorable terms, our revenue may grow slower than expected or decline and our net expansion rate may decline.

Our ability to increase sales of our products is highly dependent on the quality of our customer support, and our failure to offer high-quality support would have an adverse effect on our business, reputation, and results of operations.

Our customers depend on our technical support services to resolve issues relating to our products. If we do not succeed in helping our customers quickly resolve post-deployment issues or provide effective ongoing support and education on our products, our existing customers may not renew their subscriptions, our ability to sell additional subscriptions to existing customers or expand the value of existing customers' subscriptions would be adversely affected, and our reputation with potential customers could be damaged. Many larger enterprise and government entity customers have more complex IT environments and require higher levels of support than smaller customers. If we fail to meet the requirements of these enterprise customers, it may be more difficult to retain them or expand our relationship with them.

Additionally, it can take several months to recruit, hire, and train qualified technical support employees. We may not be able to hire such resources fast enough to keep up with demand, particularly if the sales of our products exceed our internal forecasts. To the extent we are unsuccessful in hiring, training, and retaining adequate support resources, our ability to provide adequate and timely support to our customers, and our customers' satisfaction with our products, will be adversely affected. Our failure to provide and maintain high-quality support services would have an adverse effect on our business, financial condition, and results of operations.

If we do not effectively focus our product development efforts, our business, results of operations, and financial condition could be adversely affected.

We are a multi-product company. Our primary commercial products are Terraform, Vault, Consul, and Nomad, and our significant investments in research and development have resulted in a strong product pipeline. Our ability to attract new customers and increase revenue from existing customers depends in part on our ability to enhance and improve our existing products, increase adoption and usage of our products, and introduce new products. The success of any enhancements or new products depends on several factors, including timely completion, adequate quality testing, actual performance quality, market-accepted pricing levels, and overall market acceptance. Continuously enhancing our multiple products and advancing our new product pipeline may overextend our workforce and negatively affect product quality and development schedules. Enhancements and new products that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects, may require reworking features and capabilities, may have interoperability difficulties with our platform or other products, or may not achieve the broad market acceptance necessary to generate significant revenue. Some new products we develop may fail commercially, and we may prioritize the development of products that do not become commercially successful over products which may have had a better chance of attaining commercial success. Workforce productivity spent on unsuccessful product development efforts may not be recovered. Furthermore, our ability to increase usage of our products depends, in part, on the development of new use cases for our products, which is typically driven by our developer community and may be outside of our control. In addition, adoption of new products or enhancements may put additional strain on our customer support team, which could shift the team's resources away from supporting our current products or require us to make additional expenditures related to further hiring and training. If we are unable to timely and successfully enhance our existing products to meet evolving customer requirements, increase adoption and usage of our products, develop new products, or if our efforts do not render the outcomes we expect, then our business, results of operations, and financial condition will be adversely affected.

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

We charge our customers subscription fees for use of our products. We expect that we may need to change our pricing from time to time. For example, we may need to adjust our fees based on customer usage of our products or resistance to our pricing models. In the past, we have sometimes reduced our prices either for individual customers in connection with long-term agreements or for a particular product. We may also face increasing costs which we may be unable or unwilling to pass through to our customers given pricing pressure, which could adversely impact our business, results of operations, and financial condition.

Further, as competitors introduce new products or services that compete with ours or reduce their prices, we may be unable to attract new customers or retain existing customers based on our historical pricing. As we expand internationally, we also must determine the appropriate price to enable us to compete effectively in different locations. Moreover, enterprises, which are a primary focus for our direct sales efforts, may demand substantial price concessions. In addition, if the mix of our product sold changes, then we may need to, or choose to, revise our pricing. As a result, in the future we may be required or choose to reduce our prices or change our pricing models, which could materially harm our business, results of operations, and financial condition.

We target enterprise customers, and sales to these customers involve risks that differ from risks associated with sales to smaller entities.

We generally target large enterprise customers. Sales to large enterprise customers carry risks that may not be present or exceed those associated with smaller entities, such as longer sales cycles, more complex customer requirements and contract negotiations, substantial upfront sales costs, and less predictability in completing sales. For example, enterprise customers may require considerable time to evaluate and test our solutions and those of our competitors before making a purchase decision and placing an order. Multiple factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our solutions, economic pressure or uncertainty that prompts customers to seek cost savings on software purchases, the discretionary nature of purchasing and budget cycles, and the competitive nature of evaluation and purchasing approval processes. As a result, the length of our sales cycle, from identification of the opportunity to deal closure, may vary significantly from customer to customer, with sales to large enterprises typically taking longer to complete. Moreover, large enterprise customers often begin to deploy our products on a limited basis, but nevertheless demand integration services and pricing negotiations, with no guarantee they will deploy our products widely across their organization.

The length of our sales cycles can be unpredictable, and our sales efforts may require considerable time and expense.

Our results of operations may fluctuate, in part, because of the length and variability of the sales cycle of our subscriptions to our products and the difficulty in making short-term adjustments to our operating expenses. Our results of operations depend in part on sales to large subscription customers and increasing sales to existing customers. The length of our sales cycle, from initial contact with our sales team to contractually committing to our subscriptions can vary substantially from customer to customer based on deal complexity. It is difficult to predict exactly when, or even if, we will make a sale to a potential customer or if we can increase sales to an existing customer. As a result, large individual sales have, in some cases, occurred in later quarters than we expected, or have not occurred at all. The loss or delay of one or more large transactions in a quarter could affect our cash flows and results of operations for that quarter and for future quarters. Customers often view a subscription to our products as a strategic decision and significant investment and, as a result, frequently require considerable time to evaluate, test, and qualify our products before purchasing 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. Because a substantial proportion of our expenses are relatively fixed in the short term, our results of operations will suffer if revenue falls below our expectations in a particular quarter.

Our revenue growth depends in part on the success of our strategic relationships with our ecosystem of partners and the continued performance of these partners.

We maintain partnership relationships with a variety of partners, including public cloud providers, systems integrators, independent software vendors, channel partners, referral partners, and technology partners to jointly deliver offerings to our end customers and complement our broad community of users. Our partner agreements are generally non-exclusive, meaning our partners may offer customers the offerings of several different companies, including offerings that compete with ours, or may themselves be or become competitors. If our partners do not effectively market and sell our offerings, choose to use greater efforts to market and sell their own offerings or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our offerings may be harmed. Our partners may cease marketing our offerings 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 results of operations. Likewise, because the success of our products depends on integrations with partners' technologies, if partners decide to no longer implement or support such integrations, or if they partner with our competitors and devote greater resources to implement and support the products of competitors, our business may be harmed.

We may not be capable of meeting the demand for professional services necessary to make our customers successful with our products.

Our customers often lack the expertise or resources to implement our products without assistance from our professional services team or those of our partners. This lack of skills and resources poses a severe risk of customers purchasing our products but not deploying them successfully, or in some cases, not deploying them at all. This constraint may even prevent potential customers from moving forward with a purchase. Consequently, our ability to acquire and retain customers depends heavily on our ability to offer effective professional services to customers, and our effectiveness in cultivating a sufficient network of partners to provide high quality professional services for our products. At times we have had trouble meeting customer demand for professional services. If we are unable to build and maintain enough professional services capacity to meet customer demand, either directly or through our partners, we will be at risk of increased customer attrition, slowing sales, and reputational damage from failed implementations, all of which could materially damage our business and our financial results.

Our estimates of market opportunity and forecasts of market growth included in our public disclosures may prove 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 our public disclosure, including those we have generated ourselves, and those provided by third parties, such as the 650 Group, Gartner, or IDC, are subject to significant uncertainty and are based on assumptions and estimates that may prove inaccurate, including the risks described herein. Even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that estimates of addressable users or companies covered by our market opportunity will correspond to actual sales of our products or revenue. For example, negative conditions in the general economy both in the United States and abroad, including conditions resulting from uncertain interest rates, inflation, and geopolitical tensions, could diminish growth expectations in the U.S. economy and our market opportunity estimates. Any expansion in our market depends on multiple factors, including the cost, performance, and perceived value associated with our products and the products provided by our competitors. Even if the market in which we compete meets the size estimates and growth forecasts included in our public disclosures, our business could fail to grow at similar rates, if at all. Our growth is subject to many variables, including our success in implementing our business strategy, which carries many assumptions, risks and uncertainties. Accordingly, forecasts of market growth included in our public disclosures may not be indicative of our future growth.

The markets for some of our products are new, unproven, and evolving, and our future success depends on the growth and expansion of these markets and our ability to adapt and respond effectively to them.

The markets for certain of our products are relatively new, rapidly evolving, and unproven. Accordingly, it is difficult to predict customer demand, adoption and renewals for these products, the size, growth rate, expansion, and longevity of these markets, the entry of competitive products, or the success of existing competitive products. Our ability to penetrate new and evolving markets depends on a number of factors, including the cost, performance, and perceived value associated with our products. If these markets do not continue to grow as expected, or if we are unable to anticipate or react to changes in these markets, our competitive position would weaken, which would adversely affect our business and results of operations.

We face competition that we expect to intensify over time, which could adversely affect our business, financial condition, and results of operations.

The market for our products is developing and our competition is expected to increase over time. Our business is impacted by rapid changes in technology, customer needs, frequent introductions of new offerings, and improvements to existing offerings, all of which may increase the competitive pressures that we face. We provide offerings to address the needs of a wide variety of prospective customers that compete with other approaches and solutions. For example, internal IT teams sometimes attempt to “do it themselves” using source available software. While individuals and small teams can sometimes use our community products to solve their technical problems, larger enterprises face more complex needs that require our commercial products. For select companies adopting a single-cloud solution, we compete with the well-established public cloud providers such as Amazon Web Services, or AWS, and their in-house offerings. We also compete with similar in-house offerings from Microsoft Azure, Google Cloud Platform, and other cloud providers; legacy providers with point products such as CyberArk, VMware, and IBM; and alternative open-source projects, such as Google Istio.

As the market for our products develops, the principal competitive factors in our market may include: product capabilities, including flexibility, scalability, performance, and security; ease of use; breadth of use cases; ability to integrate with existing IT infrastructure, cloud platforms, and on-premises environments; offering consistency across clouds; ability to implement multi-cloud provisioning, security, networking, and application deployment; speed of implementation and time to achieving value; ability to scale up and down dynamically on demand; robustness of professional services and customer support; price and total cost of ownership; adherence to certifications; size of customer base and level of user adoption; strength of sales and marketing efforts; offering an ecosystem of vendors integrated with the products; creating new products and expanding the existing platform; ability to innovate around a cloud-delivered architecture; brand awareness, recognition, and reputation, particularly within the developer community; and ability to engage the community of users and partners. If we fail to innovate and improve our products and professional services to address these factors, we may become vulnerable to increased competition and therefore fail to attract new customers or lose or fail to renew existing customers, which would harm our business and results of operations.

Some of our actual and potential competitors, especially more established companies, may expand their offerings to compete with ours. These companies may have advantages over us, such as longer operating histories, more established relationships with current and 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. In addition, our business model largely assumes our customers are committed to a multi-cloud strategy and will not bundle their cloud services with a single provider. However, if this assumption inaccurately reflects the decisions of our customers, our business will suffer. Some of our larger potential competitors and other cloud providers have substantially greater resources than we do and therefore may afford to bundle competitively priced related products and services, which may allow them to leverage existing commercial relationships, incorporate functionality into existing products, sell products with which we compete at zero or negative margins, offer fee waivers and reductions or other economic and non-economic concessions, maintain closed technology platforms, or render our products unable to interoperate with such platforms. Our actual or potential customers may prefer to bundle their cloud services with one of our potential competitors even if such competitors' individual products have more limited functionality compared to our software. These larger potential 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. Our potential competitors may also be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. In addition, some potential 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. With the introduction of new technologies and new market entrants, we expect competition to grow in the future.

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 these reasons, we may not be able to compete successfully against our current or potential competitors.

Problems with our internal systems, networks, or data, including actual or perceived breaches or failures by us or our partners, could cause our products to be perceived as insecure, underperforming, or unreliable, which would damage our reputation, and our financial results.

Our offerings involve the transmission and processing of data, which can include personal information and highly sensitive, proprietary, and confidential information we receive from our customers, our employees, and third parties. In addition to threats from traditional attackers and insider threats, we also face security threats from malicious third parties, including individual hackers, sophisticated criminal groups, nation states, and state-sponsored organizations, that could disrupt or interrupt, or introduce ransomware, viruses, or other malicious code into our products, services, systems, or networks, obtain unauthorized access to our internal systems, networks, and data, as well as systems of organizations using our cloud products and services, and the information they store and process. Users and organizations using our services may also disclose or leak their passwords, API keys, or secrets that could lead to unauthorized access to their accounts and data within our products. Such incidents have become more prevalent in our industry, particularly against cloud services, and may in the future result in unauthorized, unlawful, or inappropriate access to, inability to access, disclosure of, or loss or other unauthorized processing of the sensitive, proprietary, and confidential information that we own, process, or control, such as customer information and proprietary data and information, including source code and trade secrets. It is virtually impossible for us to entirely mitigate the risk of these security threats. While we have implemented security measures internally and have integrated security measures into our products, these measures may not function as expected and may not detect or prevent all unauthorized activity, prevent all security breaches and incidents, mitigate all security breaches or incidents, or protect against all attacks or incidents. Moreover, our products incorporate a variety of third-party components (including source available software components) which may expose us to additional security threats, and vulnerabilities in those components may be difficult or impossible to detect, control, and manage. We may also experience security breaches and other incidents that may remain undetected for an extended period and, therefore, may have a greater impact on our products, the networks and systems used in our business, and the proprietary and other confidential data contained on such networks and systems. We expect to incur significant costs in our efforts to detect and prevent security breaches and other security-related incidents, and we may face increased costs in the event of an actual or perceived security breach or other security-related incident. These cybersecurity risks pose a particularly significant risk to a business like ours that is focused on providing highly secure products to customers. Additionally, as a remote-first company, much of our workforce functions in a remote work environment that requires remote access to our corporate network, which in turn imposes additional risks to our business, including increased risk of industrial espionage, theft of assets, phishing, and other cybersecurity attacks, and inadvertent or unauthorized access to or dissemination of sensitive, proprietary, or confidential information.

We also engage third-party vendors and service providers to store and otherwise process some of our and our customers' data, including sensitive and personal information. Our vendors and service providers may also be the targets of cyberattacks, malicious software, phishing schemes, fraud, and may face other cybersecurity threats and may suffer cybersecurity breaches and incidents from these and other causes. For example, in January 2023, one of our vendors, CircleCI, was compromised by an unauthorized third party, exposing certain environment variables, tokens and encryption keys of their customers including HashiCorp, causing the vendor to have to rotate all customers' GitHub OAuth tokens.
Our ability to monitor these parties' data security is limited. There can be no assurance that any security measures that we or our third-party service providers, including third-party providers of cloud infrastructure services, have implemented will be effective against current or future security threats, and we cannot guarantee that our systems and networks or those of our third-party service providers have not been breached or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our products. While we maintain measures designed to protect the integrity, confidentiality, and security of our data and other data we maintain or otherwise process, our security measures or those of our third-party service providers could fail and result in unauthorized access to or disclosure, unavailability, modification, misuse, loss, destruction, or other processing of such data. Due to political uncertainty and military actions associated with the ongoing hostility between Russia and Ukraine, we and our vendors, contractors, and other third parties we work with are vulnerable to a heightened risk of cybersecurity attacks, phishing attacks, viruses, malware, ransomware, hacking, or similar breaches and incidents from nation-state and affiliated actors, including attacks that could materially disrupt our supply chain and our systems, operations, and platform. Unauthorized access to, other security breaches of, or security incidents affecting, systems, networks, and data of our vendors, contractors, or those with which we have strategic relationships, even if not resulting in an actual or perceived breach of our customers' networks, systems, or data, could result in the loss, compromise, unavailability, corruption, or other unauthorized processing of data, loss of business, reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, significant costs for remediation, and other liabilities.

In addition, our products may experience errors, failures, vulnerabilities, or bugs that cause our products not to perform as intended. Any such errors, failures, vulnerabilities, or bugs may not be found until after they are deployed to our customers and may create the perception that our platform and products are insecure, underperforming, or unreliable. We also provide frequent updates and fundamental enhancements to our platform and products, which increase the possibility of errors. Our quality assurance procedures and efforts to report, track, and monitor issues with our products may not be sufficient to ensure we detect any such defects in a timely manner. There can be no assurance that our software code is or will remain free from actual or perceived errors, failures, vulnerabilities, or bugs.

Many of our customers may use our software for controlling their infrastructure and processing, transmitting, and protecting their sensitive and proprietary information, including business strategies, financial and operational data, personal or identifying information, and other related data. Our Vault product is specifically designed to assist our customers with management of their private and sensitive information. Actual or perceived breaches or other security incidents from actual or perceived errors, failures, vulnerabilities, or bugs in our products or other causes could lead to claims and litigation, indemnity obligations, regulatory audits, proceedings, investigations and significant legal fees, significant costs for remediation, the expenditure of significant financial resources in efforts to analyze, correct, eliminate, remediate, or work around errors or defects, to address and eliminate vulnerabilities, and to address any applicable legal or contractual obligations relating to any actual or perceived security breach or incident. They could damage our relationships with our existing customers and have a negative impact on our ability to attract and retain new customers. Because our business is focused in part on providing security to our customers with Vault and our other products, we believe that such products could be targets for hackers and others, and that an actual or perceived breach of, or security incident affecting, our security products and customers, could be particularly detrimental to our reputation, customer confidence in our security products, and our business. The potential for an attack is compounded now that our Vault product is offered as a cloud service. Additionally, our products are designed to operate with little or no downtime. If a breach or security incident were to impact the availability of our products, our business, results of operations, and financial condition, as well as our reputation, could be adversely affected.

While we have taken steps designed to protect the confidentiality, integrity, and availability of our systems and the sensitive, proprietary, and confidential information that we own, process, or control, our security measures or those of third parties who we work with have been, and could from time to time in the future be, breached or otherwise not effective against security threats or preventing inadvertent or unauthorized access to or dissemination of sensitive, proprietary, or confidential information.

These risks are likely to increase as we continue to grow and process, control, store, and transmit increasing amounts of data.

If our self-managed offerings do not meet our customers' performance or support expectations or if we fail to meet service-level availability commitments made to our cloud platform customers, we could face subscription terminations and a reduction in renewals, which could significantly affect our current and future revenue.

If we fail to meet the performance or support expectations that our self-managed customers have for our products, or the service-level availability commitments made to our cloud platform customers, then we may not retain our customers or renew them expected rates. With respect to service-level availability commitments, we may be obligated to pay monetary penalties to the impacted cloud customers. Additionally, we may be contractually obligated to provide cloud customers with additional capacity and reputationally obligated to provide self-managed customers with additional support, each of which could significantly affect our revenue.

Our reliance on public cloud providers may impact our ability to meet service-level targets or performance targets, as any interruption in all or any portion of the public cloud could result in negative impacts to the service we are able to provide. In some cases, we may not have a contractual right with our public cloud providers that compensates us for any losses due to interruptions.

Further, the failure to meet our service-level commitments or performance targets on a chronic basis could result in damage to our reputation and we could face loss of revenue from reduced subscription levels from existing and prospective customers. Any service-level or performance failures could adversely affect our business, financial condition, and results of operations and, if made public, could harm our brand.

If we are not able to keep pace with technological and competitive developments or fail to integrate our products with a variety of technologies that are developed by others, our products may become less marketable, less competitive, or obsolete, and our results of operations may be adversely affected.

The success of our new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product releases, the effective management of development and other spending in connection with anticipated demand for new products, and the availability of newly developed products. As with many software companies, we have in the past experienced bugs, errors, or other defects or deficiencies in new products and product updates and delays in releasing new products, deployment options, and product enhancements and may have similar experiences in the future. As a result, some of our customers may either defer purchasing our products until we release new enhancements or switch to a competitor if we are not able to keep up with technological developments. If we are unable to successfully enhance our existing products to meet evolving customer requirements, increase adoption and use cases of our products, develop new products, quickly resolve security vulnerabilities, or if our efforts to increase the use cases of our products are more expensive than we expect, then our business, results of operations, and financial condition would be adversely affected.

In addition, our success depends on our ability to integrate our products with a variety of third-party technologies across any public or private platform or on-premises technology. Our technology partnership ecosystem powers significant extensibility of our products and offers our customers the ability to use external tools of their choice with our products and to deploy our products in their preferred environments and successfully support new package technologies as they arise. Further, our products must be compatible with the major cloud service providers in order to support local hosting of our products in geographies chosen by our customers. We also benefit from access to public and private vulnerability databases.

Changes in our relationship with any provider, the instability or vulnerability of any third-party technology, or the inability of our products to successfully integrate with third-party technology may adversely affect our business and results of operations. Any losses or shifts in the market position of these providers in general, in relation to one another or to new competitors or new technologies, could lead to losses in our relationships or customers, or to our need to identify and develop integrations with new third-party technologies. Such changes could consume substantial resources and may not be effective. Further, any expansion into new geographies may require us to integrate our products with new third-party technology and invest in developing new relationships with providers. If we are unable to respond to changes in a cost-effective manner, our products may become less marketable, less competitive, or obsolete and our results of operations may be negatively impacted.

Failure of our products to satisfy customer demands or to achieve increased market acceptance 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 products. As a result, market acceptance of our products is critical to our continued success. Demand for our products is affected by numerous factors beyond our control, including continued market acceptance, the timing of development and release of new products by our competitors, technological change, any developments or disagreements with the developer community, and growth or contraction in our market or the overall economy. We expect the growth and proliferation of data to lead to an increase in the data analyses demands of our customers and we may not be able to scale and perform to meet those demands or may not be chosen by users for those needs. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our products, our business operations, financial results, and growth prospects will be materially and adversely affected.

Unfavorable conditions in our industry or the global economy or reductions in spending for products like ours 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. 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, uncertain interest rates, inflationary pressures, interest rate increases, recessionary economic cycles, 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 by our customers and potential customers, including spending on information technology, and negatively affect the growth of our business. For example, rising interest rates and high levels of inflation have begun to affect businesses across many industries, which may significantly constrain the budgets of our customers and prospective customers. To the extent our offerings are perceived by customers and potential customers as discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, customers may choose to develop in-house software as an alternative to using our products. Moreover, competitors may respond to market conditions by lowering prices. 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 do not improve, or worsen from present levels, our business, results of operations, and financial condition could be adversely affected.

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

We believe that developing and maintaining widespread awareness of our brand, especially with practitioners, is critical to achieving widespread acceptance of our products and attracting new users and customers. Brand promotion activities may not generate user or 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. Expenditures intended to maintain and enhance our brand may not be cost-effective or effective at all. Changes to our business practices may cause our brand to be viewed negatively by the practitioner community. For example, in August 2023, we announced that we changed our source code license to Business Source License v1.1 on all future releases of our core products, which may be viewed less favorably by practitioners. If we do not successfully maintain and enhance our brand, we may have reduced pricing power relative to our competitors, we could lose customers, or we could fail to attract potential new customers or expand sales to our existing customers, all of which could materially and adversely affect our business, results of operations, and financial condition.

Our international operations expose us to significant risks, and failure to manage those risks could materially and adversely impact our business.

Our customers and employees are located worldwide, and our strategy is to continue to expand internationally. Our future results of operations depend, in part, on our ability to sustain and expand our penetration of the international markets in which we currently operate and to expand into additional international markets. We generated 30% and 27% of our revenue outside of the United States for the three months ended July 31, 2023, and 2022, respectively. We generated 29 and 27% of our revenue outside of the United States for the six months ended July 31, 2023, and 2022, respectively. Our ability to expand internationally involves various risks, including the need to invest significant resources in such expansion, and the possibility that returns on such investments will not be achieved in the near future or at all in these less familiar competitive environments. We may also choose to conduct our international business through partnerships. If we are unable to identify partners or negotiate favorable terms, our international growth may be limited. In addition, we have incurred and may continue to incur significant expenses in advance of generating material revenue as we attempt to establish our presence in particular international markets. Additional risks associated with our international operations include:

- geopolitical conflicts, including military conflicts, that could damage the global economy;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties, or other trade restrictions;
- different labor regulations, especially in the European Union, 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;
- exposure to many stringent and potentially inconsistent laws and regulations relating to privacy, data protection, and data security, particularly in the European Union;
- changes in a specific country's or region's political or economic conditions, including, but not limited to, inflationary pressures, recessionary economic cycles, and resulting governmental responses;
- challenges inherent to efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs;
- severe fluctuations in currency exchange rates;
- risks relating to the implementation of exchange controls and trade protection regulations and measures in the United States or in other jurisdictions;

- risks relating to enforcement of U.S. export control laws and regulations including the Export Administration Regulations, or EAR, and trade and economic sanctions, including restrictions promulgated by the Office of Foreign Assets Control, or OFAC, and other similar trade protection regulations and measures in the United States or in other jurisdictions;
- greater difficulty in enforcing contracts and accounts receivable collection, and longer collection periods;
- limitations on our ability to reinvest earnings from operations derived from one country to fund the capital needs of our operations in other countries;
- limited or unfavorable intellectual property protection; and
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, and similar applicable laws and regulations in other jurisdictions.

The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks could limit the future growth of our business. If we are unable to address these difficulties and challenges or other problems encountered in connection with our international operations and expansion, we might incur unanticipated liabilities or we might otherwise suffer harm to our business generally.

Incorrect implementation or use of, or our customers' failure to update, our products could result in customer dissatisfaction and negatively affect our business, operations, financial results, and growth prospects.

Our products are often operated in large scale, complex IT environments. Our customers and some partners require training and experience in the proper use of and the benefits that can be derived from our products to maximize their potential. If our customers do not implement, update or use our products correctly or as intended, inadequate performance, and/or security vulnerabilities may result. Because our customers rely on our software to manage a wide range of operations, the incorrect implementation, use of, or our customers' failure to update, our software or our failure to train customers on how to use our software productively may result in customer dissatisfaction, negative publicity and may adversely affect our reputation and brand. Failure by us to effectively provide training and implementation services to our customers could result in lost opportunities for follow-on sales to these customers and decrease subscriptions by new customers, and adversely affect our business and growth prospects.

We depend on cooperating with public cloud operators. Changes to arrangements with such operators may significantly harm our customer retention, new customer acquisition, and product extension or expansion, or require us to change our business models, operations, practices, or advertising activities, which could restrict our ability to maintain our platform through these clouds and would adversely impact our business.

We depend upon the public cloud operators, primarily AWS, Google Cloud, and Microsoft Azure, to offer our products to our customers. Because of the significant use of our platform on public clouds, our solutions must remain interoperable with them. Further, we are subject to the standard agreements, policies, and terms of service of these public clouds, as well as agreements, policies, and terms of service of the various application stores that make our solutions available to our developers, creators, customers, and users. These agreements, policies, and terms of service govern the availability, promotion, distribution, content, and operation generally of applications and experiences on such public clouds. As a result, we may not successfully cultivate relationships with key industry participants or develop products that operate effectively with these technologies, systems, networks, regulations, or standards. If it becomes more difficult for our customers or users to access and engage with our platform on the public clouds they are already using, if our customers choose not to access or use our platform application on their cloud accounts, or if our customers or users choose to use public clouds that do not offer or discontinue access to our platform, our business and customer retention, new customer acquisition, and product extension or expansion could be significantly harmed.

The owners and operators of these public clouds each have approval authority over our platform's deployment on their systems and offer products that compete with ours. We have no control over these public clouds, and any changes to these clouds that degrade our platform's functionality, or give preferential treatment to competitive products, could significantly harm our platform. Those companies have no obligation to test the interoperability of their clouds with our platform. If any of these companies introduced modifications to their clouds that purposefully or inadvertently made them incompatible with or not optimal for use of our platform, such disruption to our platform would harm our business. Additionally, such operators could make our platform, or certain features of our platform, inaccessible on their public clouds for a potentially significant period of time. An operator could also limit or discontinue our access to its public cloud if it establishes more favorable relationships with one or more of our competitors, launches a competing product itself, or it otherwise determines that it is in its business interests to do so. Such operators could display their competitive offerings more prominently than ours. We plan to continue to introduce new technologies on our platform regularly and have experienced that it takes time to adjust such technologies to function with these public clouds, impacting the adoption of our new technologies and features, and we expect this trend to continue.

Each public cloud operator has broad discretion to change and interpret its agreements, terms of service, and policies with respect to our platform, and those changes may be unfavorable to us and our customers' use of our platform. If we were to violate, or a public cloud operator believes that we have violated, its agreements, terms of service, or policies, that public cloud operator could limit or discontinue our access to its cloud. In some cases these requirements may not be clear or our interpretation of the requirements may not align with the interpretation of the public cloud operator, which could lead to inconsistent enforcement of these agreements, terms of service, or policies against us, and could also result in the public cloud operator's limiting or discontinuing access to its cloud. Any limitation on or discontinuation of our access to any public cloud could adversely affect our business, financial condition or results of operations.

We rely upon public cloud operators to operate our platform and any disruption of or interference with our use of these operators' services would adversely affect our business, results of operations, and financial condition.

We outsource substantially all of our cloud infrastructure to public cloud operators that host our products and platform, and our dependence will increase as we introduce new cloud products. Customers of our products need to be able to access our platform at any time, without interruption or degradation of performance. Public cloud operators run their own platforms that we access, and we are, therefore, vulnerable to service interruptions of these platforms. We have experienced, and expect that in the future we may experience interruptions, delays, and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions, and capacity constraints. Capacity constraints could be due to a number of potential causes including technical failures, natural disasters, fraud, or security attacks. In addition, if our security, or that of public cloud operators, is or is perceived to have been compromised, our products or platform are unavailable or our users are unable to use our products 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 may become increasingly difficult to maintain and improve our platform performance, especially during peak usage times, as our products become more complex and the usage of our products increases. To the extent that we do not effectively address capacity constraints through our public cloud operators, our business, results of operations, and financial condition may be adversely affected. In addition, any changes in service levels from our public cloud operators may adversely affect our ability to meet our customers' requirements.

The substantial majority of the services we use cloud service providers for are cloud-based server capacity and, to a lesser extent, storage and other optimization offerings. Public cloud operators allow us to order and reserve server capacity in varying amounts and sizes distributed across multiple regions. We access public cloud operator infrastructure through standard IP connectivity. Public cloud operators provide us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. Public cloud operators may terminate the agreement by providing 30 days' prior written notice and may in some cases terminate the agreement immediately for cause upon notice. Although we expect that we could receive similar services from other third parties, if any of our arrangements with public cloud operators are terminated, we could experience interruptions on our platform and in our ability to make our products available to customers, as well as delays and additional expenses in arranging alternative cloud infrastructure services.

Any of the above circumstances or events may harm our reputation, cause customers to stop using our products, impair our ability to increase revenue from existing customers, impair our ability to grow our customer base, subject us to financial penalties and liabilities under our service-level agreements, and otherwise harm our business, results of operations, and financial condition.

Interruptions or performance problems associated with our technology and infrastructure, and our reliance on technologies from third parties, may adversely affect our business operations and financial results.

Our website and internal technology infrastructure may experience performance issues due to a variety of factors, including infrastructure changes, human or software errors, website or third-party hosting disruptions, capacity constraints, technical failures, natural disasters, or fraud or security attacks. Our use and distribution of third-party source available software and reliance on other third-party services may increase this risk. For example, we are dependent on our relationship with a third-party processor for installation and packaging solutions in one of our products. If our website is unavailable or our users are unable to download our products or order subscriptions or services within a reasonable amount of time or at all, our business could be harmed. We expect to continue to make significant investments to maintain and improve website performance and to enable rapid releases of new features and applications for our products. To the extent that we do not effectively upgrade our systems as needed and continually develop our technology to accommodate actual and anticipated changes in technology, our business and results of operations may be harmed.

If we experience an interruption in service for any reason, our cloud offerings would similarly be interrupted. An interruption in our services to our customers could cause our customers’ internal and consumer-facing applications to fail to function properly, which could have a material adverse effect on our business, operations, financial results, customer relationships, and reputation. In addition, we rely on cloud technologies from third parties in order to operate critical functions of our business, including financial management services, customer relationship management services, and lead generation management services. Accordingly, if these services become unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices, our expenses could increase, our ability to manage our finances could be interrupted, our processes for managing sales of our products and supporting our customers could be impaired, and our ability to generate and manage sales leads could be weakened until equivalent services, if available, are identified, obtained, and implemented, all of which could harm our business and results of operations.

A real or perceived defect, security vulnerability, error, or performance failure in our products could cause us to lose revenue, damage our reputation, and expose us to liability.

Our products are inherently complex and, like all software, despite extensive testing and quality control, have in the past and may in the future contain defects or errors, especially when first introduced, or not perform as contemplated. These defects, security vulnerabilities, errors, or performance failures could cause damage to our reputation, loss of customers or revenue, product returns, order cancellations, service terminations, or lack of market acceptance of our software, which could expose us to liability. Because our products involve sensitive, secure and/or mission-critical uses by our customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our software fail to perform as contemplated in such deployments. We have in the past and may in the future need to issue corrective releases of our software to fix these defects, errors, or performance failures, which could require us to allocate significant research and development and customer support resources to address these problems.

Techniques used to sabotage or obtain unauthorized access to systems or networks are constantly evolving and, in some instances, are not identified until launched against a target. We and our service providers may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventative measures.

Further, there can be no assurance that any limitations of liability provisions in our customer and user agreements, contracts with third-party vendors and service providers, or other contracts would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim relating to a security breach or other security-related matter. Any cybersecurity insurance that we carry may be insufficient to cover all liabilities incurred by us in connection with any privacy or cybersecurity incidents or may not cover the kinds of incidents for which we submit claims. For example, insurers may consider cyberattacks by a nation-state as an “act of war” and any associated damages as uninsured. We also cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations, and financial condition, as well as our reputation.

We depend on our senior management and other key employees, and the loss of one or more of these employees or an inability to attract, train, and retain highly skilled employees could harm our business.

Our future success is substantially dependent on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel, or delays in hiring required personnel, particularly in engineering and sales, may seriously harm our business, financial condition, and results of operations. We are also substantially dependent on the continued service of our existing engineering personnel because of the complexity of our products. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. The loss of one or more of our executive officers or key employees could seriously harm our business.

Our future performance also depends on the continued services and continuing contributions of our senior management to execute on our business plan and to identify and pursue new opportunities and product innovations. The loss of services of senior management could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and results of operations.

Our industry is generally characterized by significant competition for skilled personnel as well as high employee attrition. Additionally, many of the companies with which we compete for experienced personnel have greater resources than we have and may provide higher levels of compensation. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product.

In addition, a large percentage of our workforce is new to our company. New hires require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business.

Additionally, the growth of our direct sales force leads to increasing difficulty and complexity in its organization, management, and leadership, at which we may prove unsuccessful. If we are unable to hire and train a sufficient number of effective sales personnel, we are ineffective at overseeing a growing sales force, or the sales personnel we hire are otherwise unsuccessful in obtaining new customers or increasing sales to our existing customer base, our business will be adversely affected.

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 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. 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. Any failure to preserve our culture also could further harm our ability to retain and recruit personnel, innovate and create new products, operate effectively, and execute on our business strategy.

Operating as a remote-first company may make it difficult for us to preserve our corporate culture, have a negative impact on workforce morale and productivity, and harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively, and execute on our business strategy.

We have been a remote-first company since incorporation. This subjects us to heightened operational risks. For example, technologies in our employees' and service providers' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees and service providers to be more limited or less reliable than in our offices. Further, because the security systems in place at our employees' and service providers' homes may be less secure than those used in our offices, we may be subject to increased cybersecurity risk, which could expose us to risks of data or financial loss and disrupt our business operations. There is no guarantee that our data security and privacy safeguards will be completely effective or that we will not encounter risks associated with employees and service providers accessing company data and systems remotely.

Operating as a remote-first company may make it more difficult for us to preserve our corporate culture, and our employees may have decreased opportunities to collaborate in meaningful ways. Further, we cannot guarantee that many employees working remotely will not have a negative impact on workforce morale and productivity. Any failure to preserve our corporate culture and foster collaboration could harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively, and execute on our business strategy.

Additionally, working for a remote-first company allows employees to move freely while undertaking their work responsibilities. On occasion, employees have and may continue to fail to inform us of changes to their work location in a timely manner. Conducting business in certain geographies may expose use to risks associated with that location, including compliance with local laws and regulations or exposure to compromised internet infrastructure. If employees fail to inform us of changes in their work location, we may be exposed to various risks without our knowledge. For example, if employees create intellectual property on our behalf while residing in a jurisdiction with weak or uncertain intellectual property laws, our ownership of such intellectual property may be questioned. Similarly, if employees access our resources through unsecured internet infrastructure, they may expose us to a heightened risk of data theft or cyberattack.

Our business is affected by seasonal demands, and our quarterly operations results fluctuate as a result.

Historically our business has been highly seasonal, with the highest percentage of our sales occurring in our fiscal fourth quarter due to increased buying patterns of our enterprise customers prior to the end of the year and a lower percentage of our sales occurring in our second fiscal quarter due to the summer vacation slowdown that impacts many of our customers. We expect these seasonal trends to continue. We may also experience fluctuations due to factors that may be outside of our control that affect customer engagement with our platform. Additionally, activity levels may remain unpredictable due to the macroeconomic environment, including impacts of the Russia/Ukraine military conflict, inflationary pressures, or recessionary economic cycles. Episodic experiences may also contribute to fluctuations in our quarterly results of operations. As our business matures, other seasonal trends may develop, or existing seasonal trends may become more extreme.

A portion of our self-managed product revenue is recognized at the time we sell and deliver our software rather than on a ratable basis, and the amount we recognize can differ by product and contract length, which adds variability to our forecasting and could have a material negative impact on our revenue results.

More specifically, a portion of our self-managed license revenue is recognized upfront upon delivery of our software, particularly for multi-year agreements that are paid by customers on an annual basis. Generally, our multi-year self-managed contracts tend to have license revenue recognized upfront, while one-year self-managed contracts tend to have license revenue recognized ratably in one-month increments. In addition, the amount of revenue we recognize varies by product based on the allocation of value—from an accounting standpoint—between the license and support components of our product offerings.

We believe the benefit of securing multi-year customer commitments for our self-managed offerings far outweighs the resulting variability in forecasting revenue. Accordingly, we sell multi-year agreements whenever possible, but we also sell one-year agreements when our customers require them. The result is that in any given quarter, we can have a mix of one-year and multi-year agreements for our self-managed offerings, and that mix of contract lengths impacts the amount of revenue we recognize upfront versus over time. This variability is compounded by the fact that the amount of revenue we recognize at delivery also differs by product. We face challenges forecasting the percentage of customers who will choose multi-year agreements versus single-year subscriptions, as well as the final mix of products we will sell in each quarter. Any failure to make those forecasts with reasonable accuracy could cause us to miss our revenue forecasts and result in a decline in our stock price.

A high percentage of our sales often occur near the end of each quarter, which can create a processing backlog and negatively impact our revenue recognition and, consequently, our quarterly results.

Like many software companies, we transact many of our sales late in each quarter. For our self-managed offerings, this timing can affect our revenue recognition because delivery of the software is a pre-requisite to recognizing revenue under applicable software accounting rules. If we are unable to deliver our software to a new customer before the quarter ends, we cannot recognize any revenue from the sale during the quarter in which the customer placed its order. Instead, we must wait until the quarter in which we actually delivered the software to begin recognizing revenue. In quarters where we have a high volume of late-quarter sales, we may be unable to sign or process a significant number of the orders we receive or deliver the purchased software before the quarter ends. As a result, we may need to prioritize some orders over others and wait until the following quarter to recognize revenue for those orders we are unable to complete on time. In such cases, we will not be able to recognize as much revenue for the quarter as we otherwise would have if we had processed and delivered software for all orders we received before the quarter ended, which may lower our revenue results for the quarter. This in turn may harm our business by consistently underreporting our quarterly revenues to investors.

Sales to government entities are subject to a number of challenges and risks.

We sell to U.S. federal governmental agency customers. Sales to such entities currently constitute a small portion of our revenue. Selling to such entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate meaningful sales. Government certification requirements for products like ours may change, thereby restricting our ability to sell into the government sector until we have attained or updated the necessary certifications. Government demand and payment for our products may be affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products. Additionally, any actual or perceived privacy, data protection, or data security incident, or even any perceived defect regarding our practices or measures in these areas, may negatively impact public sector demand for our products.

Government contracting requirements may change and could restrict our ability to sell into the government sector until we have met government-mandated requirements, which may require significant upfront cost, time, and resources. If we do not achieve and maintain government requirements, it may harm our competitive position against larger enterprises whose competitive offerings meet these requirements. We also can provide no assurance we will secure commitments or contracts with government entities even if we meet government requirements, which could harm our margins, business, financial condition, and results of operations. Further, government demand and payment for our offerings are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our offering.

Additionally, we rely on certain partners to provide technical support services to certain of our government entity customers to resolve any issues relating to our products. If our partners do not effectively assist our government entity customers in deploying our products, succeed in helping our government entity customers quickly resolve post-deployment issues, or provide effective ongoing support, our ability to sell additional products to new and existing government entity customers would be adversely affected and our reputation could be damaged.

Further, governmental entities may demand contract terms that differ from our standard arrangements and are less favorable than terms agreed with private sector customers. Such entities may have statutory, contractual or other legal rights to terminate contracts with us or our partners for convenience or for other reasons. Any such termination may adversely affect our ability to contract with other government customers as well as our reputation, business, financial condition, and results of operations. Governments routinely investigate and audit government contractors’ administrative processes, and any unfavorable audit could result in the government refusing to continue buying our subscriptions, a reduction of revenue, or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely affect our results of operations and reputation.

Risks Related to Our Intellectual Property

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

Our source available and proprietary technologies incorporate third-party open-source software, and we expect to continue using third-party open-source software in our products in the future, which may require using new and upgraded versions of these software applications. There can be no assurance that new versions of the third-party open-source projects we currently use will continue to be licensed under open-source licenses, or that new versions will not contain different open-source licenses that carry unacceptable limitations on distribution. In addition, where buying proprietary licenses is they only way to avoid onerous open-source distribution limitations, we may not succeed in obtaining those proprietary licenses on acceptable terms. Our inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, could result in delays in product releases until equivalent technology can be identified, licensed, developed, and integrated into our products, which may have a material adverse effect on our business, results of operations, and financial condition. In addition, third parties may allege that additional licenses are required for our use of their software or intellectual property, and we may be unable to obtain such licenses on commercially reasonable terms or at all.

In addition, few of the licenses applicable to open-source software have been interpreted by courts, and there is a risk these licenses could be construed in a manner that adversely impact our interests and the interests of our customers, both with respect to our use of third-party open-source as well as our distribution of our own software under source available licenses, including by imposing unanticipated conditions or restrictions on our ability to commercialize our products, or limiting our ability to enforce our rights in the manner we had anticipated. Moreover, we cannot ensure our software does not include open-source software that we are unaware of, or that we have not incorporated additional open-source software in our software in a manner that is inconsistent with the terms of the applicable license or our current policies and procedures, including requiring us to make some or all of our software available under an open-source license that is unacceptable to us or to our customers. If we incorporate third-party open-source software into our software products, then in certain circumstances, we and our customers may be subject to certain requirements, including requirements that we offer our solutions that incorporate such third-party open-source software under license terms that are inconsistent with our intended license, such as requiring portions of our products we create based upon, derived from, incorporating, or using such open-source software (and in turn, portions of our customers' products that they create which are based upon, derived from, incorporating, or using our products) be made available for no cost and for the purpose of making and redistributing such software (including in source code form) and derivatives thereof. If an author or other third party that distributes such open-source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our products that contained the open-source software, and required to comply with onerous conditions or restrictions on these products, which could disrupt the distribution and sale of these products.

Moreover, there have been claims challenging the ownership rights in open-source software against companies that incorporate open-source software into their products, and the licensors of such open-source software provide no warranties or indemnities with respect to such claims. In the event such a claim is made with respect to a third-party open-source component included in our products, we and our customers could be required to seek licenses from third parties in order to continue offering our products, and to re-engineer our respective products or discontinue the sale of our respective products in the event re-engineering cannot be accomplished on a timely basis. We and our customers may also be subject to suits by parties claiming infringement, misappropriation or violation due to the reliance by our solutions on certain open-source software, and such litigation could be costly for us to defend or subject us to certain types of equitable remedies, such as an injunction. Some open-source projects have known vulnerabilities and architectural instabilities and are provided on an as-is basis, which, if not properly addressed, could negatively affect the performance of our product. Any of the foregoing could require us to devote additional research and development resources to re-engineer our solutions, provide an advantage to our competitors or other entrants to the market, create new security vulnerabilities, or highlight existing security vulnerabilities in products, result in customer dissatisfaction, and may adversely affect our business, results of operations, and financial condition. We cannot ensure that our processes for identifying and controlling our use of open-source software in our platform and products will be effective.

We develop our products in an source available software environment, which could negatively affect our ability to sell our offerings, or make it easier for competitors, some of whom may have greater resources than we have, to enter our markets and compete with us.

Unlike traditional proprietary software, the core of all of our products has its source code available, allowing our partners and third parties to give feedback directly, report issues, contribute features, and fix bugs, which we accept and integrate into our products. Our partners are able to integrate their technology solutions and validate their integrations with continuous development. We plan to continue to develop our products in this source available environment, and enabling third-party contributions, and the integration of software from third parties into our codebase. While these software licenses state that any work of authorship licensed under it may be reproduced and distributed provided that certain conditions are met, we may nevertheless be subject to suits by parties claiming ownership rights in what we believe to be permissively licensed open-source software or claiming non-compliance with the applicable open-source licensing terms.

In addition, the use of third-party open-source software may expose us to greater risks than the use of third-party commercial software because open-source licensors generally do not provide warranties or controls on the functionality or origin of the software. Use of open-source software may also present additional security risks because the public availability of such software may publicize vulnerabilities or otherwise make it easier for hackers and other third parties to determine how to compromise our platform. Any of the foregoing could be harmful to our business, results of operations, financial condition, and cash flows and could help our competitors develop products that are similar to or better than ours.

Failure to obtain, maintain, protect, and enforce our proprietary technology and intellectual property rights could harm our business and results of operations.

Our success depends to a significant degree on our ability to obtain, maintain, protect, and enforce our intellectual property rights, including proprietary technology, methodologies, know-how, and brand. We rely on a combination of patents, trademarks, copyrights, service marks, trade secret laws, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to obtain, maintain, protect, and enforce our intellectual property rights may be inadequate. Our intellectual property rights may not protect our competitive position if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property rights, or if others are successful in designing around the protections our intellectual property rights afford. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our proprietary technology, develop and commercialize substantially identical products, services, or technologies, and our business may be harmed. In addition, defending our intellectual property rights might entail significant expense.

Any patents, trademarks, or other intellectual property rights that we have or may obtain may be challenged or circumvented by others or held unenforceable or invalidated through administrative process, including re-examination *inter partes* review, interference and derivation proceedings, and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings), or litigation. There can be no assurance that our patent applications will result in issued patents. Even if we continue to seek patent protection in the future, we may be unable to obtain further patent protection for our technology. In addition, any patents issued in the future may not provide us with competitive advantages or may be successfully challenged by third parties. There may be issued patents of which we are not aware, held by third parties that, if found to be valid and enforceable, could be alleged to be infringed by our current or future technologies or offerings. There also may be pending patent applications of which we are not aware that may result in issued patents, which could be alleged to be infringed by our current or future technologies or offerings.

Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create offerings that compete with ours. Effective patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our products are available. We may be unable to prevent third parties from acquiring domain names or trademarks that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, litigation or other actions may be necessary to protect or enforce our trademarks and other intellectual property rights. Furthermore, third parties may assert intellectual property claims against us, and we may be subject to liability, required to enter into costly license agreements, or required to rebrand our offering or prevented from selling our offering if third parties successfully oppose or challenge our trademarks or successfully claim that we infringe, misappropriate or otherwise violate their trademarks or other intellectual property rights. The laws of some countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our international activities, our exposure to unauthorized copying and use of our products and proprietary information will likely increase. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

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

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

We could incur substantial costs as a result of any claim of infringement, misappropriation, or violation of another party's intellectual property rights.

In recent years, there has been significant litigation involving patents and other intellectual property rights in the software industry. Companies providing software are increasingly bringing and becoming subject to suits alleging infringement, misappropriation, or violation of proprietary rights, particularly patent rights, and to the extent we gain greater market visibility, we face a higher risk of being the subject of intellectual property infringement, misappropriation, or violation claims. Further, the software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets, and other intellectual and proprietary rights. Companies in the software industry are often required to defend against litigation claims based on allegations of infringement, misappropriation, or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims against their use. In addition, many companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them.

We cannot predict the outcome of lawsuits and cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition, or results of operations. Accordingly, we could incur substantial costs in prosecuting or defending any current or future intellectual property litigation. Any such intellectual property litigation could be expensive and could divert our management resources possibly leading to delays in development or commercialization of our products.

Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease selling or using products that incorporate the intellectual property rights that we allegedly infringe, misappropriate, or violate;
- make substantial payments for legal fees, settlement payments, license fees, royalties, or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign the allegedly infringing products to avoid infringement, misappropriation, or violation, which could be costly, time-consuming, or impossible.

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

If we are required to make substantial payments or undertake any of the other actions noted above due to intellectual property infringement, misappropriation, or violation claims against us or any obligation to indemnify our customers for such claims, such payments or actions could harm our business.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement, misappropriation, violation, 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, misappropriation, or violation, damages caused by us to property or persons, or other liabilities relating to or arising from our software, services, or other contractual obligations. Large indemnity obligations and payments could disrupt and harm our business, results of operations, and financial condition. Although we generally attempt to contractually limit our liability with respect to such indemnity obligations, our efforts may not always be successful, and we may still incur substantial liability related to them even when subject to limitations. 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.

Risks Related to our Regulatory, Legal, Tax, and Accounting Environment

In connection with the operation of our business, we may collect, store, transfer, and otherwise process certain personal data and personally identifiable information, and our products help our customers do so as well. As a result, our business is subject to a variety of government and industry regulations, as well as other obligations, related to privacy, data protection, and data security.

Privacy, data protection, and data security have become significant issues in various jurisdictions where we offer our products and increasingly so as we sell more cloud offerings We process certain personal data as part of our business operations, and our Vault product is specifically designed to assist our customers with management of their private and sensitive information. As we develop our cloud offerings and are able to process more data in the cloud, these issues become more significant. The regulatory frameworks for privacy, data protection, and data security issues worldwide are rapidly evolving and are likely to remain uncertain for the foreseeable future, particularly for data processed in the cloud. Federal, state, and non-U.S. government bodies or agencies have in the past adopted, and may in the future adopt, new laws and regulations or may make amendments to existing laws and regulations affecting data protection, data privacy, and/or data security and/or regulating the use of the internet as a commercial medium. Industry organizations also regularly adopt and advocate for new standards in these areas, and we are bound by certain contractual obligations relating to our use, storage, security, and other processing of personal data and other personally identifiable information. We also post privacy policies and have made, and may make, other representations regarding our privacy and data security practices. If we fail to comply with any of these laws, regulations, standards, or other obligations, or such public representations, or are alleged to have done so, we may be subject to investigations, enforcement actions, civil litigation, fines, and other penalties, all of which may generate negative publicity and have a negative impact on our business.

In the United States, we may be subject to investigation and/or enforcement actions brought by federal agencies and state attorneys general and consumer protection agencies. We publicly post policies and other documentation regarding our practices concerning the processing, use, and disclosure of personally identifiable information. Although we endeavor to comply with our published policies and documentation, we may at times fail to do so or be alleged to have failed to do so. The publication of our privacy policy and other documentation that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive, unfair, or misrepresentative of our actual practices.

Many states have enacted privacy and data security laws. For example, the California Consumer Privacy Act, or CCPA, which took effect on January 1, 2020, gives California residents expanded rights to access and delete their personal information, opt-out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. California has already adopted a new law, the California Privacy Rights Act of 2020, or CPRA, that substantially expanded the CCPA as of January 1, 2023. Additionally, other U.S. states continue to propose, and in certain cases adopt, privacy-focused legislation. For example, Virginia, Colorado, Utah, and Connecticut have enacted comprehensive privacy legislation that has gone, or will go, into effect in 2023; Florida, Montana, Oregon, and Texas have enacted similar legislation that will go into effect in 2024; Iowa and Tennessee have enacted similar legislation that will go into effect in 2025; and Indiana has enacted similar legislation that will go into effect in 2026. Aspects of these state laws remain unclear, resulting in further uncertainty and potentially requiring us to modify our data practices and policies and to incur substantial additional costs and expenses in an effort to comply. A patchwork of differing state privacy and data security requirements will increase the cost and complexity of operating our business and increase our exposure to liability

Internationally, we or our customers must comply with the data security, privacy, and data protection requirements of each of the jurisdictions we operate in. Within the European Union, the European General Data Protection Regulation, or the GDPR, became fully effective on May 25, 2018, and applies to the processing (which includes the collection and use) of certain personal data. The GDPR imposes substantial obligations and risk upon our business. Administrative fines under the GDPR can amount up to 20 million Euros or four percent of the group's annual global turnover, whichever is highest. We may be required to incur substantial expense and to make significant changes to our business operations in an effort to comply with the obligations imposed by the GDPR, all of which may adversely affect our revenue and our business overall. Additionally, because the GDPR lacks a long enforcement history, we are unable to predict fully how the GDPR may be applied to us. Despite our efforts to attempt to comply with the GDPR, a regulator may determine that we have not done so and subject us to fines and public censure, which could harm our company.

European privacy, data security, and data protection laws, including the GDPR, regulate and generally restrict the transfer of the personal data subject from Europe, including the European Economic Area, or EEA, the United Kingdom, and Switzerland, to third countries that have not been found to provide adequate protection to such personal data, including the United States unless the parties to the transfer have implemented specific safeguards to protect the transferred personal data. The safeguard on which we have primarily relied for such transfers has been implementation of the European Commission's Standard Contractual Clauses, or SCCs, in our relevant data transfer agreements. We have undertaken certain efforts to conform transfers of personal data from the European Economic Area, or the EEA, to the United States and other jurisdictions based on our understanding of current regulatory obligations and the guidance of data protection authorities. The EU-U.S. Privacy Shield program administered by the U.S. Department of Commerce, to which we have self-certified, was invalidated by the Court of Justice of the European Union, or CJEU, on July 16, 2020. The Swiss Federal Data Protection and Information Commissioner invalidated the Swiss-U.S. Privacy Shield on similar grounds. In its July 16, 2020 opinion, the CJEU imposed additional obligations on companies when relying on SCCs to transfer personal data. The European Commission has published revised SCCs addressing the CJEU concerns on June 4, 2021, that are required to be implemented. The United Kingdom has adopted new standard contractual clauses, or the UK SCCs, that became effective as of March 21, 2022, and which are required to be implemented over time. The United States and European Union announced an "agreement in principle" to replace the EU-U.S. Privacy Shield transfer framework with the Trans-Atlantic Data Privacy Framework, or EU-U.S. DPF, on March 25, 2022. On July 10, 2023, the European Commission adopted an adequacy decision in relation to the EU-U.S. DPF, allowing the EU-U.S. DPF to be utilized as a means of legitimizing EU-U.S. personal data transfers for participating entities. The CJEU's Schrems II decision, the revised SCCs and UK SCCs, guidance and opinions of regulators, and other developments relating to cross-border data transfer, including the EU-U.S. DPF, may be subject to challenges, future reviews, suspension, amendment, repeal, or limitations, and may require us to implement additional contractual and technical safeguards for any personal data transferred out of Europe, which may increase compliance costs, lead to increased regulatory scrutiny or liability, and which may adversely impact our business, financial condition and operating results.

We may also experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our products, or by current or potential new customers to consider or adopt our fully managed HCP cloud offerings, due to the potential risk exposure to such customers as a result of shifting business sentiment in Europe regarding international data transfers and the data protection obligations imposed on them. We may find it necessary to establish systems to maintain personal data originating from Europe in Europe, which may involve substantial expense and may cause us to need to divert resources from other aspects of our business, all of which may adversely affect our business.

We may be unsuccessful in maintaining the conforming means of transferring personal data from Europe to other jurisdictions. We, and our customers, may face a risk of enforcement actions taken by European data protection authorities relating to cross-border personal data transfers.

In addition to the GDPR, the European Commission has another draft regulation in the approval process that focuses on a person's right to conduct a private life. The proposed legislation, known as the Regulation of Privacy and Electronic Communications, or the ePrivacy Regulation, would replace the current ePrivacy Directive. Originally planned to be adopted and implemented at the same time as the GDPR, the ePrivacy Regulation is still being negotiated. Most recently, on February 10, 2021, the Council of the EU agreed on its version of the draft ePrivacy Regulation. If adopted, the earliest date for entry into force is in 2023, with broad potential impacts on the use of internet-based services and tracking technologies, such as cookies. Aspects of the ePrivacy Regulation remain for negotiation between the European Commission and the Council. We expect to incur additional costs to comply with the requirements of the ePrivacy Regulation as it is finalized for implementation.

Further, the United Kingdom has enacted a Data Protection Act, and has implemented legislation referred to as the "UK GDPR," that substantially implements the GDPR in the United Kingdom following Brexit and the transition period that ended on December 31, 2020. This legislation provides for substantial penalties for noncompliance of up to the greater of £17.5 million or four percent of worldwide revenues. While the EU has deemed the United Kingdom an "adequate country" to which personal data could be exported from the EEA, this decision is required to be renewed after four years of being in effect and may be modified, revoked, or challenged in the interim, creating uncertainty regarding transfers of personal data to the United Kingdom from the EEA. Some countries also are considering or have passed legislation requiring local storage and processing of data, or similar requirements, which could increase the cost and complexity of delivering our products.

Finally, we publish privacy policies and other documentation regarding our collection, use, disclosure, and other processing of personal information. Although we endeavor to adhere to these policies and documentation, we and the third parties on which we rely may at times fail to do so or may be perceived to have failed to do so. Such failures could subject us to regulatory enforcement action as well as costly legal claims by affected individuals or our customers.

Because the interpretation and application of many laws and regulations relating to privacy, data protection, and data security, along with industry standards, are uncertain, particularly as they relate to our cloud offerings, it is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our products, and we could face fines, lawsuits, regulatory investigations, and other claims and penalties, and we could be required to fundamentally change our products or our business practices, which could have an adverse effect on our business. Any inability to adequately address privacy, data protection, and data security concerns, even if unfounded, or any actual or perceived failure to comply with applicable privacy, data protection, and data security laws, regulations, and other 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 products. Privacy, data protection, and data security concerns, whether valid or not valid, may inhibit market adoption of our products, particularly in certain industries and countries outside of the United States. If we are not able to adjust to changing laws, regulations, and standards related to the internet, our business may be harmed.

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

Our software may be subject to U.S. export control laws and regulations including the Export Administration Regulations, or EAR, and trade and economic sanctions maintained by the Office of Foreign Assets Control, or OFAC. As such, an export license may be required to export or re-export our products to certain countries, end-users, and end-uses. Because we incorporate encryption functionality into our products, we also are subject to certain U.S. export control laws that apply to encryption items. If we fail to comply with such U.S. export controls laws and regulations, U.S. economic sanctions, or other similar laws, we could be subject to both civil and criminal penalties, including substantial fines, possible incarceration for employees and managers for willful violations, and the possible loss of our export or import privileges. Obtaining the necessary export license for a particular sale or offering may not be possible and may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, U.S. export control laws and economic sanctions prohibit the export of products to certain U.S. embargoed or sanctioned countries and persons, as well as for prohibited end-uses. For example, following Russia's invasion of Ukraine, the United States and other countries imposed economic sanctions and severe export control restrictions against Russia and Belarus and could impose wider sanctions and export restrictions and take other actions should the conflict continue to escalate. Any exports or sales of our software or services into Russia and Belarus may be impacted by these restrictions. Monitoring and ensuring compliance with these complex U.S. export control laws is particularly challenging because our offerings are widely distributed throughout the world and are available for download without registration. Even though we take precautions to ensure that we and our partners comply with all relevant export control laws and regulations, any failure by us or our partners to comply with such laws and regulations could have negative consequences for us, including reputational harm, government investigations, and penalties.

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

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

We are subject to the FCPA, the U.K. Bribery Act, and other anti-corruption, anti-bribery, and anti-money laundering laws in various jurisdictions, both domestic and abroad. We leverage third parties, including channel partners, to sell our offerings and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, we cannot assure you that all of our employees, representatives, contractors, partners, and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any allegations or violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, operating results, and prospects. Responding to any investigation or action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees..

Changes in laws and regulations related to the internet or changes in the internet infrastructure itself may diminish the demand for our products, and could adversely affect our business, results of operations, and financial condition.

The future success of our business depends upon the continued use of the internet as a primary medium for commerce, communications, 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 products and platform in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional 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, or result in reductions in the demand for internet-based products such as our products and platform. 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 has been adversely affected by “viruses,” “worms,” and similar malicious programs. If use of the internet is reduced by these or other issues, then demand for our products could decline, which could adversely affect our business, results of operations, and financial condition.

Any legal proceedings or claims against us could be costly and time consuming to defend and could harm our reputation regardless of the outcome.

We are and may in the future become subject to legal proceedings and claims that arise in the ordinary course of business, including patent infringement, other intellectual property, privacy and data protection, data security, employment, securities, contractual rights, torts, or other legal claims. Such matters can be time-consuming, divert management’s attention and resources, cause us to incur significant expenses or liability, or require us to change our business practices. In addition, the expense of litigation and the timing of this expense from period to period are difficult to estimate, subject to change, and could adversely affect our financial condition and results of operations. Because of the potential risks, expenses, and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by entering into settlement agreements. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could expose us to greater than anticipated tax liabilities.

Our income tax obligations are based in part on our corporate structure and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions may aggressively interpret their laws in an effort to raise additional tax revenue. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and results of operations. It is possible that tax authorities may disagree with certain positions we have taken and any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. Further, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

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

As of January 31, 2023, we had U.S. federal and state net operating loss carryforwards of $659.9 million and $538.3 million, respectively, which may be utilized against future income taxes and begin to expire in 2034 and 2025 for U.S. federal and state purposes, respectively. Limitations imposed by the applicable jurisdictions on our ability to utilize net operating loss carryforwards could cause income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such net operating loss carryforwards to expire unused, in each case reducing or eliminating the benefit of such net operating loss carryforwards. Furthermore, we may not be able to generate sufficient taxable income to utilize our net operating loss carryforwards before they expire. If any of these events occur, we may not derive some or all of the expected benefits from our net operating loss carryforwards.

Utilization of our net operating loss carryforwards and other tax attributes, such as research and development tax credits, may be subject to annual limitations, or could be subject to other limitations on utilization or benefit due to the ownership change limitations provided by Sections 382 and 383 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, and other similar provisions. Under Sections 382 and 383 of the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income may be limited. In general, an “ownership change” will occur if there is a cumulative change in our ownership by “5-percent stockholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We may have experienced various ownership changes, as defined by the Code, as a result of past financing transactions (or other activities), and we may experience ownership changes in the future as a result of subsequent changes in our stock ownership, some of which may be outside our control. Accordingly, our ability to use our net operating loss carryforwards and other tax attributes may be limited.

Further, the Tax Cuts and Jobs Act of 2017, as modified by the Coronavirus Aid, Relief, and Economic Security Act of 2020, or the Tax Act, changed the federal rules governing net operating loss carryforwards. For net operating loss carryforwards arising in tax years beginning after December 31, 2017, the Tax Act allows such net operating losses to be carried forward indefinitely but limits a taxpayer's ability to use those carryforwards in tax years beginning after December 31, 2020, to 80% of taxable income for the tax year. Net operating loss carryforwards generated before January 1, 2018, will not be subject to the Tax Act's 80% taxable income limitation, but will continue to have a twenty-year carryforward period. As such, our net operating loss carryforwards and other tax assets could expire before utilization and could be subject to limitations, which could harm our business, revenue, and financial results.

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 business and 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 due to changes in applicable tax principles, including increased tax rates, new tax laws, or revised interpretations of existing tax laws and precedents. In addition, the authorities in the jurisdictions in which we operate through our subsidiaries 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. These authorities could also 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, interest and penalties. 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.

The enactment of tax legislation implementing changes in the United States and other jurisdictions or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Legislation or other changes to tax laws of the United States and other jurisdictions could impact the tax treatment of our earnings. For example, the Tax Act has eliminated the option to deduct research and development expenditures currently and instead requires taxpayers to capitalize and amortize such expenditures over five or fifteen years, for U.S.-based and non-U.S. based research expenditures, respectively, beginning in 2022. Further, the United States recently enacted the Inflation Reduction Act of 2022, or the IRA, which introduced a 15% minimum tax on adjusted book income over one billion, and a 1% excise tax on stock buybacks. We do not currently expect the IRA will have a material impact on our income tax liability. Further, the Organization for Economic Cooperation and Development has proposed implementing a global minimum tax of 15%, which has been agreed to by over 136 countries, and is expected to be implemented in EU member countries by the end of 2023. Due to expansion of our international business activities, such proposed changes, as well as regulations and legal decisions interpreting and applying these changes may increase our worldwide effective tax rate and adversely affect our financial position and results of operations.

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 operation.

We may not collect sales and use, value added, or similar taxes in all jurisdictions in which we are deemed to have sales, and we have been advised that such taxes are not applicable to our products 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.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of investors.

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in those consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue, and expenses that are not readily apparent from other sources. 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 our publicly announced guidance or the expectations of investors. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to the determination of stand-alone selling prices of our performance obligations in revenue agreements, measurement of stock-based compensation expense, the capitalization and estimated period of benefit of deferred contract acquisition costs, and accounting for income taxes including deferred tax assets and liabilities.

Changes in accounting principles and guidance could result in unfavorable accounting charges or effects.

We prepare our consolidated financial statements in accordance with principles generally accepted in the United States. These principles are subject to interpretation by the SEC and various bodies formed to create and interpret appropriate accounting principles and guidance. Changes in existing accounting rules or practices, new accounting pronouncements rules, or varying interpretations of current accounting pronouncements practice could harm our results of operations or the manner in which we conduct our business. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective. GAAP is subject to interpretation by the Financial Accounting Standards Board, or 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 affect the reporting of transactions completed before the announcement of a change. Additionally, if there are changes to certain of our facts-and-circumstances or if regulators changed their interpretation, we might be required to change the way we report our financial results.

General Risks Related to Us

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

We expect in the future seek to acquire or invest in businesses, joint ventures, and platform technologies that we believe could complement or expand our platform, enhance our technology, or otherwise offer growth opportunities. We have limited experience and expertise regarding acquisitions, and we may devote resources to exploring larger and more complex acquisitions and investments than we have previously attempted. Any such acquisitions or investments may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable opportunities, whether or not the transactions are completed, and may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel, or operations of any acquired companies, particularly if the key personnel of an acquired company choose not to work for us, their software is not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management, or otherwise. In addition, we have limited experience in acquiring other businesses. If an acquired business fails to meet our expectations, our operating results, and business and financial position may suffer. We may not be able to find and identify desirable acquisition targets, we may incorrectly estimate the value of an acquisition target, and we may not be successful in entering into an agreement with any particular target. Further, any such transactions that we close may not result in the synergies or other benefits we expect to achieve, including the introduction of new products or enhancements to existing products, which could result in substantial impairment charges. These transactions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our results of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to maintain accurate financial records prevent fraud, or comply with applicable regulations, and investor confidence may, therefore, be adversely affected.

We maintain internal control over financial reporting designed to provide reasonable assurance regarding the preparation of financial statements in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements or prevent all fraud. Moreover, we may be subject to material weaknesses in such internal controls. Our design and implementation of internal controls is time-consuming, costly, and complicated. If we fail to maintain adequate internal control over financial reporting, we may suffer inaccuracies in our financial statements, we may be subject to increased likelihood of fraud, and investors may lose confidence in the accuracy and completeness of our financial statements, any of which could require additional financial and management resources.

Further, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act. We expect that the requirements of these regulations will continue to increase our legal, accounting, and financial compliance costs and make certain activities more difficult, time-consuming, and costly. As of January 31, 2022, we were required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are therefore required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Our independent registered public accounting firm has formally attested to the effectiveness of our internal controls over financial reporting commencing with this Annual Report on Form 10-K for the year ended January 31, 2022. Any failure to maintain effective disclosure controls and internal control over financial reporting could have an adverse effect on our business, financial condition and results of operations and could cause a decline in the market price of our Class A common stock.

Our failure to maintain capital at our current level, raise additional capital, or generate the capital necessary to expand our operations and invest in new products could reduce our ability to compete and could harm our business.

Historically, we have financed our operations primarily through the sale of our equity securities as well as payments received from customers using our products and services. 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 offerings, improve our operating infrastructure, or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to current holders of our securities. 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 our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

We review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. An adverse change in market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or intangible assets. Any such charges may adversely affect our results of operations.

We are exposed to fluctuations in currency exchange rates, and interest rates, and inflation, which could negatively affect our results of operations and our ability to invest and hold our cash.

Our sales are denominated in U.S. dollars, and therefore our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our platform to our customers outside of the United States, which could adversely affect our results of operations. In addition, an increasing portion of our operating expenses is incurred outside of the United States.

These operating expenses are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates. In the future, we expect to have sales denominated in currencies other than the U.S. dollar, which will subject our revenue to foreign currency risk. If we are not able to successfully hedge against the risks associated with currency fluctuations, our results of operations could be adversely affected.

The United States has recently experienced historically high levels of inflation. If the inflation rate continues to increase, such as increases in the costs of labor and supplies, it will affect our expenses, such as employee compensation which accounts for a significant portion of our operating expenses. Additionally, the United States is experiencing an acute workforce shortage, which in turn, has created a hyper-competitive wage environment that may increase our operating costs. To the extent inflation leads to rising interest rates, resulting in higher borrowing costs to us, and has other adverse effects on the market, it may adversely affect our consolidated financial condition and results of operations.

Catastrophic events, or man-made problems such as terrorism or climate change, may disrupt our business.

A significant natural disaster, such as an earthquake, fire, flood, or significant power outage, and the risks associated with climate change could have an adverse impact on our business, results of operations, and financial condition. We have a number of our employees and executive officers located in the San Francisco Bay Area, a region known for seismic activity, drought, and wildfires, and the resultant air quality impacts and power outages associated with such wildfires. Furthermore, it is more difficult to mitigate the impact of these events on our employees while they work from home as we have a largely remote workforce.

In addition, acts of terrorism, pandemics, such as the outbreak of the novel coronavirus or another public health crisis, protests, riots, and the increasing frequency and impact of extreme weather events on critical infrastructure in the U.S. and elsewhere have the potential to disrupt our business, the business of our third-party suppliers, and the business of our customers, and may cause us to experience higher attrition, losses, and additional costs to maintain or resume operations. Additionally, any disruption in the business of our partners or customers that affects sales in a given fiscal quarter could have a significant adverse impact on our quarterly results for that and future quarters. All of these risks may increase further if our response to catastrophic events proves inadequate.

In February 2022, armed conflict escalated between Russia and Ukraine. The sanctions announced by the U.S. and other countries against Russia, following Russia’s invasion of Ukraine, to date include restrictions on selling or importing goods, services, or technology in or from affected regions and travel bans and asset freezes impacting connected individuals and political, military, business, and financial organizations in Russia. The United States and other countries could impose wider sanctions and take other actions should the conflict further escalate. It is not possible to predict the broader consequences of this conflict, which could include further sanctions, embargoes, regional instability, prolonged periods of higher inflation, geopolitical shifts, and adverse effects on macroeconomic conditions, currency exchange rates, and financial markets, all of which could have a material adverse effect on our business, financial condition, and results of operations.

Health epidemics could in the future have an adverse impact on our business, operations, and the markets and communities in which we, our partners, and customers operate.

Our business and operations could be adversely affected by health epidemics impacting the markets and communities in which we, our partners, and customers operate.

Health epidemics are also a contributing factor that could lead to existing and potential customers accelerating transitions to the cloud. However, if customers do not transition to the cloud at anticipated rates, we may not experience these anticipated benefits.

The extent of the impact of health epidemics on our customers and our customers’ response to the epidemics is difficult to assess or predict, and we may be unable to accurately forecast our revenues or financial results, especially when the long-term impact of the epidemic is uncertain. Our results of operations could be materially above or below our forecasts, which could adversely affect our results of operations, disappoint analysts and investors, and/or cause our stock price to decline.

The ultimate impact of health epidemics is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, operations, ability to access capital, or the global economy as a whole. There is also no guarantee a future outbreak of any widespread epidemics will not occur, or that the global economy will recover, either of which could harm our business.

Risks Related to the Ownership of our Common Stock

The market price for our Class A common stock may be volatile or may decline regardless of our operating performance.

The market price of our Class A common stock may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, many of which are beyond our control, including:

- actual or anticipated changes or fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- announcements by us or our competitors of new offerings or new or terminated significant contracts, commercial relationships, or capital commitments;
- industry or financial analyst or investor reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- future sales or expected future sales of shares of our Class A common stock;
- investor perceptions of us and the industries in which we operate;
- price and volume fluctuations in the overall stock market from time to time;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- failure of industry or financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property rights or our solutions, or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- actual or perceived breaches of, or failures relating to, privacy, data protection, or data security;
- interruptions, delays, or outages of our platform;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- any major changes in our management or our board of directors;
- general economic conditions and slow or negative growth of our markets; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

The dual-class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to the initial public offering, including our executive officers, employees, and directors and their affiliates, and

limiting your ability to influence corporate matters, which could adversely affect the trading price of our Class A common stock.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of July 31, 2023, our executive officers and directors and their affiliates together hold and/or control approximately 42% of the voting power of our outstanding common stock, and Armon Dadgar and Mitchell Hashimoto, our co-founders, together hold and/or control approximately 30% of the voting power of our outstanding common stock. As a result, our executive officers, directors, and other affiliates have significant influence over our management and affairs and over all matters requiring stockholder approval, including election of directors and significant corporate transactions, such as a merger or other sale of the company or our assets, for the foreseeable future.

In addition, the holders of Class B common stock collectively will continue to be able to control all matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the outstanding shares of our common stock. Because of the 10-to-1 voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock even when the shares of Class B common stock represent as little as 10% of all outstanding shares of our Class A common stock and Class B common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected.

Future transfers or voluntary conversions by holders of shares of Class B common stock will generally result in those shares converting to shares of Class A common stock, which 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. Certain permitted transfers, as specified in our amended and restated certificate of incorporation, will not result in shares of Class B common stock automatically converting to shares of Class A common stock, including certain estate planning transfers as well as transfers to our founders or our founders' estates or heirs upon death or incapacity of such founder.

FTSE Russell and Standard & Poor's do not allow most newly public companies with dual or multi-class capital structures to be included in their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Also, in 2017, MSCI, a leading stock index provider, opened public consultations on its treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from certain of its indices; however, in October 2018, MSCI announced its decision to include equity securities "with unequal voting structures" in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. Under the announced policies, our dual-class capital structure makes us ineligible for inclusion in certain indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track these indices will not be investing in our stock. In addition, we cannot assure you that other stock indices will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indices, exclusion from certain stock indices would likely preclude investment by many of these funds and would make our Class A common stock less attractive to other investors. As a result, the trading price, volume, and liquidity of our Class A common stock could be adversely affected.

Future sales of substantial amounts of our Class A common stock in the public market, or the perception that they might occur, could reduce the price that our Class A common stock might otherwise attain.

Future sales of a substantial number of shares of Class A common stock in the public market, particularly sales by our directors, executive officers, and significant stockholders, or the perception that these sales could occur, could adversely affect the market price of our Class A common stock and may make it more difficult for you to sell your shares of Class A common stock at a time and price that you deem appropriate. Many of our equity holders who held our capital stock prior to completion of our initial public offering, or IPO have substantial unrecognized gains on the value of the equity they hold based on recent market prices of our shares of Class A common stock, and therefore, they may take steps to sell their shares or otherwise secure the unrecognized gains on those shares. We are unable to predict the timing of or the effect that such sales may have on the prevailing market price of our Class A common stock.

Further, as of July 31, 2023, up to 5,713,485 shares of our Class B common stock and up to 17,412,852 shares of our Class A common stock may be issued upon exercise of outstanding stock options or vesting and settlement of outstanding restricted stock units, or RSUs, and 29,970,316 shares of our Class A common stock are available for future issuance under our 2021 Equity Incentive Plan and 2021 Employee Stock Purchase Plan, and will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, exercise limitations, and Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act. We have registered all of the shares of Class A common stock issuable upon exercise of outstanding options and all shares of Class A common stock issuable upon vesting and settlement of RSUs, as well as other equity incentive awards we may grant in the future for public resale under the Securities Act. Shares of Class A common stock will become eligible for sale in the public market to the extent such options are exercised and RSUs settle, subject to compliance with applicable securities laws. If these additional shares of Class A common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our Class A common stock could decline.

Additional stock issuances could result in significant dilution to our stockholders and additional issuances of debt or senior equity securities could impair the value of our Class A common stock.

We may issue common stock or securities convertible into common stock from time to time in connection with a financing, acquisition, investment, our share incentive plans, or otherwise. Any such issuance could result in dilution to our existing stockholders unless pre-emptive rights exist. The amount of dilution could be substantial depending upon the size of the issuances or exercises.

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

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

- any amendments to our amended and restated certificate of incorporation or our amended and restated bylaws requires the approval of at least 66-2/3% of our then-outstanding voting power;
- our board of directors is classified into three classes of directors with staggered three-year terms and stockholders will only be able to remove directors from office for cause;
- our stockholders will only be able to take action at a meeting of stockholders and will not be able to take action by written consent for any matter;
- our amended and restated certificate of incorporation does not provide for cumulative voting;
- vacancies on our board of directors will be able to be filled only by our board of directors and not by stockholders;
- a special meeting of our stockholders may only be called by an officer pursuant to a resolution adopted 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);
- certain litigation against us can only be brought in Delaware, unless we consent in writing to the selection of an alternative forum;
- our amended and restated certificate of incorporation authorizes 100,000,000 shares of undesignated preferred stock, the terms of which may be established and shares of which may be issued without further action by our stockholders; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware and the federal district courts of the United States 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 bylaws provide that the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another State court in Delaware or the federal district court for the District of Delaware) is the exclusive forum for the following (except for any claim as to which such court determines that there is an indispensable party not subject to the jurisdiction of such court (and the indispensable party does not consent to the personal jurisdiction of such court within ten days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than such court or for which such court does not have subject matter jurisdiction):

- any derivative action or proceeding brought on behalf of us;
- any action asserting a claim of breach of a 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 (as either may be amended from time to time); and
- any action asserting a claim against us that is governed by the internal affairs doctrine.

This provision would not apply to suits brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended, or the Exchange Act, or any other claim for which the U.S. federal courts have exclusive jurisdiction.

Our amended and restated bylaws further provide that the federal district courts of the U.S. 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. Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to these provisions. There is uncertainty as to whether a court would enforce such provisions, and the enforceability of similar choice of forum provisions in other companies' charter documents has been challenged in legal proceedings. We also note that stockholders cannot waive compliance (or consent to noncompliance) with the federal securities laws and the rules and regulations thereunder. It is possible that a court could find these types of provisions to be inapplicable or unenforceable, and if a court were to find either exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could significantly harm our business.

If industry or financial analysts do not publish research or reports about our business, or if they issue inaccurate or unfavorable research about our business, the market price and trading volume of our Class A common stock could decline.

The market price and trading volume of our Class A common stock is heavily influenced by the way analysts interpret our financial information and other disclosures. We do not control these analysts, or the content and opinions included in their reports. If industry analysts cease coverage of us, our stock price would be negatively affected. Further, if any of the analysts who cover us do not publish research or reports about our business, downgrade our Class A common stock, or issue an inaccurate or unfavorable opinion regarding our company, our share price would likely decline. In addition, the share prices of many companies in the technology industry have declined significantly after those companies have failed to meet, or significantly exceed, the financial guidance publicly announced by the companies or the expectations of analysts. If our financial results fail to meet, or significantly exceed, our announced guidance or the expectations of analysts or public investors, analysts could downgrade our Class A common stock or publish unfavorable research about us. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, our visibility in the financial markets could decrease, which in turn could cause our share price or trading volume to decline.

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

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, contractual restrictions, capital requirements, general business conditions and other factors that our board of directors may deem relevant. As a result, stockholders must rely on sales of their capital stock after price appreciation as the only way to realize any future gains on their investment; because there is no market for any of our equity securities, stockholders may not be able to sell their capital stock when desired, or at all.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Rule 10b5-1 Trading Plans

On June 13, 2023, Brandon Sweeney, our Chief Revenue Officer, entered into a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The plan provides for the sale of an aggregate of up to 120,000 shares of our common stock. The plan will terminate on March 15, 2024, subject to early termination for certain specified events set forth in the plan.

On June 23, 2023, Marc Holmes, our Chief Marketing and Business Operations Officer, entered into a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The plan provides for the sale of an aggregate of up to 162,505 shares of our common stock. The actual amount sold will be less based on tax withholdings. The plan will terminate on September 27, 2024, subject to early termination for certain specified events set forth in the plan.

On July 11, 2023, David McJannet, our Chief Executive Officer, President and Chairman of the Board of Directors, entered into a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The plan provides for the sale of an aggregate of up to 1,480,000 shares of our common stock. The actual amount sold will be less based on tax withholdings. The plan will terminate on October 11, 2024, subject to early termination for certain specified events set forth in the plan.

On July 19, 2023, Navam Welihinda, our Chief Financial Officer, entered into a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The plan provides for the sale of an aggregate of up to 162,505 shares of our common stock. The actual amount sold will be less based on tax withholdings. The plan will terminate on October 18, 2024, subject to early termination for certain specified events set forth in the plan.

On July 21, 2023, Armon Dadgar, our Co-Founder, Chief Technology Officer and Director, entered into a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The plan provides for the sale of an aggregate of up to 53,020 shares of our common stock. The actual amount sold will be less based on tax withholdings. The plan will terminate on December 31, 2023, subject to early termination for certain specified events set forth in the plan.

No other officers or directors, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” as defined in Regulation S-K Item 408, during the last fiscal quarter.

Item 6. Exhibits.

The documents listed below are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	8-K	001-41121	3.1	12/13/2021
3.2	Amended and Restated Bylaws of the Registrant.	8-K	001-41121	3.2	12/13/2021
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*†	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2*†	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				

104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

* Filed herewith
† The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

Date: August 31, 2023	By:	/s/ David McJannet
		David McJannet
		Chief Executive Officer (Principal Executive Officer)
Date: August 31, 2023	By:	/s/ Navam Welihinda
		Navam Welihinda
		Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION 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

I, David McJannet, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of HashiCorp, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 31, 2023	By:	/s/ David McJannet
		David McJannet
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION 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

I, Navam Welihinda, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of HashiCorp, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 31, 2023

By: /s/ Navam Welihinda
Navam Welihinda
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HashiCorp, Inc. (the “Company”) on Form 10-Q for the period ending July 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 31, 2023	By:	/s/ David McJannet
		David McJannet
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HashiCorp, Inc. (the “Company”) on Form 10-Q for the period ending July 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 31, 2023

By: /s/ Navam Welihinda
Navam Welihinda
Chief Financial Officer
(Principal Financial and Accounting Officer)